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AUDIT AND RISK COMMITTEE TUESDAY, 29TH MARCH, 2016

A MEETING of the AUDIT AND RISK COMMITTEE will be held in the COUNCIL

HEADQUARTERS, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on TUESDAY, 29

MARCH 2016 at 2.00 pm

J. J. WILKINSON,
Clerk to the Council,
22 March 2016

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declaration of Interest.	
4.	<p>Minute (Pages 1 - 6)</p> <p>Minute of Meeting of the Audit and Risk Committee held on 18 January 2016 to be approved and signed by the Chairman. (Copy attached.)</p>	4 mins
5.	<p>Risk Management in Services</p> <p>Presentation by Service Director Regulatory Services on the strategic risks facing the services and the internal controls and governance in place to manage/mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation)</p>	15 mins
6.	<p>Internal Audit Work 2015/16 to February 2016 (Pages 7 - 20)</p> <p>Consider a report by Chief Officer Audit & Risk on recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and internal audit work currently in progress. (Copy attached)</p>	15 mins
7.	<p>Major Capital Investment in Councils - Follow Up (Pages 21 - 60)</p> <p>Consider the key messages from the Accounts Commission report 'Major Capital Investment in Councils – Follow-Up' which was published in January 2016. This targeted follow-up audit assesses to what extent councils have improved performance in managing their capital investment programmes and projects since the 2013 Accounts Commission report 'Major capital investment in councils' which was published together with the 'Good practice guide' as part of the Commission's How Councils Work series of improvement reports for councillors and officers and the 'Good practice checklist for project managers'. (Copy attached)</p>	15 mins

8.	<p>Internal Audit Charter (Pages 61 - 70)</p> <p>Consider a report by Chief Officer Audit & Risk on the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role and to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. (Copy attached)</p>	10 mins
9.	<p>Internal Audit Strategy and Internal Audit Annual Plan 2016/17 (Pages 71 - 86)</p> <p>Consider a report by Chief Officer Audit & Risk on proposed strategic direction to deliver Internal Audit assurance and support services and on proposed Internal Audit programme of work 2016/17 to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment. (Copy attached)</p>	20 mins
10.	<p>External Audit Scottish Borders Pension Fund Audit Strategy 2015/16 (Pages 87 - 106)</p> <p>Consider report by KPMG on how they will deliver their audit for Scottish Borders Pension Fund for the year ended 31 March 2016 including the opinions on the financial statements. (Copy attached)</p>	10 mins
11.	<p>External Audit Interim Management Report 2015/16 (Pages 107 - 122)</p> <p>Consider report by KPMG on interim findings from their review of Key Systems of Internal Control in connection with their audit for the year ended 31 March 2016 and associated Management Action Plan. (Copy attached)</p>	15 mins
12.	<p>Procurement in Councils - Impact Report (Pages 123 - 144)</p> <p>Consider the key messages from the Accounts Commission report 'Procurement in Councils Impact Report' which was published in February 2016. The Impact Report explains how its audit report 'Procurement in Councils' published in April 2014 has been used by stakeholders including the Scottish Parliament, Scotland Excel and Councils. Both full reports are available on the Accounts Commission website. (Copy attached)</p>	15 mins
13.	<p>Overview of Local Government in Scotland 2016 (Pages 145 - 186)</p> <p>Consider the overview report by the Accounts Commission published in March 2016 which draws on the findings from local government audit work in 2015, including audits of 2014/15 financial statements, Best Value, Community Planning and performance.</p>	10 mins
	<p>(a) Part 1</p> <p>The report (Part 1) reviews the financial context in which councils are operating and gives a national overview of councils' financial performance.</p>	
	<p>(b) Part 2</p> <p>Part 2 considers how councils are performing in delivering services and how they are changing the way they operate in the context of increasing pressures.</p>	
14.	<p>Health & Social Care Integration</p>	

	<p>(a) Key Messages from Accounts Commission Reports (Pages 187 - 274)</p> <p>Consider the key messages from the Accounts Commission reports 'Health and Social Care Integration' and 'Changing Models of Health and Social Care' which were published in December 2015 and March 2016 respectively.</p> <p>(Copies attached.)</p>	
	<p>(b) Report by Chief Financial Officer of Scottish Borders Integration Joint Board (Pages 275 - 302)</p> <p>Consider report by Chief Financial Officer of Scottish Borders Integration Joint Board on an assessment of the progress made within the Scottish Borders Health and Social Care Integration programme in establishing the finance-related arrangements recommended by the Integrated Resources Advisory Group.</p> <p>(Copies attached.)</p>	
15.	Any Other Items Previously Circulated.	
16.	Any Other Items which the Chairman Decides are Urgent.	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors M. Ballantyne (Chair), J. Campbell, I. Gillespie, A. J. Nicol, S. Scott and B White (Vice-Chairman).
Mr P McGinley, Mr M Middlemiss and Mr H Walpole

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**SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE**

MINUTE of Meeting of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 18 January, 2016 at 10.15 am

Present:- Councillors M. Ballantyne (Chair), I. Gillespie, S. Scott and B White (Vice-Chairman); Mr P. McGinley, Mr M. Middlemiss

Also present:- Councillor J. Fullarton

Apologies:- Councillors J. Campbell , A. J. Nicol; Mr H. Walpole

In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Service Director Neighbourhood Services (for Items 5 & 8), Clerk to the Council, Democratic Services Officer (F Walling); Mr H. Harvie, Mr M. Swann – KPMG.

1. ORDER OF BUSINESS

The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

2. MINUTE

2.1 There had been circulated copies of the Minute of 23 November 2015.

DECISION

APPROVED for signature by the Chairman.

2.2 With reference to paragraph 3.2 of the Minute, the Chief Financial Officer tabled at the meeting a document summarising grants and contributions to third parties paid by the Council during 2013/14, 2014/15 and 2015/16 to date. These were grouped according to category and gave the scale of grants available. Loans made by the Council, such as those available through Business Gateway, were not included on the list. The Chief Financial Officer highlighted the main categories and schemes under which the grants were made and answered Members' questions. He advised that further detail could be provided to the Committee if required from the comprehensive database within which grants and loans were recorded.

DECISION

NOTED.

2.3 With reference to paragraph 6.3 (b) (ii) of the Minute, the Chief Financial Officer advised that the Internal Audit Manager would report directly to the Service Director Regulatory Services during the period in which he would be fulfilling the Chief Audit Executive role, carrying out the planned Audit Reviews for Risk Management and Counter Fraud.

DECISION

NOTED.

3. RISK MANAGEMENT IN SERVICES

The Service Director Neighbourhood Services, Mrs Jenni Craig, was in attendance to brief the Committee on the strategic risks facing Neighbourhood Services and to explain the internal controls and governance in place to manage and mitigate those risks. Mrs Craig provided hand-outs to supplement her presentation. She explained that she currently

managed four areas of service, namely Waste Services; Neighbourhood Operations; Customer Services; and Safer Communities. The approach to risk was to have a Risk Register for each of these services, developed through the Business and Financial Planning Processes. Registers were set up and owned by Service Managers and reviewed by the Service Director and Management team which then escalated risks to the Corporate Management Team if considered necessary. Mrs Craig referred to the key factors/major changes facing Neighbourhood Services. These were categorised as: financial pressures; unpredictability of markets; changing service delivery models; increasing demand and requirement for IT; government policies/legislation; welfare reform; economic/environmental change; and health and safety. She gave specific examples within each category and explained how risk was managed through effective project/programme and change management. Risk workshops were used as a key part of the Business Planning process with self-evaluation, inspections and scrutiny playing an important role. In addition to the provision of effective and appropriate training for staff there was regular monitoring of operational risks, with key measures of performance monitored on a regular basis. With regard to welfare reform, Mrs Craig explained that governance was on a partnership basis which included organisations such as Housing Associations and Citizens Advice Bureaux. In this connection an Impacts Group had been set up to anticipate risks in terms of the impact of changes to the provision of welfare benefits. Mrs Craig answered Members' questions on specific areas of risk facing Neighbourhood Services. She confirmed that action plans were informed by previous events, with the response to recent flooding in Hawick and Peebles being a prime example. With regard to Health and Safety considerations, it was accepted that there could occasionally be unintended consequences of a blanket decision made by the Council which affected the way operations were carried out. However Mrs Craig gave an assurance that staff were trained to make an individual risk assessment on site and to make decisions as appropriate. Questions were asked about the measures taken by the Council in response to the recent amber warning for snow. Although the cancellation of school transport, whilst schools remained open, could be seen as transferring a level of risk from the Council to parents, it was stressed that this was not the intention. The decision to cancel transport had not been a unilateral one by the Council but was part of an emergency response based on the amber weather warning in place for that time of day and police advice. Early cancellation of transport allowed parents to make alternative arrangements for child care. Discussion continued about the need for risk assessment of companies with which the Council did business. Members were given assurance that for all projects, including those involving external contractors, risk analysis was routinely carried out at every stage and shared with decision makers at the time. Mrs Craig was thanked for her attendance and presentation.

DECISION

NOTED the presentation.

4. INTERNAL AUDIT WORK 2015/16 TO DECEMBER 2015

- 4.1 With reference to paragraph 11 of the Minute of 23 March 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit with the recommended audit actions agreed by management to improve internal controls and governance arrangements; and internal audit work currently in progress. During the period 1 November to 31 December 2015 a total of seven final internal audit reports had been issued. There were 11 recommendations made (0 Priority 1 High Risk, 4 Priority 2 Medium Risk, and 7 Priority 3 Low Risk) specific to four of the reports. Management had agreed to implement the recommendations to improve internal controls and governance arrangements. An executive summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was detailed in the Appendix to the report.

4.2 With regard to the report on Waste and Recycling Services – Trade Waste, Internal Audit considered that the level of assurance able to be given was substantial for Trade Waste legislative compliance, customer contracts, income collection and budgetary control. However Internal Audit only provided limited assurance for the stock control of Trade Waste assets and consumables. There were three recommendations which related to a need to review the Trade Waste Management and Administration database system, the introduction of Stock Control processes, and the need for performance reports regarding contracts, numbers of customers, etc. Mrs Craig, Service Director Neighbourhood Services, advised that discussions had already taken place around Stock Control processes to address the Priority 2 recommendation. She accepted the risks around the old unsupported database currently being used. However work on this was on hold at present due to the fact that IT provision across the whole of the Council was currently being looked at. Consideration would be given by the management team as to whether the risks around the existing database were so significant as to require a short term solution in the meantime. With regard to the report on Homelessness – Rent Accounting System where Internal Audit only provided limited assurance, with the exception of rental charges applied where assurance was substantial, the Group Manager (Housing Strategy and Services), Cathie Fancy, advised that the new Rent Accounting System had been welcomed by her team although the action plan to address gaps and risks in the service's utilisation of the system, which had required a cultural shift, had not progressed as far as had been hoped. With a recent restructure within the Homelessness service and the recruitment to vacant posts it was expected that the implementation of the action plan would be further progressed to address areas of improvement. Ms Fancy welcomed the report from Internal Audit and was confident that the service was on track to deliver on the three Priority 2 recommendations relating to the rent setting policy, sharing information on tenants' change in circumstances, and segregation of duties. She answered Members' questions specific to the Homelessness service. Referring to the internal report on Grants and Following the Public Pound, the Chief Financial Officer advised that management were happy to move forward on the report's findings and had agreed to implement the four Priority 3 audit recommendations within an appropriate timescale. He reiterated that a detailed register of grants was held and that further information could be brought forward if required. However there was no audit evidence that there were any gaps or missed opportunities in terms of income or distribution. It was accepted that behind the recommendations there should be standardisation of the way grants were distributed. In response to a general question on follow-up activity relating to recommendations from internal audit reports, the Chief Officer Audit and Risk confirmed that audit actions were monitored through the Council's performance management system, Covalent. Following presentation of the Internal Audit Annual Report scheduled to be presented in May 2016 Members would have an opportunity of questioning managers on any actions arising from internal audit recommendations which were overdue.

DECISION

- (a) **NOTED the final reports issued in the period from 1 November to 31 December 2015 to deliver the Internal Audit Annual Plan 2015/16; and**
- (b) **ACKNOWLEDGED that it was satisfied with the recommended audit actions agreed by management.**

5. TREASURY MANAGEMENT STRATEGY 2016/17

5.1 There had been circulated copies of a report by the Chief Financial Officer presenting the proposed Treasury Management Strategy 2016/17 for consideration by the Audit and Risk Committee prior to Council approval. The report explained that the Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code. The Strategy, which would be submitted to Council on 11 February 2016, was included as an Appendix to the report. It reflected the impact of

the Administration's draft Financial Plans for 2016/17 onwards on the prudential and treasury indicators for the Council. As the Administration's current draft Financial Capital Plans for 2016/17 to 2025/26 would not be presented to Council for approval until 11 February 2016 the Strategy was subject to change.

- 5.2 The report contained a summary of the proposed indicators within the Strategy in Annex A to the Appendix. The Chief Financial Officer outlined the significant changes from the 2015/16 Strategy. There was an increase in the Capital Financing Requirement (CFR) for 2016/17 due to increased capital expenditure in 2016/17 resulting from new projects and from acceleration of a number of projects such as Broomlands PS, Langlee PS and 3G sports pitches. There were additional borrowing requirements associated with the re-phasing of projects from 2015-16 into 2016-17 and future years had impacted on the total CFR. There would also be an increase in the Authorised Limit in 2017/18 associated with the completion of Kelso High School and the resulting Long Term liability and the increase in external borrowing resulting from the capital plan. A table within the report, showing projected external debt over the next four years, indicated that the Council's external debt would become closer to the prudent affordability limit as defined by the Operational Boundary. In response to a question, the Corporate Finance Manager gave an explanation of the principles of financing local authority debt over a 50 year timescale. She explained that the calculation and consequent movement of the Operational Boundary was related to the asset base and was not related to the revenue ability to service the capital spend. However in this respect Members were referred to the Prudential Indicators shown in a table within the Appendix which showed the ratio of Financing Costs to Net Revenue Stream. The Committee was in general agreement with the Chief Financial Officer that it would not be prudent to take decisions that would allow this ratio to increase beyond 10%, although it was suggested that there should be some flexibility around this value to allow the Council to respond if necessary to an unexpected event in terms of capital expenditure. It was recognised, however, that in terms of this ratio the Council would have limited ability to bring forward new capital projects over the next five years; as more capital would be needed to sustain the asset base and extend asset life.

DECISION

- * **AGREED to RECOMMEND to Council that:-**

- (a) **Council reviews its capital expenditure plans going forward to ensure they remain realistic, affordable and sustainable; and**
- (b) **in all future capital projects, the revenue consequences of such projects be fully considered in arriving at investment decisions.**

6. EXTERNAL AUDIT SCOTTISH BORDERS COUNCIL AUDIT STRATEGY AND PLAN OVERVIEW 2015/16

There had been circulated a strategy and plan overview report by KPMG indicating how the external audit would be delivered for Scottish Borders Council for the year ending 31 March 2016. The Chairman welcomed Mr Harvie and Mr Swann, from KPMG, to present the report. Mr Swann referred to three main areas of the report, namely materiality; significant risks and audit areas; and a summary of the group structure in terms of the scope of the council audit appointment of KPMG. He explained that materiality was considered by reference to the Council's total expenditure. For 2015-16 individual or aggregated financial statement errors of over £6.4 million were considered to be material. With regard to the reporting threshold, KPMG would identify misstatements above £250,000, would report these to the Audit and Risk Committee and assess whether they were indicative of a significantly deficient or materially weak control environment. Mr Swann went on to summarise the significant risks identified, some of these being obligatory under the International Standard on Auditing (UK and Ireland) 315 and some being specific to Scottish Borders Council. He made reference to the Council's intention to make a claim for Bellwin funding to support recovery efforts in the aftermath of the

flooding affecting Hawick and Peebles. Within other focus audit areas Mr Swann highlighted transport infrastructure assets and the fact that local authorities were advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 code. The new transport code required measurement of assets on a depreciated replacement cost basis. This would represent a change in accounting policy from 1 April 2016 and require full retrospective restatement. However it was noted that the framework for measurement of the assets was not yet in place. Members expressed concern that this situation presented a risk to officers in terms of compliance with the code. With regard to the scope of the audit Mr Swann explained the diagram of the group structure for the Group financial statements and clarified the scope of the council audit appointment of KPMG. With regard to the integration of health and social care, the report explained that KPMG would consider the date that the Scottish Borders Health and Social Care Integration Joint Board became operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnership. There was discussion on the process and factors to be considered for agreeing fees. The Chairman thanked Mr Harvie and Mr Swann for their attendance.

MEMBER

Councillor White left the meeting.

DECISION

- (a) **NOTED the strategy and plan overview report by KPMG;**
- (b) **AGREED to request KPMG to pass the Committee's concern to Audit Scotland that the fact that the framework for measurement of transport infrastructure assets under the new transport code was not yet in place presented a risk to officers in terms of non-compliance.**

The meeting concluded at 1.15 pm

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Internal Audit Work 2015/16 to February 2016

Report by Chief Officer Audit and Risk

Audit and Risk Committee

29 March 2016

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to provide the Audit and Risk Committee with details of:

- a) the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and**
- b) Internal Audit work currently in progress.**

1.2 The work Internal Audit has carried out in the period from 1 January to 29 February 2016 to deliver the Internal Audit Annual Plan 2015/16 is detailed in this report. During this period a total of 6 final internal audit reports have been issued. There were 4 recommendations made (0 Priority 1 High Risk, 3 Priority 2 Medium Risk, and 1 Priority 3 Low Risk) specific to 2 of the reports. Management have agreed to implement the recommendations to improve internal controls and governance arrangements.

1.3 An Executive Summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

- a) Notes the final reports issued in the period from 1 January to 29 February 2016 to deliver the Internal Audit Annual Plan 2015/16; and**
- b) Acknowledges that it is satisfied with the recommended audit actions agreed by Management.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2015/16 was approved by the Audit and Risk Committee on 23 March 2015. Internal Audit has carried out the following work in the period 1 January to 29 February 2016 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.
- 3.2 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

Audit Reports

- 3.3 Internal Audit issued final internal audit reports on the following subjects:
- Creditors Payments
 - Capital Investment
 - Corporate Transformation
 - Information Governance
 - Risk Management
 - Counter Fraud
- 3.4 An Executive Summary of the final internal audit report issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level of Assurance	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Work in Progress

- 3.5 Internal Audit work in progress to complete the delivery of the Internal Audit Annual Plan 2015/16 consists of the following:

Audit Area	Audit Stage
Salaries (including expenses)	Fieldwork nearly completed
Income Charging, Billing & Collection	Fieldwork nearly completed
Revenues (Council Tax and Non Domestic Rates)	Fieldwork underway
Asset Registers	Fieldwork underway
Contract Management	Part completed though remaining audit scope will be deferred until 2017/18

Other Productive Work

- 3.5 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.5.1 Attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements.
- 3.5.2 Offering advice on internal controls and governance to managers on request and a number of clients are proactively engaging internal audit in consultancy work as the Council's continues to transform its services, for example, the Welfare Reform Programme, the Information Governance Group, and the Serious Organised Crime Officer Working Group. This period in respect of the latter Internal Audit has carried out an independent and objective validation of the self-assessment against the Local Authority Readiness – Serious Organised Crime and Corruption Risk Checklist to confirm the content of the Council's Contest and Prevention Action Plan 2016/18.
- 3.5.3 Reviewing outstanding and overdue audit recommendations to ensure Internal Audit are satisfied that progress has been made to implement the previous internal audit recommendations and management actions, that actions taken have had the desired effect in improving internal controls and governance, and are reflected in the corporate performance systems for reporting purposes. There are no specific matters that Internal Audit requires to bring to the attention of Management and the Audit and Risk Committee relating to areas reviewed this period.
- 3.5.4 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management. Internal Audit resources have also been deployed on corporate process reviews, for example, the Corporate Fraud Working Group.
- 3.5.5 Significant work has been undertaken involving the Chief Officer Audit & Risk as a member of the Integration & Governance working group to develop the governance arrangements for the Scottish Borders Health and Social Care Partnership. The Integration Joint Board's (IJB) Audit Committee was established and the Chief Officer Audit & Risk appointed as the IJB's Chief Internal Auditor in February 2016 with agreement that the Internal Audit services for the IJB will be provided by the Council's Internal Audit team for review of the adequacy of the arrangements for risk management, governance

and control of the delegated resources. The integration authority's Risk Management Strategy and Local Code of Corporate Governance were approved by the IJB in March 2016 following involvement of the Chief Officer Audit & Risk. The Scottish Government and Scottish Parliament approved the Scheme of Integration, which enabled the formal establishment of the IJB in March 2016 along with the formal appointment of the Chief Officer Health and Social Care Integration and the interim Chief Financial Officer. Consultation on the draft Strategic Plan was completed in December 2015; and the Strategic Plan was approved by the IJB in March 2016.

3.5.6 Various members of the Internal Audit team are carrying out audit work to provide annual assurance and audit opinion for SB Cares, the Council's arms-length external organisation (ALEO) providing Adult Social Care services, in the first year of its operation under a service level agreement. The internal audit work has been determined and agreed with the SB Cares Management and Board.

3.5.7 Attendance at Scottish Borders Pension Fund Committee and Board meetings to assess new governance arrangements.

Recommendations

3.6 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

Priority 1: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.

Priority 2: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.

Priority 3: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management. The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.7 The table below summarises the number of internal audit recommendations made during 2015/16:

	2015/16 Number of Recommendations
Priority 1	0
Priority 2	3
Priority 3	1
Sub-total reported this period	4
Previously reported	16
Total	20
Recommendations agreed with action plan	20
Not agreed; risk accepted	0
Total	20

4 IMPLICATIONS

4.1 Financial

It is anticipated that cost efficiencies will arise as a direct result of Management implementing the recommendations made by Internal Audit.

4.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically as "a contribution to the Council's corporate management of risk" this includes responsibility in "Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2015/16, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and management may not be able to demonstrate improvement in internal control and governance arrangements.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

4.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

4.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

5 CONSULTATION

- 5.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
James Collin	Internal Audit Manager Tel 01835 824000 Ext 5232

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Audit and Risk jcollin@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Capital Investment</p> <p>No: 007/015</p> <p>Date issued: 17 March 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to scrutinise the management systems in place to ensure that capital projects are being managed efficiently and effectively from inception to completion including post project evaluation; and that the basis for capital planning process is the Council priorities and outcomes.</p> <p>The Capital Projects Director presented a paper to Corporate Management Team in October 2014 containing recommendations to address areas for improvement noted in the Internal Audit report on Capital Investment dated 3 April 2014. Implementation of the recommendations has been modest since then, and there have been several changes in the Service Director postholder.</p> <p>Processes and project documentation of the selected sample of projects were generally satisfactory, although project management would benefit from a more consistent approach to reporting and management of financial and other aspects of risk.</p> <p>An assessment of compliance with recommendations contained in the Accounts Commission report "Major Capital Investment in Councils" (March 2013) has been carried out by Internal Audit with assessment results either 'Good' or 'Satisfactory'.</p> <p>On 29 May 2014 the Council approved a recommendation from the Audit and Risk Committee that HM Treasury Green Book Checklist be used in selected projects within the Council. This checklist details a range of questions appropriate for key stage or milestone review of projects. From our audit work, we have not been able to identify evidence that the checklist is being used.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There are identified gaps in the Council's compliance with established good practice, though we are satisfied that proposals developed so far will provide an appropriate framework to address these gaps and, once completed, will allow demonstration of satisfactory compliance.</p>	0	0	0	<p>Management have accepted report findings.</p> <p>Internal Audit will seek regular updates from Management on progress in implementing these proposals.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Risk Management</p> <p>No: 008/004</p> <p>Date issued: 17 March 2016</p> <p>Level of Assurance: Substantial</p> <p><i>As the Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud, then in order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas has been carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the internal audit review. The report has been submitted in the name of the Internal Audit Manager who reported directly to the Service Director Regulatory Services during the period in which he has fulfilled the HIA role.</i></p>	<p>The purpose of the review was to provide an assessment of the progress made on the implementation of the corporate risk management improvement actions arising from the Risk Management Review of 2014 including, policy, strategy, training and toolkits.</p> <p>Over a number of years senior management have been developing a risk management framework and this has been strongly encouraged by the Audit Committee.</p> <p>A report to the Audit & Risk Committee on 19 January 2015 concluded that although there were risk management arrangements in place they were not fully embedded within the business planning and decision making process. A number of recommendations and improvement actions came out of the review.</p> <p>As a result the Council now has a standard risk assessment process and training programme supported by senior management.</p> <p>The benefits of the risk management improvement actions will not be fully realised until the implementation of the upgraded business planning and performance management in Covalent, integrated with risk management, is up and running.</p> <p>Other areas where work needs to be done to confirm risk management arrangements include partnership arrangements, transformation and change, project and 3rd party delivery models</p> <p>Internal Audit considers that the level of assurance we are able to give towards implementing the improvement actions is substantial.</p> <p>Internal Audit has no recommendations to make.</p>	0	0	0	Management have accepted report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation</p> <p>No: 010/009</p> <p>Date issued: 22 March 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to review the governance and accountability arrangements for the Corporate Transformation programme, including programme and project management. We performed walk-through testing and gathering evidence of controls within: Cultural Services Review; ICT Review; Borders Railway Programme; and Children & Young People Programme.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • There is a thorough, consistent and transparent approach to the review and scrutiny of the Corporate Transformation Programme by senior managers and elected members; • Reporting to the Corporate Management Team, to the Executive Committee and to full Council, by way of the Corporate Transformation Tracker, and highlight reports on individual projects, is clear and allows for effective scrutiny and challenge by senior managers and members. <p>In each case of the four individual projects we examined, we identified evidence of appropriate and proportionate controls which allow management to gain assurance that anticipated outcomes of these projects will be achieved.</p> <p>We have no recommendations to make. However we have made the following observation: As the Council continues to review service delivery models to develop more cost effective service delivery models as part of its corporate transformation programme, there is an opportunity to continue to ensure that lessons are being learned and applied from previous and current projects, good practice prompts and checklists are being used and shared, and a consistent approach to assessing and managing impact on support services is being adopted.</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.</p>	0	0	0	<p>Management have accepted report findings, acknowledged the observation made on sharing lessons learned across programmes and projects, and identified some continuous improvement actions.</p> <p>The most immediate opportunity is to share lessons learned, good practice and standard approaches with Senior Management and Project Management involved in the Roads Review Project and with the Alternative Service Delivery Models Programme Board.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Counter Fraud</p> <p>No: 018-004</p> <p>Date issued: 17 March 2016</p> <p>Level of Assurance: Substantial</p> <p><i>As the Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud, then in order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas has been carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the internal audit review. The report has been submitted in the name of the Internal Audit Manager who reported directly to the Service Director Regulatory Services during the period in which he has fulfilled the HIA role.</i></p>	<p>The purpose of the review was to provide an assessment of the progress made on the implementation of the corporate counter fraud improvement actions arising from the Corporate Counter Fraud Review of 2014.</p> <p>The Corporate Counter Fraud Review 2014 concluded it was important to embed a strong counter fraud culture as fundamental to an effective response to fraud, and identified the vital part played by CMT and senior management in leading behavioural change within the organisation, its partners and customers.</p> <p>The review highlighted that policies and procedures were out of date, there was a lack of training and organisational changes had resulted in a lack of clarity of roles and responsibilities creating vulnerabilities to fraud. Generally the Council's fraud response was found to be reactive rather than proactive.</p> <p>A Corporate Fraud Working Group (CFWG) was established to review and update counter fraud policy documents, take recommendations to CMT to improve fraud arrangements, discharge duties and report to Members on agreed policies for approval.</p> <p>Updated guidance for Gifts and Hospitality, Register of Interests and Whistleblowing has been developed. Also ELearning Fraud Awareness and The Bribery Act 2010 training packages have been developed and are ready to be launched on SB Learn, the online self-study portal.</p> <p>Use of in-house dataset matching analytics is also under review.</p> <p>Internal Audit considers that the level of assurance we are able to give towards implementing the improvement actions is substantial.</p> <p>Internal Audit has no recommendations to make.</p>	0	0	0	Management have accepted report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Creditors Payments</p> <p>No: 078/009</p> <p>Date issued: 22 March 2016</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the review was to ensure payment processes at a Service level for Proactis, and non-Proactis source systems such as Servitor, Framework-i, Tranman, Routewise and Template payments are accurate, correct and authorised appropriately. Our review for 2015/16 focussed on authorised signatories and the levels of authorisation.</p> <p>During this audit Management had initiated a project to replace the existing core Financial and HR systems by 2017.</p> <p>In addition we issued an interim audit report in October 2015 noting lack of clarity and inconsistencies between financial systems around delegation and levels of authority for approval and payment of orders/invoices. A project established by Management will take forward improvements by 31 March 2016.</p> <p>We found certain control weaknesses within the existing systems but rather than make recommendations to alter soon-to-be redundant systems we are recommending that the project scope and work takes account of and addresses these, in co-ordination with the project, when designing processes, controls, guidance notes and corporate policies to support the new systems (P3).</p> <p>Although we did not find any cases of improper payments in our limited samples we consider that there will be a continuing risk of unauthorised payments until the new financial system is implemented and improved delegated authorities are consistently applied throughout the various services. Management need to risk assess whether any additional monitoring is required meanwhile.</p> <p>We made a further specific recommendation: SBc Contracts Management should ensure that an official order is in place before “call-offs” are made. (P2)</p>	0	1	1	<p>Management have accepted the report findings and agreed to implement the recommendations though have commented that the weaknesses cannot be resolved until two things change:</p> <ul style="list-style-type: none"> • the new system with improved controls is in place creating a better work flow; and • significant culture change around the recognition and application of the governance associated with ordering/invoicing /payment of goods and services is integrated right across the organisation.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance</p> <p>No: 236/009</p> <p>Date issued: 22 March 2016</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the review was to examine the Information Governance framework including roles and responsibilities, policy development and implementation.</p> <p>Implementation of the Information Governance Improvement Plan (August 2013) and recommendations made in Internal Audit report Data Security and Information Management (April 2014) has been limited since then. The Information Governance Group (IGG) only met once early in 2014, our concern being that there is a risk that much of the insight gained in developing an effective policy and governance framework might be lost due to the IGG having been in abeyance for such a long period of time. The Service Director Regulatory Services has fulfilled the role of Senior Information Risk Owner (SIRO) since November 2014, and the IGG has met regularly since February 2015. An Interim Project Manager took up post in January 2016 to work alongside existing staff in the Information Management Team and the SIRO</p> <p>We are satisfied that the Information Management Project as detailed in the Business Case provides a suitable framework to address the outstanding actions shown in the Improvement Plan and the two outstanding audit recommendations shown below.</p> <p>Internal Audit considers that the level of assurance that we are able to give is limited. Risk, control, and governance systems have some satisfactory aspects. There are, however, some remaining weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk.</p> <p>By way of explanation and emphasis, we have been greatly encouraged by the significant progress which has been made in a short timescale within the past three months. We would anticipate a revised rating if the actions described in the Project Plan are taken, and if the Information Governance Group functions in line with the recently approved remit and policy.</p>	0	2	0	<p>Management have accepted report findings and agreed to implement the outstanding and additional recommendations within appropriate timescales as part of the Information Management project that has been initiated within the overall corporate transformation programme.</p> <p>Staff from Internal Audit will undertake a project assurance role on the Project Board to provide assurance to the project sponsor that its outcomes will be achieved.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Information Governance (cont'd)	<p>Follow-up on Management's Progress with implementation of previous internal audit recommendations made in Internal Audit report Data Security and Information Management dated 4 April 2014 shows the following recommendations that are yet to be implemented:</p> <ul style="list-style-type: none"> • Management should design processes to confirm that records are weeded in line with retention schedules. (P2) • Management should design and introduce housekeeping processes which would provide assurance that all physical records containing personal data have been identified and are stored appropriately. (P2) <p>Internal Audit have made the additional recommendations as follows:</p> <ul style="list-style-type: none"> • (i) A central repository of Data Sharing agreements with government agencies should be established; (ii) Guidance should be developed on who can sign such agreements on behalf of the Council; (iii) Processes should be designed which allow management to gain assurance that undertakings contained in these agreements are being fulfilled; and (iv) Outstanding actions relating to data sharing should be reviewed as a matter of urgency. Management may want to consider establishing a dedicated, short life team to progress these actions. (P2) • The Information Policy and Strategy document should be reviewed by the Group and amended as appropriate. It should be used to prepare a structured programme of work for the Group in order to fulfil its remit in the development of policy and the promotion of good practice in the Council. This will include defining the membership of the Group and their roles and responsibilities. (P2) 				

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Major capital investment in councils

Follow-up



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
January 2016


The Accounts Commission

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

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

Our work includes:

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

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

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Key facts



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

£7 billion

149 projects
(£3.2 billion)

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

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

53 per cent

245 projects
(£6 billion)

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



Summary



Key messages

- 1 Between 2012/13 and 2014/15, councils spent £7 billion on capital investment. They have taken a range of actions in response to the recommendations in the 2013 report. This included implementing revised structures to help them manage and monitor capital investment activity more effectively. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply fully with the 2013 good practice guide.
- 2 Councils need to improve the quality of their capital investment strategies and plans. The strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long-term capital investment strategy in place and these do not identify opportunities for collaboration with other bodies. All councils have a capital plan outlining expected programme and project costs. The plans do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. Some councils choose to not have a separate capital investment strategy and plan. Instead they combine the features of both in a single document but these rarely demonstrate how capital investment contributes to councils' strategic objectives.
- 3 There are some examples of where councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. But they need to do further work to comply fully with the 2013 good practice guide, such as developing processes to routinely revisit and review business cases throughout the life of every capital project. Similarly, most councils are not carrying out formal mid-term reviews of projects, or post-project evaluations. Those that do are not doing so regularly or in a consistent manner. This limits councils' ability to identify areas of good practice, share lessons learned and identify the benefits that individual projects have realised.
- 4 Elected members are not able to scrutinise the performance of capital programmes effectively because they are not receiving adequate information on capital investment. The majority of councils' progress reports to elected members on major capital projects focus on reporting capital spending in the current financial year. Some councils do not report cumulative capital spending, covering several years, against the total capital budget for individual projects. Councils do not routinely report to elected members project risks or non-financial information, such as the benefits realised from capital investment

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

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

Recommendations

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

Councils should ensure that they:

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

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

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

Background

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


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

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

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

About this audit

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

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

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

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

8. During the audit we:

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

9. The report has two parts:

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

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

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

Exhibit 1

Councils' actions to implement recommendations from the 2013 report

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









Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations
<p>Develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders, such as service users and suppliers, as they develop these strategies.</p>	 <p>Limited progress</p> <p>A third of all councils have a long-term capital investment strategy in place and only two cover a period of over ten years. The majority of these set out the needs and constraints for local capital investment. But councils need to improve them further to include other features of good practice such as providing clear links between individual projects and wider programmes. Councils consult with stakeholders, such as service users and suppliers, although the extent of this varies by the council.</p> <p>(Paragraphs 47, 55 and Exhibit 7)</p>
<p>Assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help each council achieve value for money.</p>	 <p>Limited progress</p> <p>A third of all councils have a long-term capital investment strategy in place. Two-thirds of these assess funding methods and consider how councils might use them. But councils need to improve them further to include other features of good practice such as coordinating investment requirements from across each service area.</p> <p>(Paragraph 47 and Exhibit 7)</p>
<p>Actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement.</p>	 <p>Limited progress</p> <p>Councils told us that they were actively exploring opportunities for joint working but this is often not reflected in their capital investment strategies. Evidence of successful joint projects or sharing staff resources is limited.</p> <p>(Paragraphs 48 – 50 and Exhibit 7)</p>
<p>Develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects.</p>	 <p>Partially</p> <p>All eight councils reviewed in detail have clear procedures for preparing outline and full business cases. But they do not routinely revisit and review business cases throughout the life of projects. Based on the detailed review of eight councils, about a third of them do not routinely report cumulative spending on a project-by-project basis.</p> <p>(Paragraphs 59, 60 and 64)</p>
<p>Collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned. Report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils.</p>	 <p>No</p> <p>The detailed review of eight councils shows that councils do not carry out mid-term reviews of projects or post-project evaluations regularly or consistently. This limits councils' ability to identify areas of good practice, share any lessons learned and monitor benefits realised from the investment activity.</p> <p>(Paragraphs 61 and 62)</p>

Exhibit 1 (continued)

Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations
<p>Improve the quality of capital project and programme information that is routinely provided to members. Information should cover:</p> <ul style="list-style-type: none"> • annual financial performance against the capital budget • project and programme level performance against cost, time and scope targets • risk reporting (including identification, likelihood, financial impact and actions taken) • an assessment of intended and realised benefits. 	<div style="display: flex; align-items: center;">  <div style="margin-left: 10px;"> <p>Limited progress</p> </div> </div> <ul style="list-style-type: none"> • The vast majority of councils report annual capital spending against budget. • Based on the review of eight councils, about a third of them do not routinely report cumulative spending against total capital budget on a project-by-project basis. • The eight councils reviewed in detail provide limited information to elected members on project risks and overall capital programme risks. • Business cases identify intended benefits but monitoring reports do not outline benefits that individual projects have realised. <p>(Paragraphs 63 – 67)</p>
<p>Carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects.</p>	<div style="display: flex; align-items: center;">  <div style="margin-left: 10px;"> <p>Partially</p> </div> </div> <p>Officer-led project boards of the eight councils reviewed in detail are primarily responsible for managing risks. While officers may alert elected members to specific risks, they often provide them with information on project risks and overall capital programme risks on an ad hoc basis.</p> <p>(Paragraph 66)</p>
<p>Consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary.</p>	<div style="display: flex; align-items: center;">  <div style="margin-left: 10px;"> <p>No</p> </div> </div> <p>The detailed review of eight councils shows that councils provide members with a variety of training opportunities on capital investment matters but no council has a continuing programme of training on capital issues in place.</p> <p>(Paragraph 69)</p>

Source: Audit Scotland

Part 1

Capital investment in councils since the 2013 report



Key messages

- 1** Between 2012/13 and 2014/15, councils spent £7 billion on capital investment. This represented over a half of the total public sector capital spend during the period. Councils decreased their annual capital spending from £2.5 billion in 2011/12 to £2.2 billion in 2014/15. As at October 2015, they were planning to spend a further £2.6 billion on capital projects in 2015/16.
- 2** Councils continue to fund their capital spending through a variety of means, including capital grants from the Scottish Government and borrowing. Between 2011/12 and 2014/15, councils borrowed less and funded more capital spending from capital grants. The availability of the Scottish Government capital grant increased in 2014/15 to compensate for earlier reductions. The proportion of funding from capital grants increased from 28 per cent in 2011/12 to 43 per cent in 2014/15. Borrowing reduced from 54 per cent to 33 per cent over the same period.
- 3** Between April 2012 and October 2015, councils completed 149 major capital projects and had a further 245 in progress as at October 2015. In line with the findings of the 2013 report, schools projects continued to perform better to cost and time targets.

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

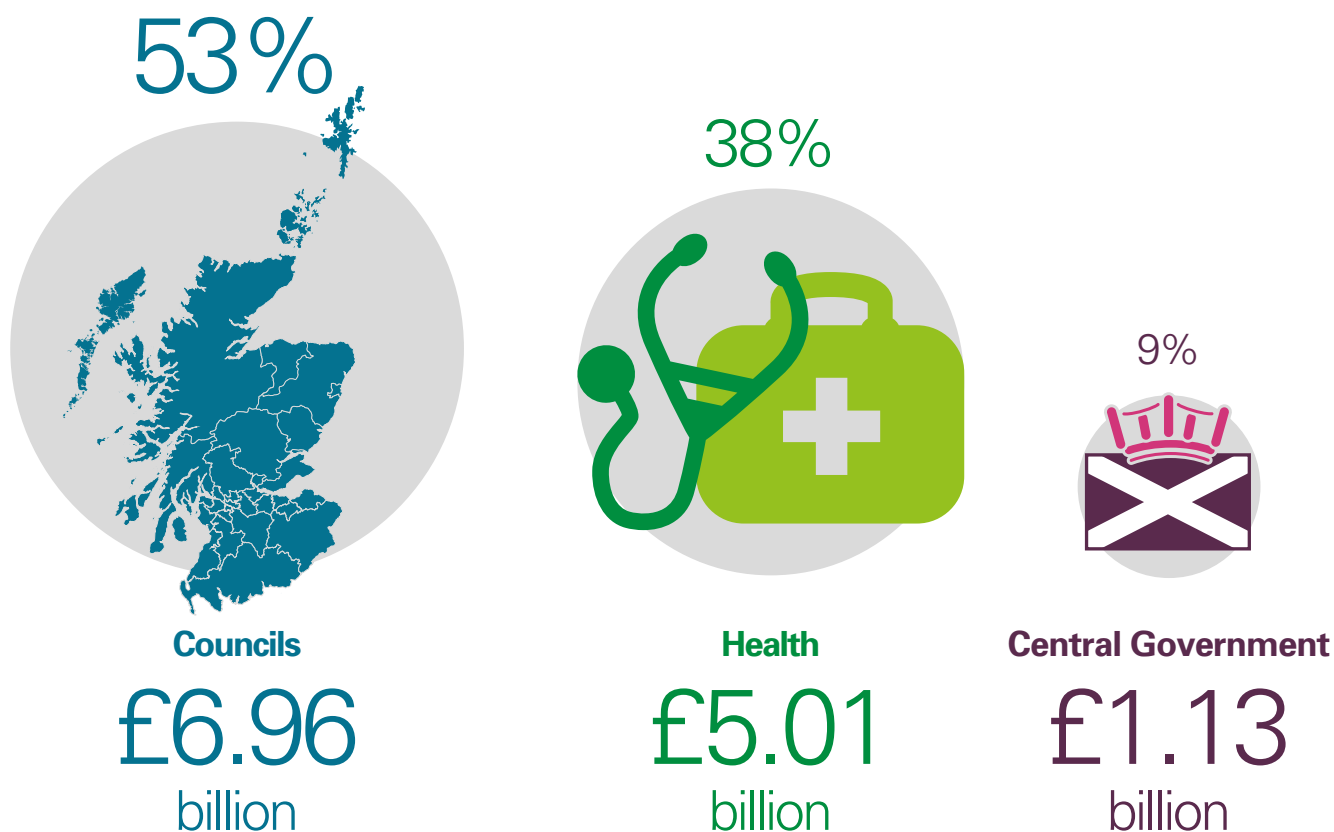
Councils spent £7 billion on capital investment between 2012/13 and 2014/15

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

Exhibit 2

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

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



Source: Audit Scotland

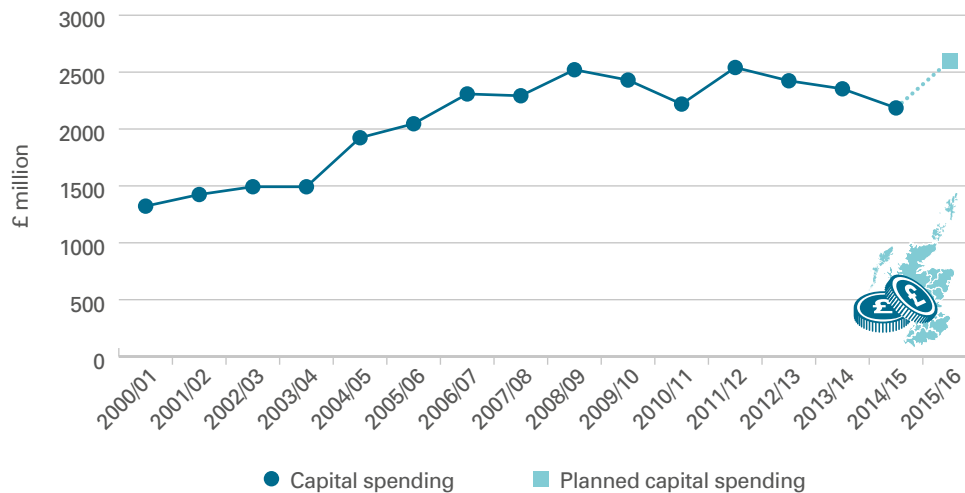
12. Councils decreased their annual capital spending in the last three years, from £2.5 billion in 2011/12 to £2.2 billion in 2014/15 ([Exhibit 3, page 13](#)). In 2014/15 councils' capital spend represented 11 per cent of their total spend of £20.9 billion. Councils' spending on services remained constant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

13. Council's capital investment over the years has made a significant difference to the condition of their assets. For example, in April 2014, 83 per cent of schools were in satisfactory condition, compared to only 61 per cent in April 2007.³ Councils rebuilt or substantially refurbished 526 schools between 2007 and 2014, 123 of which were completed in 2012/13 and 2013/14.⁴

Exhibit 3

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

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



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

Source: Audit Scotland

Councils use a variety of funding sources for capital investment

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

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

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

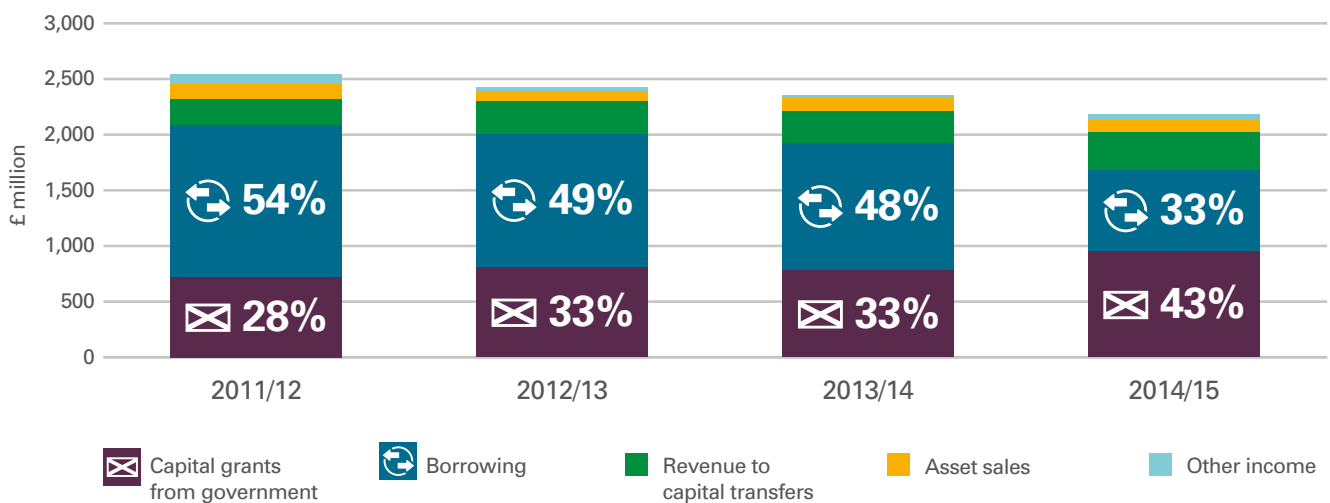
16. Rescheduled capital grant funding meant that the Scottish Government increased its capital allocations to councils by £120 million in 2014/15 and £94.2 million in 2015/16. The increase in 2015/16 does not match the reduction in 2013/14 due to the transfer of responsibility for policing from local to central government.⁶ The Police and Fire Reform (Scotland) Act 2012 created a new structure for providing police services in Scotland. It brought together the eight police forces, the Scottish Police Services Authority and the Scottish Crime and Drug Enforcement Agency into two new national bodies: the Scottish Police Authority and the Police Service of Scotland (Police Scotland). The new structure became operational on 1 April 2013.⁷

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

Exhibit 4

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

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



Source: Audit Scotland

Councils are using alternative funding mechanisms for capital projects

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

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

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

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

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

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

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

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

[Appendix 3](#) provides more information about each of these funding models.

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

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

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

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

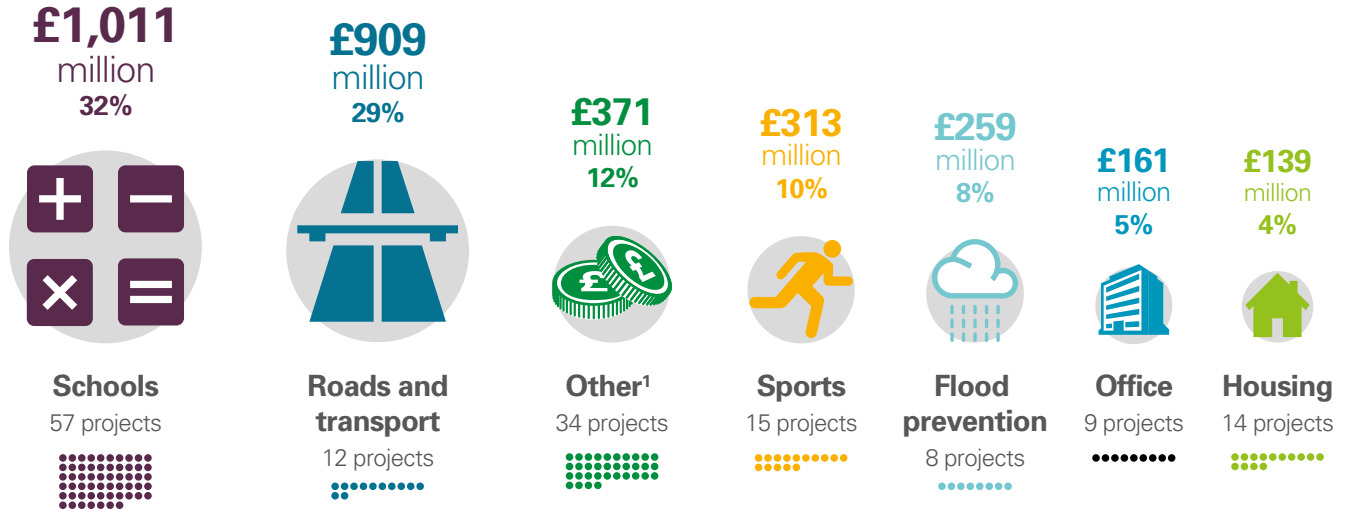
28. The largest of all major capital projects in progress is the £745 million Aberdeen Western Peripheral Route (AWPR), with Aberdeen City and Aberdeenshire Councils each contributing 9.5 per cent of this cost (£71 million each). Other areas of significant capital spending in councils include roads and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

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

Exhibit 5

Completed major capital projects between April 2012 and October 2015

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



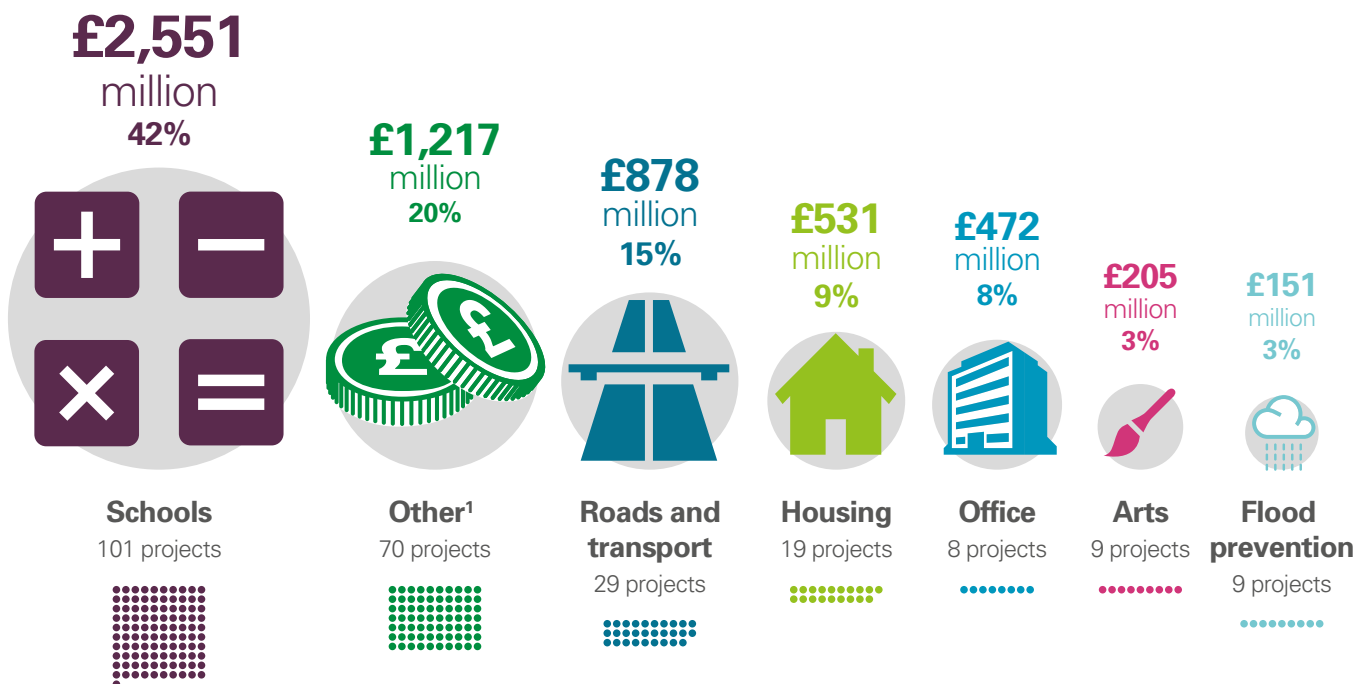
Note: 1. These projects include day care centres, harbour improvements, land regeneration and others.

Source: Audit Scotland

Exhibit 6

Major capital projects in progress as at October 2015

As at October 2015, councils were progressing 245 major capital projects worth about £6 billion.



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

Source: Audit Scotland

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

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

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

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

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

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

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

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

Case study 1




Fife Council's flood prevention scheme in Dunfermline

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

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

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

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

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

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

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

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

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

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

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

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

Part 2

Councils' management of capital investment programmes and projects



Key messages

- 1 Councils have taken a range of actions in response to the recommendations in the 2013 report. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply fully with the 2013 good practice guide.
- 2 A capital investment strategy is an essential component of a council's capital investment management as it provides clear links between investment objectives and the council's wider strategic objectives and sets out a vision for major capital investment. Councils' strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long-term capital investment strategy in place and these do not identify opportunities for collaboration with other bodies.
- 3 To support the long-term capital investment strategy, councils should also have in place a capital plan that outlines annual investment commitments and plans over the medium term. All councils have a capital plan but they need to develop them further. While the plans outline expected programme and project costs, they do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. The councils with a combined capital investment strategy and plan need to better demonstrate how capital investment contributes to their strategic objectives.
- 4 Councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. This included establishing a dedicated team to manage capital investment, or appointing a lead officer to oversee and develop the monitoring framework. They need to do further work to comply fully with the 2013 good practice guide, such as routinely reviewing business cases throughout the life of every capital project to ensure the effective monitoring of expected benefits.
- 5 Few councils are carrying out formal mid-term reviews of projects, or post-project evaluations. Those that do are not doing so regularly or in a consistent manner. They are more likely to formally evaluate projects that ran into significant difficulties. This limits councils' ability to identify areas of good practice, share lessons learned and identify the benefits that the investment activity realises.

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

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

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

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

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

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

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

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

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

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

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

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

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

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










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

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

Exhibit 7

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

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

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

Source: Audit Scotland








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

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

Exhibit 8

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

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

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

Note: 1. Only 12 councils have a capital investment strategy in place ([paragraph 47](#)).

Source: Audit Scotland

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


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

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

Councils have improved arrangements for management and monitoring of capital investment

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

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

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

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

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

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

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

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

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

Elected members are not receiving adequate information on capital investment

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

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

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

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

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







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

Councils provide elected members with a variety of training opportunities

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

Endnotes



- ◀ 1 [Major capital investment in councils \[PDF\]](#) , Accounts Commission, March 2013.
- ◀ 2 The 2013 report used 2011/12 as the last year for the analysis of capital spending figures.
- ◀ 3 *Summary Statistics for Schools in Scotland*, Statistical Bulletin (Education Series), Scottish Government, February 2015.
- ◀ 4 2013/14 is the latest year for which information is available.
- ◀ 5 *Scottish Spending Review 2011 and Draft Budget 2012-13*, Scottish Government, September 2011.
- ◀ 6 *Local Government Funding: Draft Budget 2015-16 and provisional allocations to local authorities*, Financial Scrutiny Unit Briefing, November 2014.
- ◀ 7 [Police reform: Progress update 2013 \[PDF\]](#) , Audit Scotland, November 2013.
- ◀ 8 [Scottish Futures Trust's Aim](#) .
- ◀ 9 [An overview of local government in Scotland 2015 \[PDF\]](#) , Accounts Commission, March 2015.
- ◀ 10 *Building Better Schools: Investing in Scotland's Future*, Scottish Government, September 2009.
- ◀ 11 *Review of the Construction project for the Victoria and Albert Museum of Design*, John F. McClelland C.B.E., July 2015.
- ◀ 12 [ESA10: Classification of privately funded capital projects – Briefing paper \[PDF\]](#) , Audit Scotland, October 2015.
- ◀ 13 Treasury management includes managing cash to ensure enough is available to meet day-to-day expenses like paying salaries or electricity bills, and for building new assets, such as a new school, or improving existing ones, such as roads. It also involves ensuring that any temporary surplus cash is safely invested.
- ◀ 14 [Borrowing and treasury management in councils \[PDF\]](#) , Accounts Commission, March 2015.

Appendix 1

Councils selected for the targeted follow-up



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

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

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

Source: Audit Scotland

Appendix 2

Good practice examples in managing capital investment



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

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

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

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

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

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

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

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

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

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

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

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



Significantly off target

+/- 2% or more budget, or £0.500m, whichever is less



Slightly off target

+/- 0.5% to 2% of budget, or £0.125m, whichever is less



Broadly on target

Within +/- 0.5% of budget

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

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

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

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

Appendix 3

Alternative funding methods



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

City Deal

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

Growth Accelerator Model (GAM)

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

Tax Incremental Financing (TIF)

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

UK Green Investment Bank (UKGIB)

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

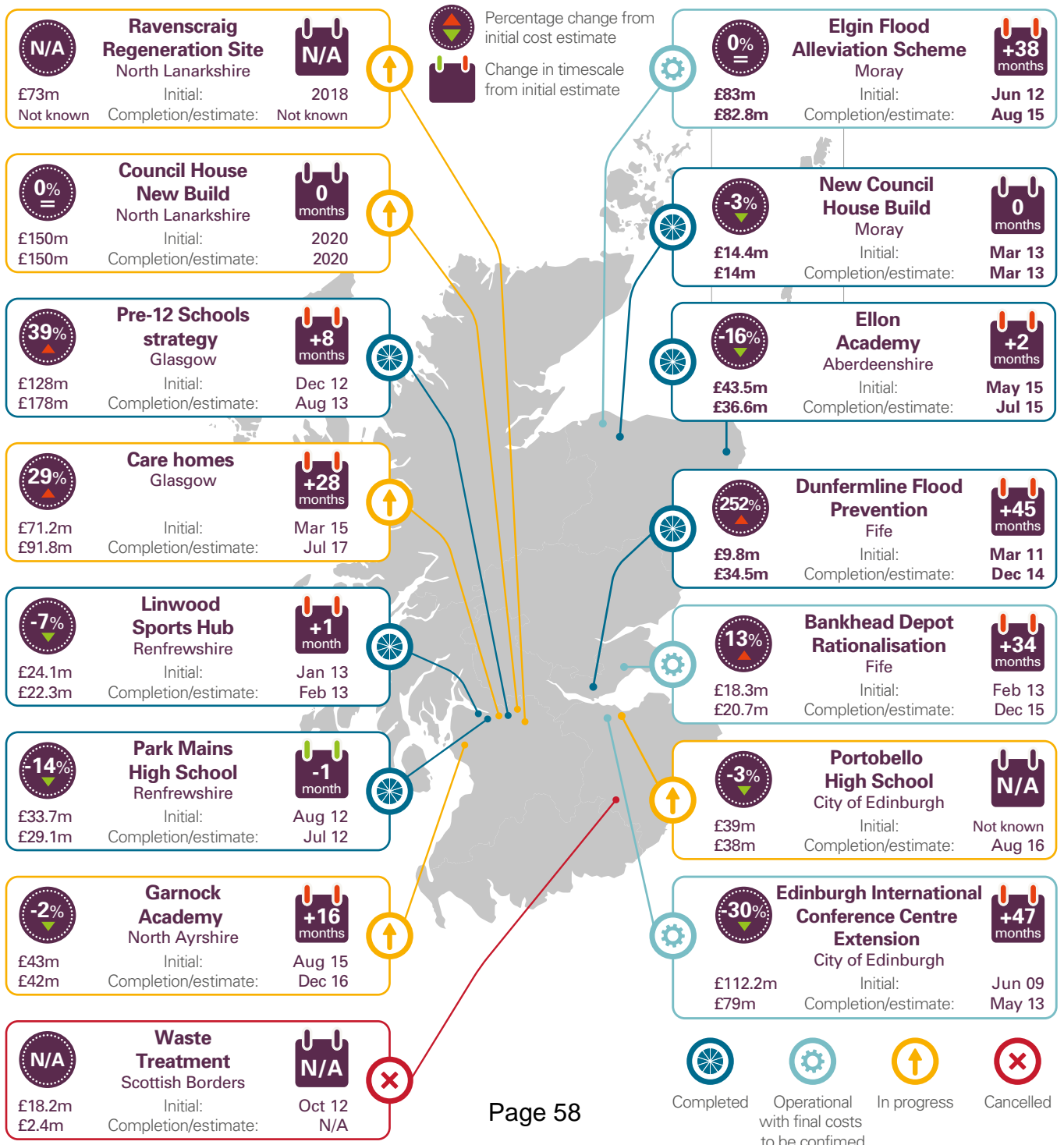


Appendix 4

Update on the 15 projects reviewed in the 2013 report



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



Reasons for overspends and delays:

Bankhead Depot Rationalisation

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

Dunfermline Flood Prevention

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

Pre-12 Schools Strategy (Phase 4)

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

Edinburgh International Conference Centre extension

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

Ravenscraig Regeneration Site

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

Reason for project cancellation:

Waste Treatment facility

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

Source: Audit Scotland's analysis of supporting documentation

Major capital investment in councils

Follow-up

This report is available in PDF and RTF formats,
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INTERNAL AUDIT CHARTER

Report by Chief Officer Audit & Risk

AUDIT & RISK COMMITTEE

29 March 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit & Risk Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.
- 1.4 Approval of the Internal Audit Charter as shown in Appendix 1 to this report will ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit & Risk Committee approves the updated Internal Audit Charter, as shown in Appendix 1 to this report.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice. The PSIAS sit alongside the CIPFA Role of the Head of Internal Audit document.
- 3.3 In terms of the PSIAS, the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.
- 3.4 The Terms of Reference i.e. Charter for the Internal Audit function were last presented to the Audit & Risk Committee for approval on 23 March 2015 and includes details of the arrangements that are in place for auditing areas within the Audit & Risk service to ensure the independence and objectivity of internal audit are maintained and demonstrated within the current management arrangements. The Internal Audit Charter has been updated to:
- incorporate relevant improvement actions that were identified as part of the PSIAS internal self-assessment 2015/16 and external quality assessment 2015/16 carried out by Renfrewshire Council whose findings were reported to the Audit & Risk Committee in November 2015; and
 - reflect corporate management changes affecting the Audit & Risk service.

4 IMPLICATIONS

4.1 Financial

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.

4.2 Risk and Mitigations

- (a) The aim of Internal Audit is to help Scottish Borders Council discharge its responsibilities and achieve its objectives by systematically reviewing how well it manages its risks and operates good internal control and governance procedures.

- (b) Approval of the Internal Audit Charter as shown in Appendix 1, as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with PSIAS and best Corporate Governance practice.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report, as internal audit work is carried out in accordance with the appropriate legislation and professional standards.

4.4 Acting Sustainably

It is anticipated that there are no adverse economic, social or environmental effects of this report.

4.5 Carbon Management

It is anticipated that there are no carbon management issues associated with this report.

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

It is anticipated that no changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in this report.

5 CONSULTATION

- 5.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk Signature

Author(s)

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Background Papers: Local Code of Corporate Governance; Financial Regulations
Previous Minute Reference: Audit & Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

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INTERNAL AUDIT CHARTER

INTRODUCTION

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

In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.

INTERNAL AUDIT

The Council has adopted the definition of Internal Auditing as given in the PSIAS:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.

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

RESPONSIBILITIES OF INTERNAL AUDIT

Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit & Risk Committee (the 'board' for the purposes of internal audit activity).

It does this by:

- Providing high quality, independent internal audit services to the Council and its management.
- Performing a systematic and continuous review of the Council's internal control, risk management and governance arrangements in accordance with a risk-based annual plan approved by the Audit & Risk Committee.

¹ Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)
Audit & Risk Committee – 29 March 2016

- Discussing any matters to support and assist the Chief Financial Officer discharge the statutory responsibilities of the role, including reviewing the adequacy of the systems of internal financial control and recommending improvements.
- Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
- Highlighting opportunities to reduce costs through greater economy, efficiency and effectiveness within existing internal controls throughout the Council's systems and activities.
- Advising on cost effective controls for new systems and activities.
- Reviewing the effectiveness of controls put in place by management to manage the risk of fraud. This requirement may involve Internal Audit in the following roles:
 - reviewing and recommending improvements to fraud prevention controls and detection processes put in place by management;
 - investigating the cause of fraud;
 - considering fraud risk in every audit;
 - advising the Audit & Risk Committee on counter fraud matters;
 - leading, assisting or liaising in fraud investigations where appropriate and requested by management; and
 - responding to whistleblowers.
- Focussing towards, and culminating each year in, the provision of the HIA's assurance statements and annual report to the Audit & Risk Committee on the annual internal audit opinion on the adequacy of the Council's overall control environment.

Internal Audit will do this in accordance with:

- Relevant codes of ethics standards and guidelines issued by the professional institutes and Scottish Borders Council's Code of Conduct for Employees.
- Scottish Borders Council's Local Code of Corporate Governance and other relevant corporate governance documents, standards, policies and procedures.
- Its own Audit Manual and other internal standards, which will be adhered to by its entire staff including contracted external specialists where appropriate.

In particular, Internal Audit will adhere to the Public Sector Internal Audit Standards issued by the Internal Audit Standards Advisory Board in April 2013 which will sit alongside the CIPFA Role of the Head of Internal Audit document.

Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies in order to coordinate effort and avoid duplication.

Internal Audit procedures are designed to ensure that all statutory and professional standards governing confidentiality of information are observed at all times.

OBJECTIVES OF INTERNAL AUDIT

As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

- As a contribution to the Council's corporate management of risk.
- As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
- In support of the Council's vision, values and priorities.
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
- As a contribution towards ensuring that financial statements and other published information are accurate and reliable.

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

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

At all times, management's responsibilities include:

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

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The HIA should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation²"

Within Scottish Borders Council, the Chief Officer Audit & Risk (HIA) has unrestricted access to those charged with governance, specifically the Members, the Chief Executive, the Chief Financial Officer, who is the Council's nominated Section 95 Officer, the Service Director Regulatory Services, who is the Council's nominated Monitoring Officer, the Chief Social Work Officer, and the Depute Chief Executives, other Service Directors and Chief Officers who make up the Corporate Management Team. The HIA has direct access to the Chairman of the Audit & Risk Committee to discuss any matters the committee or auditors believe should be raised privately. One of the functions of the Audit & Risk Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Chief Officers and employees of the Council is accorded to all members of the Internal Audit service.

In terms of accountability and independence, the HIA reports functionally to the Audit & Risk Committee. In this context functional reporting³ means the Audit & Risk

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)

³ Chartered Institute of Internal Auditors (CIIA) – International Standards for the Professional Practice of Internal Audit & Risk Committee – 29 March 2016

Committee will:

- Approve the internal audit charter.
- Approve the Internal Audit risk assessment and strategic and annual plans.
- Receive reports from the HIA on the results of Internal Audit activity or other matters the HIA determines necessary.
- Ratify all decisions regarding the appointment or removal of the HIA.
- Make enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.

The Chief Officer Audit & Risk (HIA) reports administratively to the Service Director Regulatory Services who reports to the Depute Chief Executive Place who in turn reports to the Chief Executive. However, the open access rights above allow the HIA discretion to apply the reporting arrangement determined to be most appropriate for the specific task undertaken.

In this context administrative reporting⁴ means reporting in relation to:

- Budgeting and management accounting.
- Human resource administration.
- Internal communications and information flows.
- Administration of the Council's internal policies and procedures.

The administrative reporting line will be managed in a manner which: ensures the HIA is accorded open and direct communication with management; ensures the HIA and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council; and ensures budgetary controls and considerations imposed by this reporting line do not impede the ability of Internal Audit to discharge its responsibilities.

It is recognised the administrative reporting line does not have authority over the scope of reporting of results of Internal Audit activity. Ultimate authority in this regard vests in the HIA, who reports in their own name and retains final right of edit over all Internal Audit reports.

The Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud. In order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas would be carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the internal audit review. In addition the report would be submitted in the name of the Internal Audit Manager who would report directly to the Service Director Regulatory Services during the period in which he would be fulfilling the HIA role carrying out the planned audit reviews for Risk Management and Counter Fraud.

SCOPE OF INTERNAL AUDIT ACTIVITY

Internal Audit shall review, appraise and report upon:

- The effectiveness of all controls and other arrangements put in place to manage risk.
- The completeness, reliability and integrity of information, both financial and operational.
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the Council or externally.
- The effectiveness of arrangements for safeguarding the Council's assets and interests.
- The economy, efficiency and effectiveness with which resources are deployed.
- The extent to which operational are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All Council activities, systems, processes, policies and protocols that are currently existing or under development.
- All Council departments, cost centres and other business units and establishments.
- All services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

RIGHTS OF ACCESS

The Chief Officer Audit & Risk and any member of Internal Audit service has authority to:

- Enter at all reasonable times and without notice any premises or land of the Council, provided that where such premises or land are leased to a third party that the terms of the lease are observed.
- Have access to, and remove, all records (both paper and electronic), documents and correspondence within the possession or control of any officer of the Council, relating to any financial or other transactions of the Council.
- Be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council.
- Require and receive explanations concerning any matter under examination from any employee including Chief Officers.
- Require any employee of the Council to produce cash, stores or any other Council assets under their control.

CONSULTANCY WORK

Internal Audit, using its systematic and disciplined approach, plays an important role for the Council within its transformation and change programme and its performance

improvement framework through the provision of advice and consultancy services to:

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

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

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

REPORTING

Internal Audit:

- Reports after each audit assignment its findings and audit opinion, highlights good practice and deficiencies, and makes recommendations as appropriate addressed to the relevant Depute Chief Executive, Service Director and such other levels of management as need to know and are capable of ensuring that appropriate action is taken to improve the mechanisms put in place to ensure systems and activities achieve their objectives.

Findings and recommendations are prioritised as follows:	Generally we would expect recommendations to be implemented within the following time scales:
Priority 1 High risk, material observations requiring immediate action. Added to the relevant department's Risk Register.	within one month of formally raising the issue
Priority 2 Medium risk, significant observations requiring reasonably urgent action.	within three months of formally raising the issue
Priority 3 Low risk, minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	within six months of formally raising the issue

- Accepts that its responsibility does not cease at the point where a report is issued and will take reasonable action to follow up the implementation of agreed actions to ensure they are in place and are effective.
- Failure to address recommendations within the agreed timescales will be

reported to the Audit & Risk Committee. In some cases it will not be practicable to implement recommendations within the above timescales and in these cases background circumstances and progress to date will be taken into account.

- Will report as required on the results of its work (including summarising the findings arising from each completed review, and progress made in delivering the agreed Audit Plan) to the Audit & Risk Committee. An annual report will be presented to Corporate Management and the Audit & Risk Committee which will contain the annual audit opinion on the effectiveness of the Council's internal control and corporate governance arrangements. Progress on implementation of all Priority 1 items will be highlighted on an annual basis as appropriate to inform the Audit & Risk Committee of the current areas of greatest risk and how management is managing these effectively.
- Will make available, as requested, to Members of the Audit & Risk Committee its final internal audit reports in accordance with statutory and professional standards governing confidentiality of information.
- Will evaluate its performance and maintain and publish information accordingly.

The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.

AUDIT RESOURCES AND WORK PRIORITISATION

The internal audit annual plan as approved by the Audit & Risk Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit. The Chief Officer Audit & Risk (HIA) shall determine the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance gathering process across the Council's activities in order to provide an annual internal audit opinion.

This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the organisation. The plan will have within it provision of resources to address unplanned work. This contingency shall be directed towards responding to specific control issues highlighted by managers during the year by carrying out specific unplanned work within audit scopes and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

In the event that there is a need for greater audit work than there are resources available, the HIA will identify the shortfall in the plan and initially advise the Chief Executive and Chief Financial Officer followed by the Audit & Risk Committee as required. It shall be for the Audit & Risk Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires management to identify additional resources.

APPROVAL

The Internal Audit Charter was reported to and approved by the Audit & Risk Committee at its meeting on *29 March 2016* and shall be subject to regular review by the Chief Officer Audit & Risk and the Audit & Risk Committee.

Internal Audit Strategy and Internal Audit Annual Plan 2016/17

Report by Chief Officer Audit & Risk

Audit & Risk Committee

29 March 2016

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Internal Audit Annual Plan 2016/17 for Scottish Borders Council to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**
- 1.2 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 which requires the chief audit executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the organisation.
- 1.3 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.
- 1.4 The report presents the background to the Internal Audit Strategy at Appendix 1 that outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance.
- 1.5 The proposed Internal Audit Annual Plan 2016/17 in Appendix 2 sets out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and assurance framework.
- 1.6 There are staff and other resources currently in place to achieve the Internal Audit Annual Plan 2016/17 and to meet its objectives.

2 RECOMMENDATION

- 2.1 I recommend that the Audit & Risk Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2016/17 (Appendix 2).**

3 BACKGROUND

- 3.1 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.
- 3.2 Management are responsible for designing and maintaining appropriate risk management, governance and internal control processes and systems to ensure robust and efficient governance of the Council. Management are also responsible for checking that these internal controls are operating effectively. These are known as the first and second lines of defence. Internal Audit is not a substitute for these management responsibilities. Rather it is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assisting the Council in achieving its objectives. Internal Audit is the third line of defence.
- 3.3 The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and came into force on 10 October 2014. The regulations require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector (PSIAS)*. The standards require internal audit to have suitable operational independence from the authority.

4 INTERNAL AUDIT STRATEGY

- 4.1 The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom.
- 4.2 The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:
"The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.
The internal audit activity is effectively managed when:
- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
 - The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
 - The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.
- The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes."
- 4.3 The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance. It outlines the Council's assurance framework, states how the key themes will be covered to inform the annual audit opinion statement, describes the

approach to periodic risk based audit planning, sets out the relative allocation of resources, and describes the monitoring and reporting of Internal Audit progress with plans and its work.

- 4.4 The opportunity has been taken to address one of the improvement actions arising from the PSIAS external quality assessment (EQA) carried out in October 2015 by Renfrewshire Council. During the audit planning process the Chief Officer Audit & Risk held discussions with Senior Management to “determine the expectations and deliverables, in relation to adding value to the organisation through the work of Internal Audit taking account of the role of Internal Audit and resources available”. In addition key messages on the internal audit strategy and plans are reflected within this report and associated appendices to Management and the Audit and Risk Committee.
- 4.5 The Internal Audit activity adds value to the organisation (and its stakeholders) when it: considers the organisation’s strategies, objectives and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.

5 INTERNAL AUDIT RESOURCES

- 5.1 The Council’s Internal Audit function must be adequately resourced to meet its objectives, in terms of diverse range of experience, knowledge, skills and technical competencies needed to complete the programme of work.
- 5.2 The staffing position within the function has been stable for some years now, with a good mix of experience, qualifications and skills. The findings from the External Quality Assessment of the PSIAS (October 2015) states that “The Internal Audit team is appropriately qualified and experienced. It was acknowledged by key stakeholders that the team was knowledgeable and professional. All members of the team are aware of the professional and ethical standards required.”
- 5.3 The Internal Audit Annual Plan 2016/17 has been developed on the assumption that existing staff resources will not change and it is estimated that the total productive days available for audit work will be of the order of 809 days. Staff resources comprise the Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors. Staff resources estimated in the plan totalling 70 days have been allocated from existing Council resources to provide internal audit services to SB Cares in its second year of operation, to the Pension Fund and to the Scottish Borders Health and Social Care Partnership in its first year of operation to reflect the changing organisation structures and partnership arrangements. This leaves 739 audit days for provision of risk-based assurance and audit opinion for the Council.
- 5.4 It should be noted that within the financial plans for 2016/17, which were approved by the Council on 11 February 2016, a net reduction in costs of the Audit & Risk service is reflected as an efficiency savings target. Scenarios as to the achievement of this will be considered as part of the people planning processes that is underway, though any reduction in Internal Audit resources would limit the level of internal audit assurances to all existing organisations. Proposals will be brought forward in due course.
- 5.5 Internal Auditors will continue to attend relevant seminars, development workshops and user groups as part of their personal development plans, to meet Continuing Professional Development requirements as appropriate, ensuring that all remain well versed in new and emerging working practices, issues and risks and have the tools, processes and insights necessary to accomplish the objectives.

6 INTERNAL AUDIT ANNUAL PLAN 2016/17

- 6.1 The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom.
- 6.2 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- Standard 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
 - Standard 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”
- 6.3 The CIPFA Publication ‘Audit Committees: Practical Guidance for Local Authorities and Police – 2013 Edition’ states that “The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:
- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.”
- The CIPFA Publication also states that “The committee will wish to seek assurance from the HIA that appropriate risk assessment has been carried out as part of the preparation of the internal audit plans when they are presented.”
- 6.4 In practice within Scottish Borders Council, a risk-based plan for the organisation, outlining the planned programme of work to be undertaken by the Internal Audit function, is developed annually by the Chief Officer Audit & Risk. The Internal Audit Annual Plan includes the range and breadth of audit areas and sufficient work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council’s overall control environment. The audit opinion is included within the Internal Audit Annual Report which is reported to senior management and members of the Audit & Risk Committee on an annual basis.
- 6.5 Key components of the internal audit planning process include a clear understanding of the Council’s functions, associated risks, and assurance framework (comprising assurances from within the organisation and from external providers of assurance). The internal audit plan is also informed by key developments at both a national and local level, knowledge of planned review and re-design of business processes and systems, and other relevant background information contained for example within the Corporate Plan, Directorate Business Plans and associated Risk Registers, reports from external audit and inspection bodies, and committee reports. In addition, as in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted. This consultation has included discussions with senior management at various Service and Departmental Management Teams and other key stakeholders such as KPMG, the Council’s appointed external auditor.

- 6.6 The programme of work within the Internal Audit Annual Plan takes account of external audit and inspection activities to avoid duplication of assurance work. For example: Internal Audit will meet with the External Auditors to agree which internal audit assurance work will be relied upon by External Audit for its annual audit; the schools internal audit work on internal financial controls is designed to complement inspections carried out by Education Scotland; and any matters raised by other inspection bodies, including Care Inspectorate and Scottish Housing Regulator, are considered in self-assessment validation work agreed with Management.
- 6.7 National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies are considered and applied as part of the audit process to evidence improvements in the Council's practices on a continuous basis.
- 6.8 The proposed programme of work to be included in the Internal Audit Annual Plan 2016/17 is summarised at Appendix 2. The proposed reviews have been grouped into key themes which are integral to the assurance gathering process across the Council's activities. For each review area included within the plan there is a brief commentary. For each assurance review and in line with recognised good practice an Audit Assignment detailing the scope, objectives and timing will be prepared and agreed with the relevant Service Director and manager prior to commencement of the audit fieldwork.
- 6.9 Other areas included in the Annual Plan relate to those consultancy and support activities which support Management in delivering innovation and transformational change.
- 6.10 The following table summarises how the initial allocation of available audit days will be for the Internal Audit Annual Plan 2016/17.

Areas	Audit Days 2016/17
Corporate Governance	190
Financial Governance	180
IT Governance	60
Internal Controls	45
Asset Management	55
Legislative & Other Compliance	50
Consultancy	90
Other	69
Non SBC	70
Total Audit Days	809

- 6.11 The past twelve months has resulted in significant changes in the Council including the governance arrangements associated with the Integration programme for Health and Social Care, development and implementation of alternative service delivery arrangements including Integrated Sports and Culture Trust and SB Cares respectively, and the continuing corporate transformation agenda. In recognition that it is envisaged that 2016/17 will continue to be year of change for the Council including the transition phase of the ICT Review, the plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new need or arrangements or changing risks and priorities of the Council. Any amendments will be brought to the Audit & Risk Committee for approval.

- 6.12 The Internal Audit Annual Plan 2016/17 allows for the provision of internal audit services to other organisations, including:
- SB Cares, the Council's arms-length external organisation (ALEO) providing Adult Social Care services, under a service level agreement. The internal audit work will be determined and agreed with the SB Cares Board and Management;
 - Scottish Borders Pension Fund to reflect the recent legislative requirements on governance; and
 - Scottish Borders Health and Social Care Integration Joint Board (IJB) following the decision by the IJB on 1 February 2016 to appoint Mrs Stacey as the IJB Chief Internal Auditor and to agree that the Internal Audit services for the IJB will be provided by the Council's Internal Audit team for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. The internal audit work will be determined and agreed with the IJB, its Audit Committee and the Health and Social Care Management Team.

7 MONITORING AND REPORTING ARRANGEMENTS

- 7.1 Internal Audit is committed to delivering its service to meet the needs of Management and the Audit & Risk Committee in support of the Council discharging its responsibilities and achieving its objectives. The Internal Audit plan will be delivered in accordance with the Internal Audit Charter that is included within the agenda for approval by Audit & Risk Committee on 29 March 2016. This sets out the role, professional requirements and overall responsibilities of Internal Audit as well as the authority, access rights and reporting arrangements for the Internal Audit function.
- 7.2 On completion of each review Internal Audit will issue a draft report to the relevant Depute Chief Executive, Service Director and Manager. The report will include an overall opinion on the adequacy of internal control and governance arrangements in the area under review and an action plan, as appropriate, setting out any recommendations for improvement. The Service Director and Manager will be required to provide responses on the factual content of the report and to each recommendation, as appropriate. Internal Audit will issue a final report, including completed action plan as appropriate, to the Chief Executive, relevant Depute Chief Executive, Service Director and Manager, and external auditor.
- 7.3 The Chief Officer Audit & Risk will provide the required assurance to the Corporate Management Team and the Audit & Risk Committee in relation to corporate governance, risk management and internal controls throughout the year. Periodic reports on progress with completing the annual plan and executive summaries on the findings arising from each completed internal audit review will be presented. An overall summary of Internal Audit work carried out and opinion on the adequacy of corporate governance of the Council will be provided within the Internal Audit Annual Report which is reported to Corporate Management Team and the Audit & Risk Committee.
- 7.4 Assurance reports relating to Internal Audit services carried out for other organisations, will be presented as follows:
- An internal audit annual report on the internal control, risk management and governance arrangements operating within SB Cares, the Council's arms-length external organisation (ALEO) providing Adult Social Care services, will be presented to the SB Cares Management and Board;

- An Internal Audit assurance statement within the Scottish Borders Pension Fund Annual Report; and
- An internal audit annual report on the adequacy of the arrangements for risk management, governance and control of the delegated resources of the Scottish Borders Health and Social Care Integration Joint Board (IJB) will be reported to the Health and Social Care Management Team and the IJB's Audit Committee.

8 IMPLICATIONS

8.1 Financial

- (a) The Internal Audit function within the Audit & Risk Management service has established staff resources comprising Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors.
- (b) The Scottish Borders Council financial plans for 2016/17 were approved by the Council on 11 February 2016 and there is base budget 2016/17 for Internal Audit relative to the above resources.
- (c) It should be noted within the Scottish Borders Council financial plans for 2016/17 that were approved by the Council on 11 February 2016 that a net reduction in costs of the Audit & Risk service is reflected as an efficiency savings target. Scenarios as to the achievement of this will be considered as part of the people planning processes that is underway, though any reduction in Internal Audit resources would limit the level of internal audit assurances. Proposals will be brought forward in due course.

8.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter, including "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so: As a contribution to the Council's corporate management of risk."
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted.

8.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

8.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

8.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

8.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

8.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

9 CONSULTATION

- 9.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.
- 9.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 9.3 The Depute Chief Executives, Service Directors and service managers at Department Management Teams have been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance to Management on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council.
- 9.4 Other key stakeholders including KPMG, the Council's appointed external auditor, have been consulted on the approach and the resultant planned internal audit coverage to ensure that audit work is co-ordinated and programmed to avoid duplication and maximise assurance.

Approved by

Jill Stacey, Chief Officer Audit & Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk, Tel. 01835 825036
James Collin	Internal Audit Manager, Tel. 01835 825232

Background Papers: Appropriate Internal Audit files

Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

Contact us at James Collin jcollin@scotborders.gcsx.gov.uk

INTERNAL AUDIT STRATEGY

1. AIM OF STRATEGY

1.1. The aim of this strategy is to guide Internal Audit in delivering a high quality internal audit service, which is capable of:

- providing an audit opinion, to the Chief Executive, Chief Financial Officer, the Audit & Risk Committee and Management, on the adequacy of Scottish Borders Council's risk management, internal control and governance arrangements;
- carrying out all other objectives contained in Internal Audit's Charter; and
- adding value to the organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to the strategic priorities of the Council and providing the required assurance.

2. STRATEGY OBJECTIVES

2.1. The objectives of this strategy are to:

- Outline the Council's assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of internal audit;
- State how the key themes which are integral to the assurance gathering process across the Council's activities will be covered to inform the annual internal control and governance audit opinion statement, including:
 - corporate governance and internal control arrangements;
 - financial governance and internal financial control systems; and
 - information technology governance.
- Describe the approach to the development and preparation of the periodic risk based audit plans and programme of work.
- Set out the relative allocation of resources.
- Describe the monitoring and reporting of the Internal Audit progress with plans and its work.

3. ASSURANCE FRAMEWORK

3.1. It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

3.2. The organisation's assurance framework is the means by which the Corporate Management Team ('senior management') and the Audit and Risk Committee (the 'board' for the purposes of internal audit activity) ensures that they are properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

3.3. The assurance framework comprises assurances from within the organisation and from external providers of assurance, with Internal Audit being part of that assurance framework. The risk-based internal audit plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. As part of the internal audit planning process it is necessary to consider the organisation's priorities, plans, strategies, objectives, risks and mitigating controls and the internal and external assurances provided to determine the priorities of the internal audit activity, consistent with the organisation's goals.

- 3.4. The programme of work within the Internal Audit Annual Plan takes account of external audit and inspection activities to avoid duplication of assurance work. For example: Internal Audit will meet with the External Auditors to agree which internal audit assurance work will be relied upon by External Audit for its annual audit; the schools internal audit work on internal financial controls is designed to complement inspections carried out by Education Scotland; and any matters raised by other inspection bodies, including Care Inspectorate and Scottish Housing Regulator, are considered in self-assessment validation work agreed with Management.
- 3.5. National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies are considered and applied as part of the internal audit process to enable Management to evidence improvements in the Council's practices on a continuous basis. This enables Internal Audit to fulfil its role to influence and offer ways to enhance the governance and internal control environment aligned to the strategic priorities of the Council.
- 3.6. Where audit assurance is required on services that are delivered jointly by public sector joint working and partnership arrangements which include Council as a partner, these assurances will be sought as appropriate from partner internal audit service providers and Management. Where Internal Audit is the lead provider of audit services it will follow its Charter, conform with PSIAS and report assurances to the relevant audit committee(s).

4. CORPORATE GOVERNANCE AND INTERNAL CONTROL

- 4.1. Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by SBC to discharge those responsibilities. The Council's Local Code of Corporate Governance is consistent with the six core principles of good governance and the requirements of the new best practice framework 'Delivering Good Governance in Local Government'.
- 4.2. The Local Code of Corporate Governance will be used as an integrated toolkit covering key governance, risk management and internal control elements as part of the process to produce the Annual Governance Statement (AGS) which will be reported to the Audit & Risk Committee in advance of its inclusion in the published accounts in June each year. Internal Audit has a key role to play in validating evidence to support the AGS by leading the self-evaluation officer working group in assessing the extent of implementation of agreed actions and demonstrating continuous improvement in support of delivering best value.
- 4.3. Internal Audit will review the adequacy of the Council's corporate governance arrangements and internal control systems through a programme of annual audits that are aligned to its Local Code of Corporate Governance.

5. FINANCIAL GOVERNANCE AND INTERNAL FINANCIAL CONTROL SYSTEMS

- 5.1 The Council's Section 95 Finance Officer (Chief Financial Officer) is responsible for the proper administration of the Council's financial affairs. Arrangements to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively is an integral part of good corporate governance and therefore financial governance and key internal financial controls are embedded within the revised 'Local Code'. Furthermore, the Financial Regulations set out the rules and regulations for financial management or administration arrangements and link to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines.
- 5.2 Internal Audit will continue to support and assist the Chief Financial Officer discharge the statutory responsibilities of the Section 95 Officer role by reviewing financial governance and the adequacy of the systems of internal financial control, and recommending improvements through a programme of annual audits. The latter will include end to end reviews of financial management and administration processes and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, and to confirm that robust prevention and detection controls are in place to counter fraud, corruption and crime. This is

of particular importance in recognition of the continuing difficult economic outlook and the need for tight fiscal constraint for the foreseeable future as indicated in the Financial Strategy.

- 5.3 Internal Audit will review the adequacy of the Council's systems of internal financial control through a programme of annual audits that are aligned to its Financial Regulations and other key financial documents including policies, strategies and procedures.

6. IT GOVERNANCE

- 6.1. Scottish Borders Council continues to invest in computer systems to support service delivery and business transformation through electronic service delivery. Delivery of the Council's ICT Strategy will be subject to regular monitoring and review as part of corporate transformation to ensure it continues to be linked to Corporate Priorities and Strategies. The ICT Security Policy is the overarching policy that provides the framework to protect the Council from attack in relation to data integrity and availability.
- 6.2. The objective of ICT Governance programme of work is to provide assurance to interested parties that computer systems are secure, reliable and conform to nationally agreed standards.
- 6.3. Internal Audit staff personal development plans will aspire to achieve at least one staff member with computer audit skills and one other staff adequately trained to carry out these audits.

7. APPROACH TO PERIODIC PLANNING

- 7.1. The Internal Audit Strategy and the risk-based Internal Audit Annual Plan 2016/17 will be prepared in accordance with the Public Sector Internal Audit Standards 2013 (PSIAS) and will be presented to the March meeting of the Audit & Risk Committee for approval.
- 7.2. The audit planning process involves consultation with key stakeholders including discussions with senior management at various Service and Departmental Management Teams and with External Auditors to capture potential areas of risk and uncertainty more fully.
- 7.3. The plan will include details of the following Internal Audit activities:
- *assurance* audits, which includes sufficient work across a range and breadth of audit areas within the key themes of corporate governance, financial governance, IT governance, internal controls and asset management to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment. During the course of all assurance work Internal Audit will highlight any opportunities to reduce costs through greater economy and efficiency, consider fraud risk and controls, and will highlight examples of effective internal controls and share good practice across Council areas;
 - verifying a range of performance indicators in Local Government Benchmarking Framework (LGBF) to ensure the accuracy of data submitted will be carried out as an integral part of the annual assurance work on the Council's performance management framework;
 - testing *compliance* in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework;
 - carrying out *follow-up* to monitor progress with implementation of audit recommendations and ensure that management actions have been effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement to internal control and governance. The procedure to input Audit recommendations into Covalent, the Council's corporate performance management system, to assist Management in tracking and recording their implementation in a consistent way will continue to facilitate the internal audit follow-up activity;
 - performing potentially high risk *contingency audits, investigations and review* of problems highlighted during the year that may be the result of a weakness in internal controls or that may be requested by the Audit & Risk Committee, Chief Executive or Chief Financial Officer. Contingency audit work will only be carried out with the approval of the Chief Officer Audit & Risk as set out in specific audit scopes, in accordance with the Internal Audit Charter to ensure internal audit and Management roles and responsibilities are fulfilled, and only if this work was unable to be incorporated into already planned audit assurance activity;

- responding on behalf of the Council to *key national developments* e.g. National Fraud Initiative as part of the wider assurance framework on counter fraud controls; and
- providing *consultancy and support activities* which support Management in delivering innovation and transformational change. Internal Audit will continue to play an important role for the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes. For example Internal Audit will provide internal challenge as part of strategic and service reviews, advise on effective controls for new systems and activities, highlight opportunities to reduce costs through greater economy and efficiency, provide quality assurance on projects involving major change and systems development, and provide an independent and objective assessment of the evidence to support self-evaluation and of progress with implementing action plans to demonstrate continuous improvement.

8. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 8.1. It is estimated that around 80% of Internal Audit's productive audit time will be spent on traditional assurance activities which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment.
- 8.2. An estimate of around 11% of Internal Audit's productive audit time will be utilised on those consultancy and support activities which support Management in delivering innovation and transformational change. Management seek more of this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 8.3. It is estimated that around 9% of Internal Audit's productive audit time will be spent on the provision of Internal Audit services to non-Council organisations. This reflects the Council's contribution of corporate support resources as it continues to change its governance arrangements in response to utilisation of alternative service delivery models, statutory partnership working for the provision of health and social care integration, and legislative requirements governing the pension fund.

9. MONITORING THE WORK OF INTERNAL AUDIT

- 10.1 Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plans and its Business Plan actions, and outcomes of its internal self-assessment of conformance with Public Sector Internal Audit Standards (PSIAS) will be considered by the Chief Officer Audit & Risk on a regular basis and reported every six months to the Corporate Management Team and the Audit & Risk Committee, through a Mid-Term Performance Report and an Annual Report. The Internal Audit Annual Report will provide an opinion on the levels of assurance based on audit findings over the year.
- 10.2 Internal Audit work completed and work in progress will be reported to the Corporate Management Team and the Audit & Risk Committee. This report will include an Executive Summary of the findings, recommendations and audit opinion of assurance for each final internal audit report issued to relevant Service Management.
- 10.3 The PSIAS requires the internal self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have agreed proposals for a "peer review" framework as a cost effective means of complying with this requirement, in which Scottish Borders Council has agreed to participate. The outcomes of the EQA will be included in the quality assurance and improvement plan (QAIP) reported to Corporate Management Team and the Audit & Risk Committee, through the Mid-Term Performance Report and an Annual Report.

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
Corporate Governance			
Corporate Governance - annual evaluation and statement 2016/17	Core	20	Interim review of the Local Code of Corporate Governance and progress on improvement action plans. Annual evaluation against Local Code of Corporate Governance covering the corporate whole and individual Service Directorates.
Information Governance	Core	20	Review of the Information Governance framework including roles and responsibilities, policy development and implementation, and assess progress with implementation of improvement actions including transformation project.
Performance Management	Core	30	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.
Workforce Planning	Core	10	Review of approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.
Corporate Transformation	Change	50	Review of governance and accountability arrangements for the Corporate Transformation programme including programme and project management. Review of processes for benefit (financial and other) identification, tracking and realisation.
Adult Social Care Services	Change	30	Review of governance and accountability arrangements for the provision of Adult Social Care Services commissioned by the Integration Joint Board, including compliance requirements of the specific Scottish Government funding distributed to support the delivery of outcomes from health and social care integration.
Roads Services	Change	30	Review governance arrangements being developed as part of proposals for alternative service delivery models for Roads services, and utilisation of best practice guidance and lessons learned.
	Total	190	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
Financial Governance			
Financial key processes and controls, policies and procedures	Core	45	Assess design of key processes and controls by Management and progress with review and update of Financial Regulations and associated procedures and guidelines as part of the implementation project for the new Financial system.
Counter Fraud, Theft, Corruption & Crime	Core	20	Review of fraud prevention controls and detection processes put in place by management, and progress with Improvement Plan actions.
Income Charging, Billing & Collection	Core	35	Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.
VAT	Core	20	Review of the VAT treatment of supplies and services made by the Council to customers.
Creditors Payments	Core	20	Review of purchased to payments processes at Service level including authorisation.
Salaries (incl expenses)	Core	20	Review of controls at Service level.
Revenues (Council Tax)	Core	20	Assess completeness and accuracy of Revenues (Council Tax) income associated with the new 2016/17 approved policy, and key controls introduced including application of discretionary exemptions.
	Total	180	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
IT Governance			
ICT Review Project	Core	30	Within the next phase of transition associated with Gate Review Milestones set out in Project Plan, evaluate the role of the ICT Board, CMT and Executive Committee as part of governance, monitoring and review arrangements.
Security controls	Core	5	Assess the adequacy of the physical access and environmental controls to the Council's ICT equipment, software and data to prevent unauthorised access and damage including third party access agreements.
Public Secure Network (PSN) Compliance	Core	5	Examine the Council's compliance with the requirements of the Public Secure Network (PSN) and progress with implementation of actions required to achieve full compliance.
ICT Operational Processes	Core	20	A review of the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering and complying with them.
	Total	60	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
Internal Controls			
Primary Schools	Core	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools.
Community Safety	Core	15	Review of operational and financial controls in place for the effective delivery of services and use of resources including the specific grant funding received.
	Total	45	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
Asset Management			
Asset Registers	Core	25	Review of processes and controls management have implemented to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities.
Capital Investment	Core	30	Review of Capital Planning basis against the priorities and outcomes set by the Council. Review of management systems in place to ensure that capital projects are being managed efficiently and effectively from inception to completion including post project evaluation. Assess progress with implementation of identified improvement actions to ensure compliance with established good practice.
	Total	55	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
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Legislative & Other Compliance

Selkirk THI	SLA	15	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
LEADER	SLA	15	Annual review of LEADER programme required by the Service Level Agreement (SLA) between Scottish Ministers (Managing Authority and the Paying Agency (RPID)) and Scottish Borders Council (Lead Partner for Scottish Borders Local Action Group (LAG)) to assess compliance by SBC with the terms of the SLA.
European Fisheries Fund	SLA	10	Annual audit under the terms of the SLA and legislative compliance including an assessment of compliance with the requirements of the SLA and the relevant EC Regulations.
Carbon Reduction	SLA	10	Annual audit as part of the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) prior to the Council's annual submission to Department of Energy and Climate Change (DECC).
	Total	50	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
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Consultancy

Reviews	Consultancy	50	Provision of internal audit advice, facilitation and consultancy support to management at an early stage in new developments and within change and transformation programmes and projects.
Specific Requests	Consultancy	20	Highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews.
Project Boards / Teams e.g. - Information Governance - Welfare Reform - Serious Organised Crime	Consultancy	20	Provision of internal audit advice, support and challenge to management within change and transformation programmes and projects including provision of 'critical friend' role.
	Total	90	

AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
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Other

Contingency	Contingency	30	Investigations and other reactive work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.
Follow-Up	Follow-Up	30	Recommendations are followed-up to ensure management implementation to improve the internal control and governance arrangements.
National Fraud Initiative	Core	9	Submission of data sets and case management of data matches arising from NFI exercise.
	Total	69	

SBC Total	739
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AUDIT	CATEGORY	2016/17 (Days)	COMMENTARY
Non Scottish Borders Council			
SB Cares	ALEO	25	To be determined and agreed with SB Cares Board and Management for review of the adequacy of the arrangements for risk management, governance and control of SB Cares.
Scottish Borders Pension Fund	Pension	10	To be determined and agreed with Pension Fund Committee and Management.
Scottish Borders Health and Social Care Integration Joint Board	IJB	35	To be determined and agreed by the Scottish Borders Health and Social Care Integration Joint Board for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.
	Non-SBC	70	
	Total	809	



cutting through complexity

Scottish Borders Council Pension Fund

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DRAFT

Audit strategy and plan overview
For the year ending 31 March 2016
16 March 2016

For audit and risk committee consideration on 29 March 2016

Agenda Item 10



1. 2015-16 AUDIT STRATEGY ON A PAGE



2. SCOPING AND PURPOSE



3. SIGNIFICANT RISKS AND OTHER FOCUS AREAS

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4. AUDIT APPROACH



5. TIMELINE AND REPORTING



APPENDICES

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland’s *Code of Audit Practice* (“the Code”).

This report is for the benefit of Scottish Borders Council Pension Fund (“the Fund”) and is made available to Audit Scotland and the Controller of Audit (together “the Beneficiaries”). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary’s Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to the Council, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

SIGNIFICANT RISKS AND OTHER MATTERS

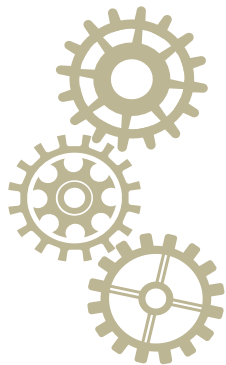


From discussions with management, our knowledge of the organisation and review of risk registers, we have considered areas of risk and audit focus.

We have identified the significant risk as management override of controls. Other audit focus areas fraudulent revenue recognition and valuation of investments.

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WIDER SCOPE REQUIREMENTS



The audit will consider other areas:

- Audit Scotland's Code of Audit Practice ("the Code") and the audit dimensions set out in the 2016 code (in consultation).
- Code of Practice on Local Authority Accounting in the United Kingdom disclosures.
- Best Value.
- Targeted follow up.

MATERIALITY

MATERIALITY
£470,000
 2% BENCHMARK

REPORTING THRESHOLD
£24,000
 5% MATERIALITY

KPMG TEAM



The team benefits from strong continuity at senior level:

- Hugh Harvie – engagement partner; and
- Matt Swann– engagement manager.

We will harness the expertise of our investment valuation specialists to support our audit work where necessary.

Scope definition

The Accounts Commission has appointed KPMG LLP as auditor of the Scottish Borders Council, and therefore Scottish Borders Council Pension Fund (“the Fund”) under the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

Purpose

This document summarises our responsibilities as external auditor for the year ending 31 March 2016 and our intended approach to issues impacting the Fund’s activities in the year.

Auditors and audited bodies’ responsibilities are set out in the Code. This Code states the responsibilities in relation to:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

These responsibilities are outlined in appendix four.

KPMG’s planned audit work in 2015-16 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
 - give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom (“the 2015-16 Code”) of the state of the affairs of the fund as at 31 March 2016 and of the income and expenditure of the fund for the year then ended;
 - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2015-16 Code, the requirements of the Local Government (Scotland) act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government Scotland Act 2003.
- a review and assessment of the governance arrangements including: a review of the adequacy of internal audit and review of the governance statement;
- a review of National Fraud Initiative arrangements; and
- a review of arrangements for preparing and publishing statutory performance information.

Risk assessment	Financial position	Key developments
<p>We have developed an understanding of your key risks based on our initial risk assessment procedures, including discussions with management. The key areas identified are detailed below.</p> <p>The income of the fund comprises contributions receivable in accordance with levels recommended by the fund's independent actuary and can be related to the underlying employer records, therefore, we do not regard the risk of fraud from this revenue recognition as significant.</p> <p>In addition, the other major source of income is earned from the independently managed investments held by the fund. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant.</p>	<p>Because of the longer term nature of the fund's activities, financial reporting to the pension investment sub-committee of the Council's policy and resources committee focuses on investment performance rather than the detail of dealings between the fund's members and employers. These are however expected to be broadly consistent with the prior year.</p> <p>Our audit will include consideration of the process to transfer assets and whether the associated reconciliations are performed by management. As part of our year end audit we will obtain independent confirmation of investment balances held and undertake appropriate tests on the underlying investment information and valuations applied as at 31 March 2016. This will include confirmation of all listed securities by our investment valuations specialists to maximise the level of assurance on the valuation of the fund.</p>	<p>Matters to be considered during the 2015-16 audit and included within our annual audit report include: Areas of governance; for example, committee operations, provision and use of management information, the risk assessment and monitoring process, and, compliance with key areas of legislation and regulation.</p>

Audit dimensions – as they develop we will consider the wider scope Audit Dimensions as set out in the Code of Audit Practice 2016 (in consultation). The audit dimensions put Best Value at the core.

Financial sustainability	Financial management	Governance and transparency	Value for money
<p>Financial sustainability looks forward to the medium and longer term.</p>	<p>Financial management is concerned with financial capacity, and whether the control environment and internal controls are operating effectively.</p>	<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Value for money is concerned with using resources effectively and continually improving services.</p>

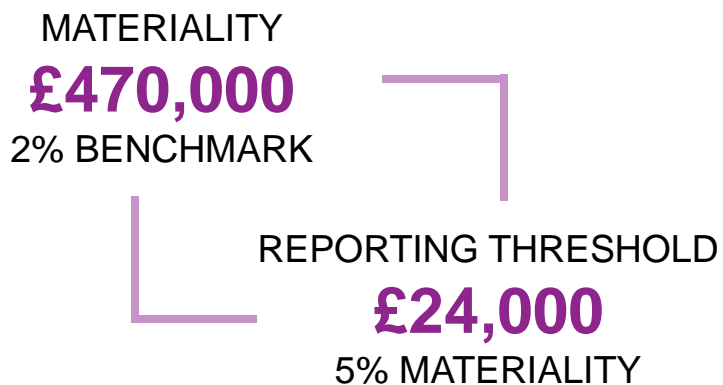
We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

Audit differences will be presented to the audit and risk committee if they are material in size or material in nature. For 2015-16 we consider individual or aggregated financial statement errors of over £470,000 (2014-15: £420,000) to be material.

To the extent that we identify misstatements above £353,000 (2014-15: £315,000) we report them to the audit and risk committee and assess whether the misstatement is indicative of a significantly deficient or materially weak control environment.

We recognise that matters can be important because of their nature regardless of their size, for example misstatements to key disclosures such as remuneration and related parties, and we will also report these to the audit and risk committee.

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DETERMINING MATERIALITY

We calculate materiality with reference to an appropriate gross benchmark, which in the case of the scheme is its contribution from members and employers and income earned from investments (totalling £23.5m in 2014-15). We have considered this and set materiality at £470,000 which represents 2% of this benchmark.

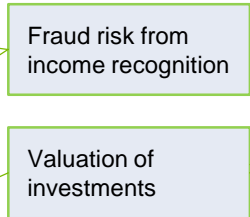
Audit guidance typically puts this percentage in a range up to a maximum 2%. Our materiality will be revised based on 2015-16 actual values for contributions and investment income when they are received.

International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore require specific audit consideration.

In determining whether a risk is significant, judgement is applied in respect of whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business, or whether there is an associated risk of fraud. We have set out our significant risks, along with other audit focus areas, in terms of the 2014-15 comprehensive income and expenditure statement and the net assets statement for illustrative purposes.

Comprehensive income and expenditure statement	
Caption	14-15 £'000
Contributions receivable	18,217
Transfers in	703
Benefits payable	(19,016)
Payments to and on account of leavers	(786)
Administration expenses	(362)
Investment income	4,605
Change in market value of investments	58,422
Taxes on income	(167)
Investment management expenses	(2,496)
Net increase in fund	60,364

Net assets statement	
Caption	14-15 £'000
Investment assets - equities	216,527
Managed funds	327,933
Other investment balances	748
Contributions due from employers	91
Sundry debtors	56
Cash at bank	1,138
Sundry creditors	(1,368)
Net assets	545,125



Key

Significant audit risk

Other focus area

RISK	WHY	AUDIT APPROACH
Fraud risk from management override of controls Page 24	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none"> Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the fund. Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.
Fraud risk from income recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	<p>The income of the fund comprises contributions receivable in accordance with levels recommended by the fund's independent actuary and can be related to the underlying employer records, therefore, we do not regard the risk of fraud from recognition of this revenue as significant.</p> <p>In addition, the other major source of income is earned from the independently managed investments held by the fund. This minimises the level of judgement required in revenue recognition by management and as such we do not regard the risk of fraud in this area as significant.</p>
Valuation of investments	Valuation of investments can be one of the more volatile elements of financial statements and in the case of the fund is a material balance. Due to this inherent risk we give additional focus to the accounting for valuation of investments.	<p>The majority of investments held are in listed securities. To gain comfort over the valuation of investments held at 31 March 2016 we will:</p> <ul style="list-style-type: none"> Obtain confirmations of holdings and valuations from the custodians of investments; and Independently verify the pricing of listed securities against recognised independent sources using our investment valuations specialists. We will perform this over 100% of listed investments held to give you maximum assurance over the largest balance in the financial statements.

Code of practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code")

The 2015-16 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2015-16* ("the Code") which is based on International Financial Reporting Standards ("IFRS").

The 2015-16 Code has a number of amendments from the 2014-15 version and management should consider if these changes will impact the financial statements. The amendments include:

- adoption of IFRS 13 *Fair Value Measurement*, including consequential amendments as a result of adopting this standard and the introduction of the concept of current value;
- amendments to underline the importance of the consideration of materiality when preparing disclosures; and
- amendments made as a result of the Local Authority Accounts (Scotland) Regulations 2014.

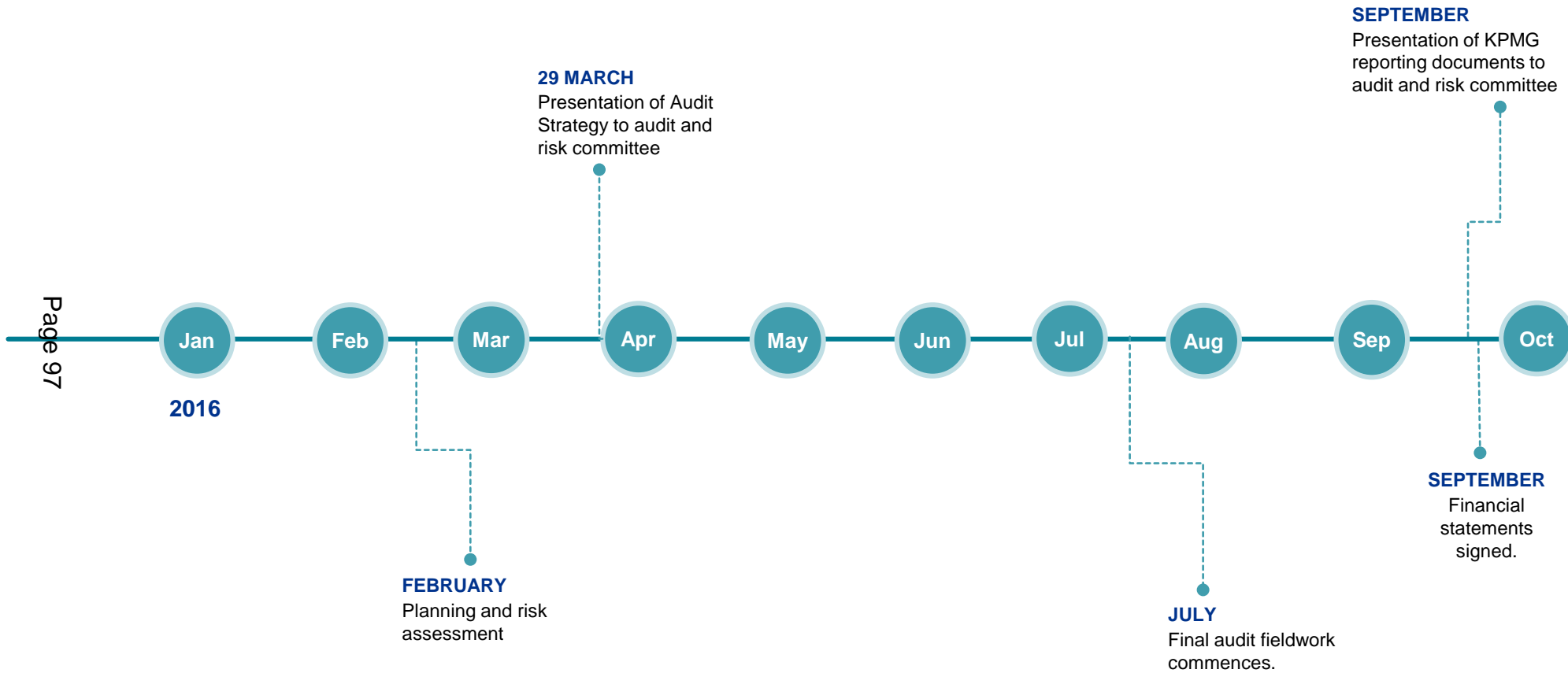
We consider that the adoption of IFRS 13 may have an impact on the Council's financial statements in relation to the fair value measurement of assets and liabilities.

Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit.

In accordance with International Standards on Auditing (UK and Ireland) ISA 240 *The Auditor's responsibility to consider fraud in an Audit of a Financial Report*, we will undertake specific procedures and report findings to management and the audit and risk committee in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.

Discuss fraud	Assess fraud risk	Tailor audit response
<p>■ We will hold discussions with the:</p> <ul style="list-style-type: none"> – audit and risk committee; – chief officer audit and risk; – chief financial officer; and – finance team members. 	<p>■ Our preliminary fraud risk assessment will consider:</p> <ul style="list-style-type: none"> – management oversight; – the internal control framework; – the nature of operations. 	<p>■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. We:</p> <ul style="list-style-type: none"> – Review and test the fraud risk assessment process, systems and controls to prevent, deter and detect fraudulent activity. – Evaluate the design of financial reporting controls during process testing to assess their effectiveness in detecting fraud. – Identify and select specific journal entries for detailed substantiation and consolidation journals for appropriate evidence and basis. – Review significant accounting estimates for management bias. <p>■ The audit team will review and discuss fraud related risks and controls with the chief financial officer and other members of senior management.</p> <p>■ We will incorporate an element of unpredictability into our testing, as individuals within the fund who are familiar with our audit procedures may be able to use that knowledge to conceal fraudulent financial reporting.</p>

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Appendices

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Mandated communications with the audit and risk committee

Matters to be communicated	Link to Audit Committee papers
Independence and our quality procedures ISA 260 (UK and Ireland).	<ul style="list-style-type: none"> ■ See next page
The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260 (UK and Ireland).	<ul style="list-style-type: none"> ■ Main body of this paper
<ul style="list-style-type: none"> ■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (ISA 380). 	<ul style="list-style-type: none"> ■ In the event of such matters of significance we would expect to communicate with the audit and risk committee throughout the year.
<ul style="list-style-type: none"> ■ Significant difficulties we encountered during the audit. ■ Significant matters discussed, or subject to correspondence, with management (ISA 260). 	<ul style="list-style-type: none"> ■ Formal reporting will be included in our audit highlights memorandum for the September 2016 audit and risk committee meeting, which focuses on the financial statements.
<ul style="list-style-type: none"> ■ Our views about the qualitative aspects of the entity's accounting and financial reporting. ■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540). 	
<ul style="list-style-type: none"> ■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450). 	
<ul style="list-style-type: none"> ■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570). 	
<ul style="list-style-type: none"> ■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570). 	
<ul style="list-style-type: none"> ■ Expected modifications to the auditor's report (ISA 705). 	

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Hugh Harvie and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Confirmation of our audit independence

We confirm that as at 16 March 2016, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Hugh Harvie and the audit team is not impaired.

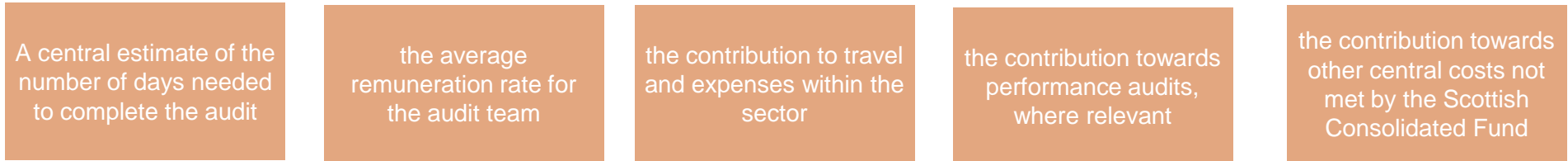
This report is intended solely for the information of the fund and should not be used for any other purposes.

Please inform me if you would like to discuss any of these aspects of our procedures in more detail.

Yours faithfully

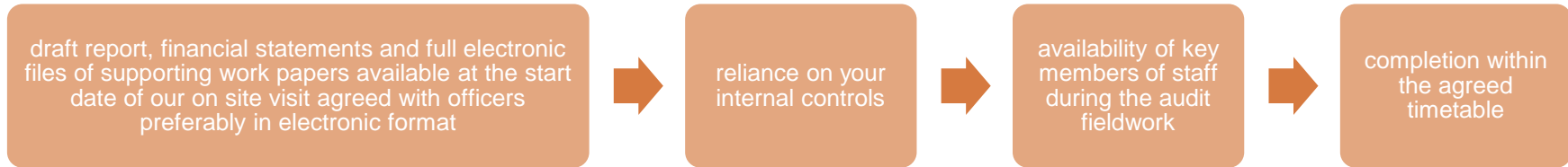
KPMG LLP

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Council. The indicative fee range is calculated using a number of inputs:



The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:

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As in 2014-15, an element of the Council fee will be allocated for our work on the audit of the financial statements of the Council's Pension Fund and we will agree this with officers for the purposes of the re-charge to, and disclosure in, the Pension Fund's financial statements.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arising, we will discuss with management the impact of this on our proposed fee.

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Financial statements	
<p>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:</p> <ul style="list-style-type: none"> whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. <p>Auditors should 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.</p> <p>Where required, auditors should also review and report on the Whole of Government Accounts return.</p>	<p>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. Audited bodies are responsible for:</p> <ul style="list-style-type: none"> ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; maintaining proper accounting records; preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (e.g., the Financial Reporting Manual or an Accounting Code of Practice); preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.
Corporate governance arrangements	
<p>Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:</p> <ul style="list-style-type: none"> bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements; the prevention and detection of fraud and irregularity; standards of conduct and arrangements for the prevention and detection of corruption; and the financial position of audited bodies. 	<p>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.</p>

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Systems of internal control	
<p>Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.</p>	<p>Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.</p>
Prevention and detection of fraud and irregularities	
<p>Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.</p>	<p>Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:</p> <ul style="list-style-type: none"> ■ developing, promoting and monitoring compliance with standing orders and financial instructions; ■ developing and implementing strategies to prevent and detect fraud and other irregularity; ■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and ■ participating, when required, in data matching exercises carried out by Audit Scotland.

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Standards of conduct and arrangements for the prevention and detection of bribery and corruption	
<p>Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.</p> <p>While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance.</p>	<p>Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:</p> <ul style="list-style-type: none"> ■ implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers; ■ promoting appropriate values and standards; and ■ developing, promoting and monitoring compliance with standing orders and financial instructions.
Financial position	
<p>Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.</p> <p>Auditors should have regard to audited bodies’:</p> <ul style="list-style-type: none"> ■ 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 their financial position; and ■ financial plans for future periods. 	<p>Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> ■ such financial monitoring and reporting arrangements as may be specified; ■ compliance with any statutory financial requirements and achievement of financial targets; ■ balances and reserves, including strategies about levels and future use; and ■ the impact of planned future policies and foreseeable developments on their financial position.

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors

Responsibilities of management

Best Value, use of resources and performance

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.

Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.

Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.



cutting through complexity

The contacts at KPMG in connection with this report are:

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cutting through complexity

Scottish Borders Council

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Interim management report and audit status summary

For the year ending 31 March 2016

21 March 2016

For audit and risk committee consideration on 29 March 2016

Agenda Item 11

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1. INTRODUCTION



2. SIGNIFICANT RISKS AND OTHER FOCUS AREAS



3. CONTROL FRAMEWORK

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4. APPENDICES

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to the Council, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

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Purpose of document

In line with our audit strategy, we have completed an interim audit. Key activities performed were the testing of a selection of system controls and holding discussions with management to update our understanding and our assessment of the key risks and audit focus areas.

This report provides the committee with an update on:

- significant risks and other focus areas (page three and four); and
- the results of the control framework testing, encompassing overarching governance and systems controls (pages five to eight).

Significant risks and other focus areas in relation to the audit of the financial statements

The significant risks identified are:

- fraud risk from management override of controls;
- income and expenditure recognition fraud risk; and
- financial position.

The other focus areas identified are:

- retirement benefits;
- provisions; and
- accounting for transport infrastructure assets.

Wider scope responsibilities: audit dimensions

As introduced in the audit strategy document, we consider the Code of Audit Practice 2016 audit dimensions during the audit. The audit dimensions are financial sustainability, financial management, governance and transparency and value for money. From the interim audit we consider the following matters warrant consideration under the wider scope audit dimensions:

Financial sustainability and financial management – uncertainty over future funding and the need for robust medium to long term financial forecasting. We will extend our audit work in respect of the “financial position” risk to address this and set out our findings in the annual audit report.

Governance and transparency – following the formation of the Scottish Borders Integration Joint Board there are new governance arrangements within the Council, which we will consider and set out our findings with regards to adequacy of in the annual audit report. In addition, the Audit Scotland assessment of the Council’s public performance reporting (‘PPR’) highlighted some areas for further improvement (staff engagement and satisfaction; property maintenance, repairs and vehicles; response to welfare reform; use of customer satisfaction information; and benchmarking with comparators). We will consider progress with PPR reporting and set out our findings in our annual audit report.

RISK	WHY	UPDATE FROM STRATEGY
Fraud risk from management override of controls Page 110	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have performed controls testing over expenditure, journal entries, bank reconciliations, budget monitoring and general IT controls. Overall, all controls tested were deemed to be designed, implemented and operating effectively. These are discussed further on pages seven and eight. Substantive procedures will be performed during the yearend audit, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.
Fraud risk from income recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	Controls testing over higher level controls is set out on page seven. In addition, substantive procedures will be performed during the year end audit. We will consider each source of income and analyse results against budgets and forecasts, performing substantive analytical procedures and tests of detail.
Financial position	Delivering services in the environment of continued financial pressures and funding uncertainty remains a challenge for the sector. Recently the Council has underspent against budget in total. In 2014-15 the Council recorded an underspend of £0.4 million against the final, revised budget. In the aftermath of Storm Desmond, Scottish Borders Council has notified the Scottish Government of their intention to make a claim for Bellwin funding to support recovery efforts. Whilst the Council undertakes robust financial planning, financial sustainability is an inherent risk in the sector.	We have performed controls testing over the budgeting process including the monitoring of budgets throughout the year. We will perform substantive analytical procedures over income and expenditure comparing the final position to budget. Additional expenditure was incurred as a result of the severe weather in late 2015. An application to the Bellwin Scheme will be made for this which will be subject to audit. We will consider management's capital monitoring reports and provide commentary on the achievement of the capital budget and impact on the capital limits and associated borrowing during our yearend audit.

FOCUS AREA	WHY	UPDATE FROM STRATEGY
Transport infrastructure assets	<p>The 2016-17 Code will require measurement of transport infrastructure assets on a depreciated replacement cost basis. This will represent a change in accounting policy from 1 April 2016 and require full retrospective restatement.</p>	<p>No update from strategy, no impact on 2015-16 audit procedures.</p>
Retirement benefits	<p>The Council accounts for its participation in the Scottish Borders Council Pension Fund in accordance with IAS 19 <i>Employee benefits</i>, using a valuation report prepared by actuarial consultants.</p> <p>The calculation of the pension liability is inherently judgemental. The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA rated) corporate bonds of equivalent term to the liabilities.</p>	<p>All audit procedures will be performed during our year end audit. Prior to the fieldwork we will request the agreed assumptions from management to facilitate consideration and benchmarking by our team of actuarial specialists.</p>
Provisions	<p>A provision is held to cover the future costs associated with the aftercare and decommissioning of landfill cells at its Easter Langlee landfill site. Management have received advice from internal and external specialists in this regard.</p> <p>No provision is currently required for contributions related to the Borders Railway, however we will continue to monitor the appropriateness of this conclusion as s75 contributions are collected and remitted to Scottish Ministers.</p> <p>Management is awaiting the outcome of recent legal proceedings to consider if there is a contingent liability that requires disclosure as at 31 March 2016 in relation to holiday pay.</p>	<p>No update from strategy, procedures to be performed during the yearend audit.</p>

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Overarching and supporting governance arrangements remain primarily unchanged and provide a solid framework for decision-making. The work of internal audit continues to provide assurance over the key risks identified in the corporate register, while the risk information management system is used to monitor and manage risks on an ongoing basis.

Test	Description	Results
Organisational policies Page 112	<p>Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. These should be updated in a reasonable timeframe to reflect new requirements, and be easily accessible to all staff on the intranet. Our interim work identified some key policies that have not been updated in what we consider to be a reasonable timeframe:</p> <ul style="list-style-type: none"> The Local Corporate Code of Governance has not been updated since 2012 and is based on the CIPFA/SOLACE Delivering Good Governance in Local Government Framework published in 2007 and the supporting Guidance Note for Scottish Authorities published in May 2008. CIPFA/SOLACE have since issued an Addendum to the Delivering Good Governance in Local Government Framework in 2012 and an accompanying briefing note. It was noted through discussions that an annual statement is issued each year on updates and that the Local Corporate Code of Governance document will be updated as part of internal audit's work in 2016. Therefore, a recommendation is not required. The Financial Regulations state that a review should take place annually, however some key policies have not been updated since 2012. Items such as payment authorisation thresholds, budgetary controls and delegated authorities should be reviewed periodically to ensure Financial Regulations are applicable and fit for purpose. 	<p>Key policies have not been updated in line with the timeframe stated within the policies.</p> <p>We have not identified any additional audit risks created as a result of this and consequently we have not modified our audit approach. However, management should review and update the Financial Regulations in line with the timeframe established.</p> <p style="text-align: right;">Recommendation one</p>
Related parties	<p>Separate registers of interest exist for chief officers and elected members. Members are required to declare relevant interests during meetings if appropriate.</p> <p>Our year end audit procedures will include a review of these registers of interests to confirm that all registers are up to date and that any related party transactions have been appropriately disclosed in the financial statements.</p>	<p>Satisfactory – no exceptions to date. Further review will take place as part of our year end work.</p>
National fraud initiative	<p>We prepared a return to Audit Scotland in February 2016, assessing management's participation in the exercise. As at the end of February 2016, the Council had closed 2,827 matches out of a total of 3,990 and the overall rating of the council's participation was assessed as satisfactory ("green").</p>	<p>Overall engagement with NFI is satisfactory.</p>

Test	Description	Results
Internal audit	<p>The annual internal audit plan is aligned to the financial year. The chief executive, depute chief executives and service directors are consulted and the risk register considered as part of planning. The 2015-16 plan was approved in March 2015 and progress to December 2015 has been reported to the audit and risk committee.</p> <p>As in previous years, we intend to place reliance on internal audit's work on non domestic rates controls and statutory performance indicators.</p> <p>This year we will also rely on internal audit for a number of controls related to SB Cares, a wholly-Council owned LLP which has been in place as a separate legal entity from 1 April 2015. This may include, but is not limited to the following:</p> <ul style="list-style-type: none"> • Balance sheet reconciliations • Budget monitoring controls • Payroll and payment authorisation <p>We have held discussions with internal audit who are finalising the above work for 2015-16. We will review relevant internal audit files, findings and recommendations as part of our year end procedures and assess any impact on our substantive audit work.</p> <p>We will continue to review the findings from other internal audit reviews in order to assist in our overall risk assessment of the Council. For example, although we have not placed direct reliance on them, we have considered the reports on ICT, payroll and creditors useful for our information.</p>	Satisfactory. No additional risk areas identified through review.
	Integration of health and social care	

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Test	Description	Results
Income and expenditure	<p>The council has a robust budget setting process, with involvement from various key members of staff.</p> <p>Formal revenue and capital budget monitoring is completed and reported to the corporate management team on a monthly basis and four times a year to the executive committee. Our testing confirmed that budget monitoring arrangements are designed, implemented and operating effectively.</p> <p>Management report progress against the achievement of efficiency saving targets as part of the suite of financial information that elected members receive in their quarterly revenue monitoring reports.</p> <p>The payment run control was found to be designed, implemented and operating effectively.</p>	Satisfactory – no exceptions identified.
Treasury	<p>Testing confirmed that there are bank reconciliations prepared for each month, with bank balances reconciled to the general ledger and reconciliations signed and dated as prepared and authorised by an appropriate member of staff. However, there is a historic issue with the system resulting in differences being reported each month between the bank statement and general ledger, which cannot be fully reconciled. The corporate finance team is aware of this issue, and has been attempting to resolve it for several months.</p> <p>In addition, the authorisation of bank reconciliations has not been signed and dated in a timely manner. Management explained this was due to revision of the reconciliation in an attempt to identify the recurring error, although no original reconciliation was saved in the file.</p>	<p>While we conclude that this control has been designed and implemented appropriately, some weaknesses have been identified.</p> <p>Recommendation two</p>
Journals	<p>A new authorisation control was introduced during 2013-14. This control appears to have been designed appropriately, however control failures were identified.</p> <p>Across the sample of 25 journal entries, there were five cases where authorisation had not been received as required by the control. In four of these cases this was due to a difference in the procedure used by two separate teams, where authorisation was either not sought, or authorisation was deemed to have been granted in the absence of a reply to a confirmation e-mail.</p> <p>The testing therefore revealed inconsistencies in the ways in which the control over manual journal entries is implemented by different teams. Management should ensure all employees are aware of the control and are following the process as designed in all cases, or should ensure allowed exceptions to the procedure are clearly documented.</p>	<p>This key control appears to have been designed appropriately, however control failures were identified.</p> <p>We found that five journals from our sample of 25 did not have the required authorisation.</p> <p>Recommendation three</p>

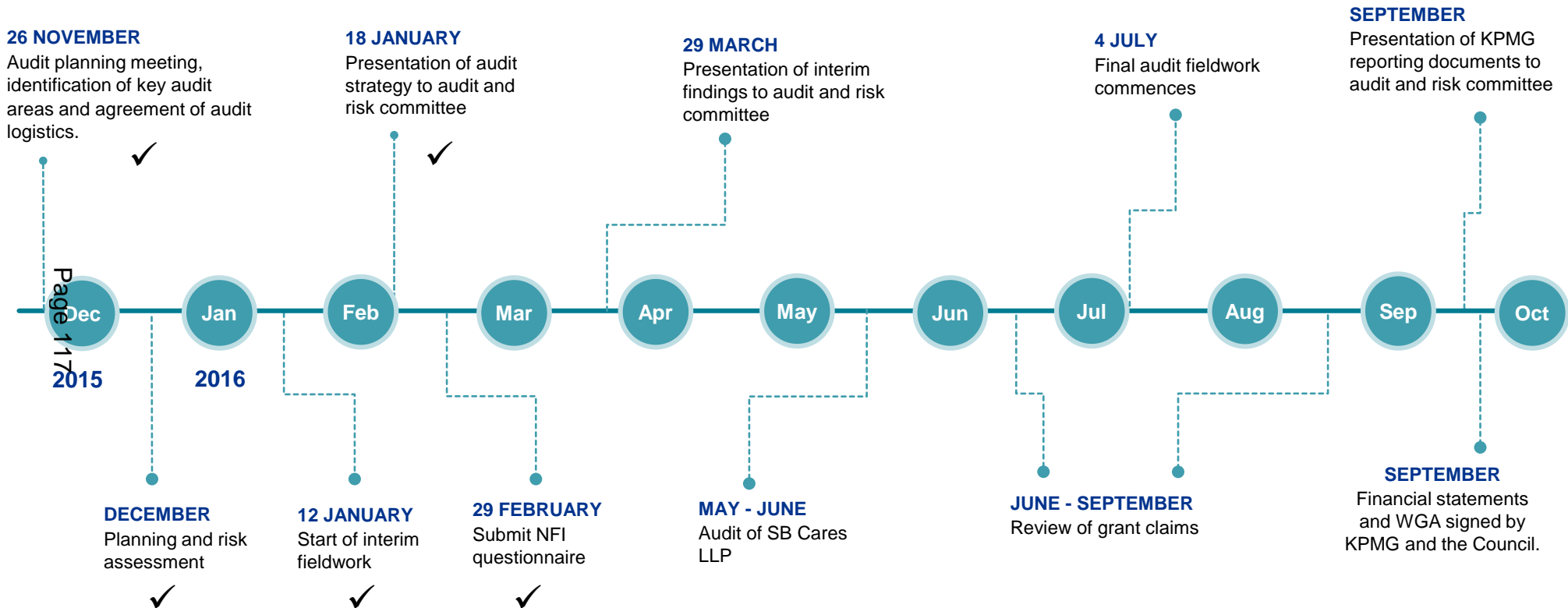
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Test	Description	Results
General ledger access controls over FIS (financial information system)	<p>Starters and leavers were processed correctly and in line with procedures, with users added and removed from the system appropriately and in a timely manner.</p> <p>We noted in one instance a new user form had been authorised by a member of staff who did not appear on the IT approved signatories list for user requests. However, after enquiry with the systems administrator team leader we determined that an original incident report was logged by an authorised signatory requesting that a new user be added. From this a new user form was then filled out and signed off by an unauthorised signatory. This does not affect our audit overall as there was an authorised signatory who placed the original request, however new user forms should follow procedure and be signed off and authorised only by an approved signatory.</p> <p>Super users were deemed appropriate based on individuals' job titles. There are four generic super user accounts which management consider appropriate, and we have discussed the nature of each account to verify appropriateness.</p>	<p>Satisfactory overall, although we have raised a recommendation in relation to the new user forms.</p> <p style="text-align: right;">Recommendation four</p>
Program changes and IT policies	<p>Requests for a program change are sent via an authorised change request form to the central IT team and then considered at the next weekly change meeting where the change board will decide to change the status of the request to "approved", "not approved" or "more information needed". This status is updated on the system during the meeting at the point the decision is made. If approved, the changes are made, tested and then implemented if there are no issues. Our testing found that the ten program changes in our sample were properly approved before going live, and:</p> <ul style="list-style-type: none"> • full testing prior to implementation had taken place for six changes; • for two of the changes testing was not possible due to the infrastructure; and • for another two, the changes were considered minor so testing did not take place. <p>There is an IT security policy in place which is sufficiently detailed and widely available to staff on the Council's intranet. It states that it should be reviewed at least annually. Our testing showed that it was last reviewed in April 2015 and therefore currently meets the requirement. Discussions with IT indicate this will be reviewed again in April 2016; we will review this updated policy during our final audit.</p> <p>The password policy states that it will be reviewed on an annual basis, with the next review date January 2016. However, this was updated in April 2015 as a result of previous recommendations, therefore the next review date is not until April 2016. We will review this updated policy during our final audit to ensure it has been subject to the annual review.</p>	<p>Satisfactory – no exceptions identified.</p>

Appendices

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Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

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Finding(s) and risk(s)

1 Organisational policies

The Financial Regulations state that they should be reviewed annually, however they have not been updated since 2012. Items such as payment authorisation thresholds, budgetary controls and delegated authorities should be reviewed periodically to ensure that the Financial Regulations are applicable and fit for purpose.

Recommendation(s)

Management should review and update the Financial Regulations in line with the timeframe established.

Agreed management actions

Grade three

Management acknowledge the delay in bringing the review of these regulations forward for approval. The work of reviewing the Regulations has been progressed throughout 2015, however material changes to senior management structures and the creation of significant new arms-length bodies has created a continually moving governance structure to which the Regulations apply and need to reflect. In addition, the Council's decision to implement the new Business World ERP means that there will be a requirement to review and agree amended financial policies. This work will be completed by the end of May 2016. It is therefore proposed to bring the revised Financial Regulations for Council approval after that point.

Responsible officer(s): David Robertson, Chief Financial Officer

Implementation date: 30 June 2016

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>2 Bank reconciliations</p> <p>Bank reconciliations have been prepared for each month and are signed as prepared and reviewed. However, bank balances are not fully reconciled to the ledger each month and there are balancing figures which could not be explained at the time of our interim audit. The largest in the two months that we sampled was £17,202 in June 2015. Staff are aware of the problem and lengthy attempts have been made to resolve the issue, resulting in a reduction but not removal of the amount. These balances will be reconciled or written off at year end (31 March 2016).</p> <p>The differences identified are not material at present, however differences become harder to reconcile as more time passes, therefore the risk is that there will be differences which cannot be reconciled.</p> <p>In addition, the authorisation of bank reconciliations has not been signed and dated in a timely manner. Differences become harder to reconcile as more time passes, and fraud becomes harder to identify, therefore there is a risk that there will be differences which cannot be reconciled.</p>	<p>It is a key anti-fraud control for bank balances to be fully reconciled on a regular basis. Therefore management should ensure that all bank reconciliations are prepared and reviewed in a timely manner.</p>	<p style="text-align: center;">Grade three</p> <p>Investigation since the completion of the interim audit has identified the cause of a significant proportion of the reconciliation difference to be due to timing differences at the 2014-15 year end. Further investigation is ongoing to resolve the small (circa £1,000) remaining difference.</p> <p>The issue of timeliness of bank reconciliation sign off will be addressed and a sign off deadline of within 1 month of the month end for bank reconciliations will be introduced.</p> <p>Responsible officer(s): Neil Christie, Accounting Manager</p> <p>Implementation date: 30 April 2016</p>

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>3 Journal authorisation</p> <p>The control is designed effectively, however it is being implemented inconsistently. We found that five journals from our sample of 25 did not have evidence of appropriate authorisation in line with the control, which explicitly states that all audit reports, authorisation and working papers should be saved on the shared server.</p>	<p>All staff should follow the authorisation control as designed. Details of the process and required steps should be re-circulated to remind staff of the protocols. Alternatively, a training session should be held for all staff that post and authorise manual journal entries as part of their role. If it is determined that exceptions to the procedure are to be allowed for particular teams this should be clearly documented within the guidance.</p>	<p style="text-align: center;">Grade three</p> <p>It is acknowledged that there is currently a difference in journal authorisation procedures across the teams and work has been identified to update the current journal authorisation procedures. With the introduction of the new Business World ERP system by April 2017 is appropriate to do this update in line with the new processes that this will bring. Clarity on this will be known by the end of May 2016. An interim communication will be made to all staff to remind them of the current procedure and ensure that there is appropriate review and sign off and where there are exceptions the reasons for this are documented and signed off by a member of the Finance Management Team.</p> <p>Responsible officer - Interim communication: Lynn Mirley, Corporate Finance Manager</p> <p>Responsible officer – Update of journal process: Neil Christie, Accounting Manager</p> <p>Implementation date - Interim communication: 30 April 2016</p> <p>Implementation date - Update of journal process: 30 September 2016</p>

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>4 FIS new user form</p> <p>New users that require access to FIS should have an account requested for them via a new user form, which must be signed off as authorised by a member of SBC staff who appears on the Authorised Signatory List.</p> <p>In one instance of our testing, a new user form had been authorised by a member of staff who did not appear on the IT approved signatories list for user requests. After enquiry, it was determined that an original incident report was logged by an authorised signatory and from this a new user form was filled out and signed off by an unauthorised signatory.</p> <p>There is a risk that members of staff are able to obtain unnecessary or inappropriate access.</p>	<p>Management should ensure that no user is added to the system prior to receiving an authorised signature on the new user form.</p>	<p style="text-align: center;">Grade three</p> <p>The Council will ensure that all new user forms are signed by someone on the IT authorised signatory list prior to requests being forwarded to the Financial Systems Team for execution in FIS.</p> <p>Responsible officer(s): Bill Edwards, Acting Chief Officer - IT</p> <p>Implementation date: 31 March 2016</p>



cutting through complexity

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Procurement in councils

Impact report

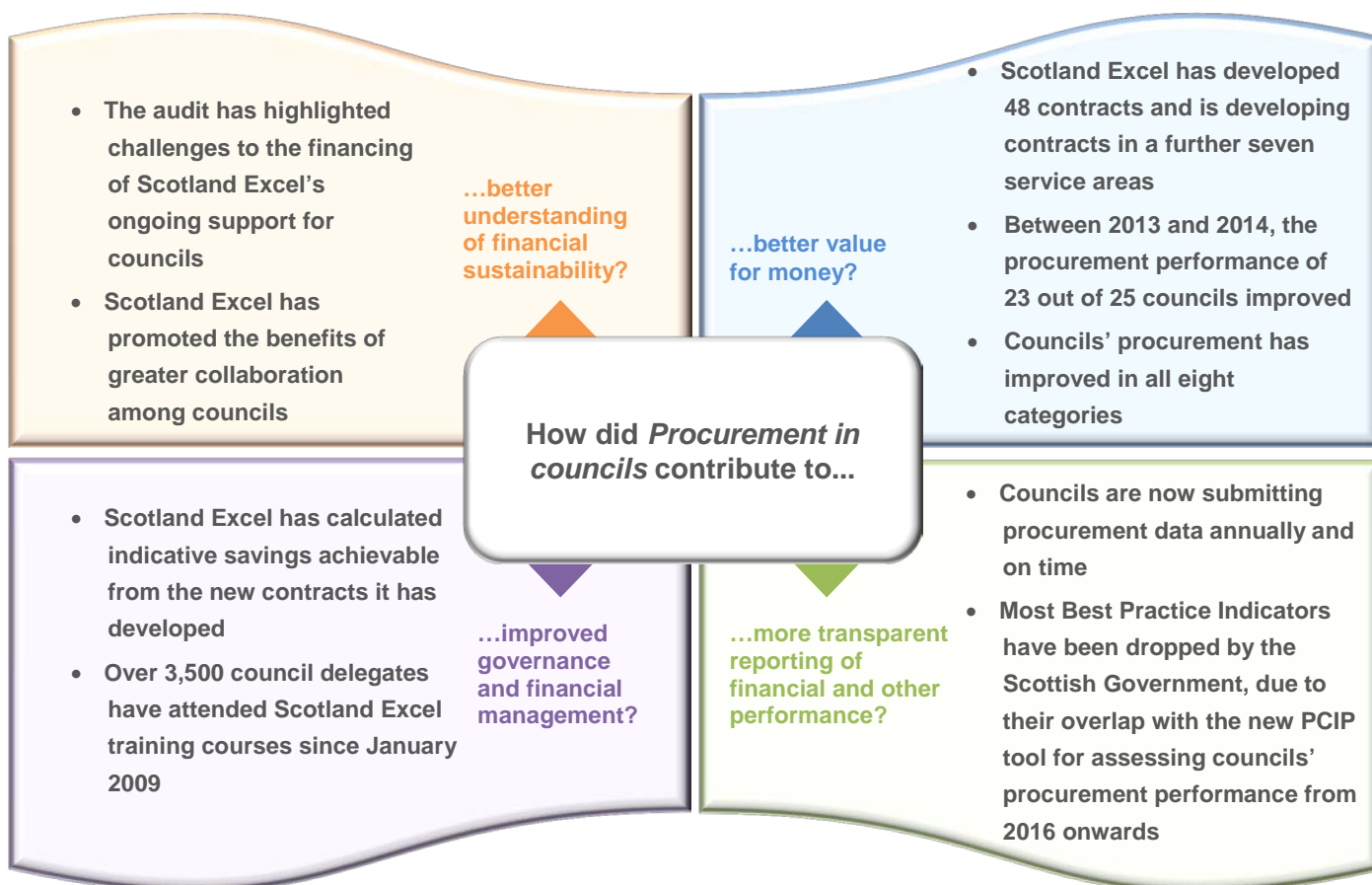
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held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

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Summary of overall progress

Contribution to key aspects of public sector audit



Introduction

1. This report describes the impact made by the Accounts Commission's performance audit report on '[Procurement in councils](#)', published on 24 April 2014. The Accounts Commission sponsors for the audit were Colin Peebles and Sandy Cumming.

Audit aim and objectives

2. The audit aimed to assess whether councils were efficiently and effectively managing how they procured goods and services. The specific objectives were to determine:
 - How much did councils spend on goods and services, and what savings and other benefits councils identified through better procurement?
 - Did councils manage procurement well and have good governance for it in line with good practice?
 - How well was Scotland Excel helping councils to improve procurement and achieve savings in spending on goods and services?

Key messages

3. The key messages from the April 2014 report were as follows:
 - Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector procurement spend in Scotland. This spending is extremely diverse, although more than half is on social care and construction. Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in councils' procurement practices. Procurement now has a higher profile and councils are buying more goods and services collaboratively. New legislation and EU directives will bring about further change.
 - Councils can use procurement to improve service quality and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development. Councils have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.
 - Councils' spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80 per cent over the past three years to £503 million, but accounts for only 9.3 per cent of their total procurement spend. This percentage is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts. The Scottish Government, Scotland Excel and councils reported total procurement savings of £71 million in 2012/13, 1.3 per cent of procurement spend; with £43 million (61 per cent) of these savings arising from Scotland Excel or Scottish Government collaborative contracts. Councils are relying on procurement to generate savings to meet budget pressures, but some of their savings calculations may not be reliable or may be incomplete. Further savings are possible if councils make greater use of collaborative contracts and replace paper-based systems with 'purchase to pay' compliant ICT systems.

-
- Councils and Scotland Excel have used the Procurement Capability Assessment (PCA) process to improve procurement practice. All councils have improved their procurement capability since 2009. However, the average assessment score has only reached 56 per cent. The rate of improvement varies among councils and some need to improve more quickly. Councils that invest in qualified improvement staff and improved systems can both improve service quality and achieve financial savings.

Key recommendations

4. The report's key recommendations were:

The Scottish Government should work with councils to:

- review and update the Best Practice Indicators (BPIs), drawing on councils' experiences, to reflect changes in procurement since 2008 and improve their usefulness to councils.

Scotland Excel should:

- maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust, and with the associated joint venture companies
- set realistic timescales and savings targets for contracts, particularly in new areas of contracting.

Councils and Scotland Excel should:

- review and formalise arrangements to fund procurement reform activity beyond 2016.

Council staff involved in procurement should:

- submit accurate and complete information to the Procurement Hub (the Hub) on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)
- examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions¹
- make greater use of the tools and facilities provided by the Hub, including the use of BPIs in their performance reporting and to benchmark their progress
- engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts
- use the Public Contracts Scotland tender module for all applicable contracts
- make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee
- develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant council committee on a regular basis

¹ ALEOs = arm's-length external organisations.

-
- calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement
 - make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements
 - aim to achieve the 'superior performance' level in the PCA, particularly in relation to:
 - spend covered by agreed commodity/project strategies
 - participation in Scotland Excel contracts
 - automation of procurement and payment processes
 - spend captured in the council's contract register.

Councils' corporate management teams should:

- benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels
- examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts
- phase out paper purchasing systems and consider the business case for moving all purchasing systems to an electronic 'purchase to pay' basis
- raise staff awareness of accountability and controls by:
 - implementing a written code of ethics
 - requiring staff involved in procurement to complete a register of interest statement
 - require internal audit to conduct a regular assessment of procurement risk, including the risk of fraud.

Councils should:

- require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis
 - encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively.
5. We anticipated that the report would add value in a number of areas by identifying lessons learned and highlighting good practice. To help with this, we also published a self-assessment checklist for councillors in April 2014. It set out issues that councillors may wish to consider in relation to procurement in their own council. It allowed councillors to assess themselves against each good practice statement; identify what actions need to be taken forward; and to apply the checklist annually to review a council's progress.

Raising awareness and communication of key messages

Media coverage

6. The Scotsman, Dundee Courier, Evening Times, STV Online and Public Finance all picked up on the report. Coverage was accurate, reflected the report's key messages and was largely based around a piece by the Press Association. A local radio station highlighted the performances of Aberdeen City Council and Aberdeenshire Council.² Comhairle nan Eilean Siar (Western Isles Council) issued a release based on its procurement practice.³ Also, Renfrewshire Council's work was highlighted by the Paisley Daily Express.⁴

Politics

7. COSLA President David O'Neill said: *"As today's report recognises, councils have made good progress in terms of procurement. We have established Scotland Excel and use of collaborative contracts has increased by 80% over the last three years... It is also worth noting that councils use procurement spending to support local economic development and some have begun to use it to deliver other local benefits such as apprenticeships and environmental improvements."*⁵
8. Scottish Labour's local government spokeswoman Sarah Boyack commented: *"Any area where local authorities can make much needed savings is welcome and cutting back on the cost of procurement has long been needed. Councils are under increasing financial strain from additional service requirements to cope with an ageing population and the cost implications of maintaining or replacing infrastructure that is no longer fit for purpose."*⁶
9. Scottish Liberal Democrats' leader Willie Rennie pointed to savings through the use of an electronic system for procurement: *"By bringing payments into the 21st Century councils could save the taxpayer £28 per invoice, amounting to £9m in total. It is in the taxpayers' interests for ministers to work with local authorities in order to enable this change to happen."*⁷
10. Scottish Green MSP Alison Johnstone said council spending should be more geared towards supporting local economies or sustainability.⁸

Downloads

11. Between publication of *Procurement in councils* in April 2014 and the end of September 2015, there were:
 - 4,216 downloads of the main national report, with 160 downloads in September 2015
 - 154 downloads of the self-assessment checklist for use by councillors
 - 128 downloads of the podcast.

² Original 106, www.originalfm.com

³ Press release, [Comhairle Commended For Procurement Procedures](#), Comhairle nan Eilean Siar, 24 April 2015.

⁴ Like other titles taken over by Trinity Mirror, the Paisley Daily Express has lost its own archive.

⁵ As reported by [STV news, 24 April 2014](#). COSLA = Convention of Scottish Local Authorities.

⁶ [Press statement](#), Scottish Labour, 24 April 2014.

⁷ As reported by [STV news, 24 April 2014](#).

⁸ As reported by [STV news, 24 April 2014](#).

Presentations

12. The Chair of the Accounts Commission gave the keynote presentation at the Capita conference about 'procurement in public services in Scotland', in May 2014. In June 2014, the audit team gave presentations to the Scottish Councils' Heads of Procurement meeting and to Scotland Excel. The audit team also made a presentation to South Ayrshire Council. All presentations were well received.

Parliamentary consideration

13. The Scottish Parliament Infrastructure and Capital Investment (ICI) Committee took evidence from the Scottish Futures Trust (SFT) on 5 November 2014, concerning the committee's scrutiny of the Scottish Government's draft budget 2015/16. The SFT said it would seek a corporate commitment from the bodies accountable for procurement, and increase focus on getting the '*right project and right deal*' by involving experienced individuals in planning.⁹

Local consideration of the report

Scotland Excel

14. Scotland Excel is the centre of procurement expertise for the local government sector, and a non-profit making organisation funded by participating local authorities. Through collaboration with councils and suppliers, it aims to raise procurement standards, secure best value, and improve the efficiency and effectiveness of public sector procurement.¹⁰
15. In response to the publication of *Procurement in councils*, the Director of Scotland Excel said "*Scotland Excel welcomes the findings of Audit Scotland's report and is pleased that it recognises the progress that has been achieved. Scotland Excel remains committed to supporting local authorities as they transform procurement within their organisations, and we are confident that ongoing improvements in sector performance will deliver additional benefits in future.*"¹¹
16. Scotland Excel has since conducted a consultation exercise in which councils' procurement activity was discussed with their procurement teams and senior management; and the support available from Scotland Excel was considered. Scotland Excel has said that *Procurement in councils* has helpfully provided a credible, independent assessment of council procurement and remains valuable in shaping the agenda for discussions with councils.¹²
17. Scotland Excel produced an updated corporate strategy in June 2015 for the period 2015-18. Supporting the implementation of the strategy is a performance management framework in which four corporate goals cascade to a set of strategic objectives and these in turn map to objectives for teams and individuals.
18. Since *Procurement in councils* was published, Scotland Excel has developed a wider range of standardised contracts for services typically procured by councils. Developed in consultation with service managers and service clients, standardised contracts have the potential to save a

⁹ Page 37, [Papers for the Finance Committee meeting on 5 November 2014](#), Scottish Parliament.

¹⁰ [Scotland Excel FAQs](#), Scotland Excel website as at 10 November 2015.

¹¹ News release: [Audit Scotland report on local authority procurement published](#), Scotland Excel, website at 12 November 2015.

¹² Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

council a considerable investment in developing its own contracts; reduce risk by providing assurance that the contract has been informed by good practice; and potentially generate savings. Further information on the contacts is contained in [Appendix 1](#).

Councils

19. It is difficult to identify how much of the improvement in councils' procurement performance can be attributed to *Procurement in councils*; to Scotland Excel's ongoing support for councils; and to councils' own improvement work.
20. Audit Scotland has taken stock of changes in councils' procurement performance, using data supplied by Scotland Excel. Between 2009 and 2014, councils' procurement performance was assessed annually by Scotland Excel using the Procurement Capability Assessment (PCA) tool. The PCA tool used 52 questions across eight sections, resulting in a score for each section and an overall percentage score for a council. For *Procurement in councils*, Audit Scotland examined the PCA tool and concluded that it effectively assessed a council's procurement arrangements.¹³ The audit was therefore able to place reliance on PCA results, and the audit report used PCA data for 2013 to analyse all councils' procurement capability. For the purposes of this impact report, we have updated the analysis to include the most recent PCA results, for 2014.
21. *Procurement in councils* noted that between 2009 and 2013, the average overall PCA score for all councils rose from 22 per cent to 56 per cent ([Exhibit 1](#), overleaf). In 2013, the average score was below 50 per cent for two of the eight PCA sections – contract & supplier management; and key purchasing processes & systems.
22. A total of 25 councils chose to participate in the 2014 PCA. Of the other seven, some chose not to participate because the PCA was about to be phased out and some councils would have liked to participate but were unable to due to limited staffing resources.¹⁴
23. Between 2013 and 2014, councils' overall PCA scores improved further – from 56 per cent to 62 per cent on average.¹⁵ Councils improved in all eight PCA sections:
 - Two sections improved to 'superior performance' (75 percent or over) – procurement strategy & objectives; people).
 - A further two sections, although improving, remained below 50 per cent – contract & supplier management; and key purchasing processes & systems. However, both these sections improved steadily from 2009 to 2014.
 - The section on contract & supplier management made the largest improvement (seven per cent).
 - For the third consecutive year, no section was in the 'non-compliance' category.

¹³ Paras 65-67 of the main report, *Procurement in councils*, Accounts Commission, April 2014.

¹⁴ The seven councils were Angus, Dundee City, East Renfrewshire, Clackmannanshire, Perth & Kinross, Stirling and West Lothian.

¹⁵ For the seven councils that did not have a 2014 PCA, their 2013 scores are applied to 2014 to enable 32-council comparisons.

Exhibit 1

Overall changes in Procurement Capability Assessment scores, 2009-2014

Overall, councils improved in all areas between 2009 and 2013, and from 2013 to 2014.

0-24 per cent	25-49 per cent	50-74 per cent	75 per cent or over
Non-compliance	Compliance	Improved performance	Superior performance

PCA section	Councils' average score (per cent)					
	2009	2010	2011	2012	2013	2014
Procurement leadership & governance	25	38	48	58	63	66
Procurement strategy & objectives	31	43	58	64	73	77
Defining the supply need	13	23	30	45	54	60
Commodity/project strategies & collaborative procurement	25	32	40	53	61	67
Contract & supplier management	14	18	24	33	39	46
Key purchasing processes & systems	26	37	39	38	40	44
People	25	39	49	58	71	76
Performance measurement	22	22	34	39	50	55
Overall score	22	32	40	48	56	62

Note: the seven councils without a 2014 PCA have had their 2013 scores applied to 2014 to allow 32-council comparisons.

Source: Scotland Excel, November 2015

24. Among the 25 councils that participated in the 2014 PCAs:

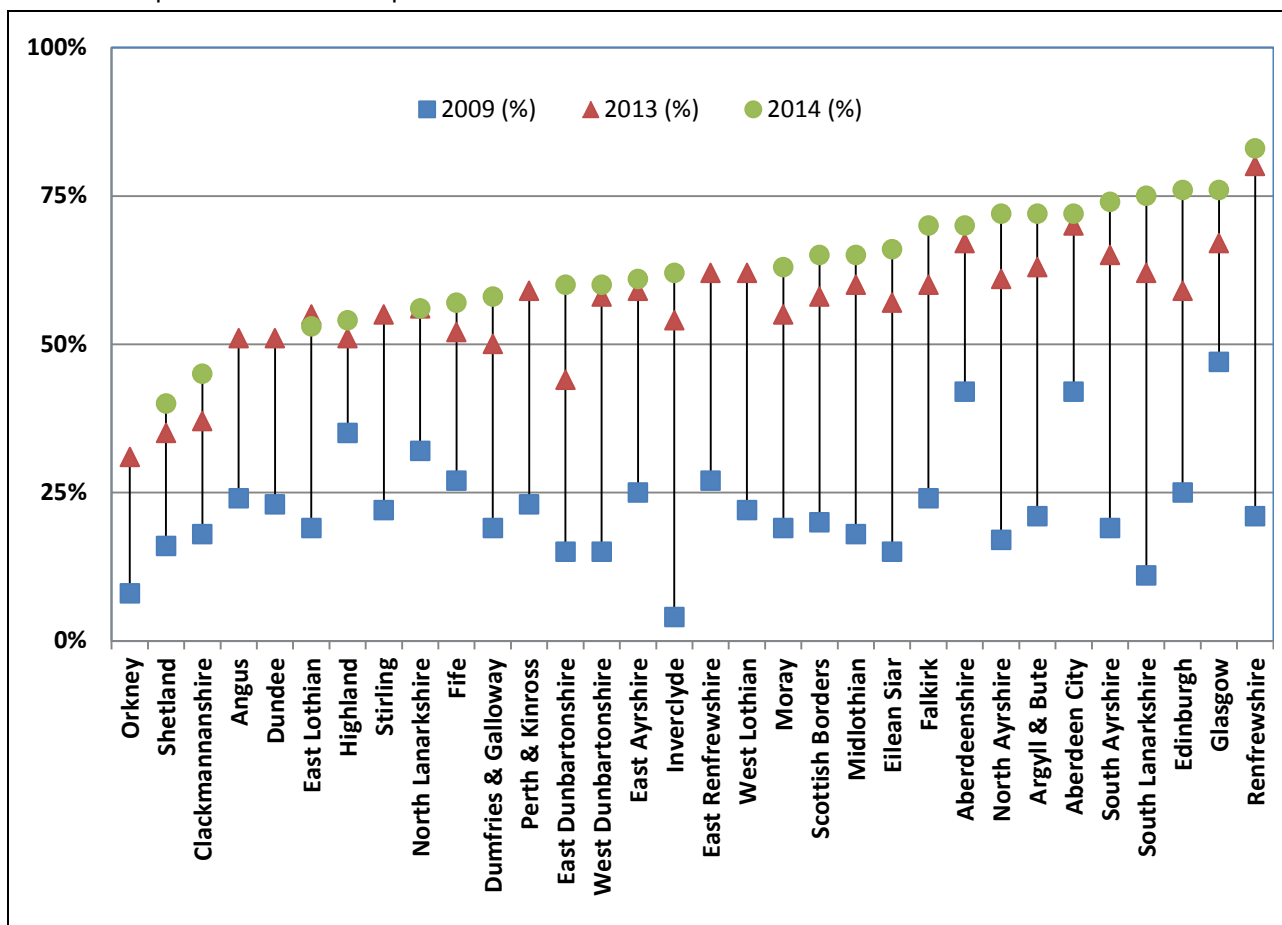
- Twenty-three councils improved their overall PCA score. North Lanarkshire Council's score remained the same and East Lothian Council's score fell by 2 per cent.
- Four councils were in the 'superior performance' category (Renfrewshire, 83 per cent; City of Edinburgh; 76 per cent; Glasgow City, 76 per cent; South Lanarkshire, 75 per cent).
- Nineteen councils were in the 'improved performance' category (50-74 per cent).
- Two councils were in the 'compliance' category (Shetland Islands, 40 per cent; Clackmannanshire, 45 per cent) ([Exhibit 2](#), overleaf).

25. Some councils improved significantly from 2013 to 2014 (eg East Dunbartonshire, City of Edinburgh, Falkirk, North Ayrshire, South Lanarkshire). Progress has been slower in certain larger councils that performed relatively well in the early years of the PCA (eg Aberdeen City, Aberdeenshire, Highland, North Lanarkshire).

Exhibit 2

Councils' PCA scores, 2009-2014

All councils' performance has improved since 2009.



Note: seven councils did not participate in the 2014 PCA assessments. Eilean Siar = Western Isles.

Source: Scotland Excel, November 2015

26. Larger councils have tended to score more highly in the PCA and there is a statistically significant correlation between a council's overall PCA score and its size, measured in terms of its population. The top three performing councils in terms of 2014 PCA scores (City of Edinburgh, Glasgow City, Renfrewshire) accounted for 23 per cent of Scotland's population while the bottom three (Clackmannanshire, East Lothian, Shetland) accounted for three per cent. Nevertheless, some smaller councils (eg Eilean Siar) have performed better than other councils of a similar size. The strength of the link between council size and PCA scores has weakened since 2011, suggesting smaller councils are tending to catch up on larger ones.
27. Increasingly, councils are using standardised contracts developed by Scotland Excel. The total value of standardised contracts rose by 39 per cent between April 2014 and December 2015 – from £503 million to £698 million. Contracts' total national values ranges between £1.5 million for waste disposal equipment and £75 million for children's residential care.¹⁶
28. The PCA tool covered how well councils manage off-contract spend and control of maverick spend (spend outside of approved contracts). Scotland Excel reports that most councils have

¹⁶ Contract portfolio information supplied to Audit Scotland by Scotland Excel, January 2016.

improved their contract coverage since 2009. PCA data showed that in 2014, 80 per cent of councils tested demonstrated 'improved performance' (over 70 per cent of spend is covered by strategies) or 'superior performance' (over 70 per cent of spend is covered by contracts). However, Scotland Excel found that most councils still needed to do more to ensure staff use contracted suppliers. Only one council (Glasgow City) was in the 'superior performance' category. Specific responses of a random sample of eight councils to *Procurement in councils* are summarised in [Exhibit 3](#).

Exhibit 3

Some councils' response to the *Procurement in councils* report

Councils have reacted positively.

- **East Ayrshire** – The council published a new corporate procurement strategy for 2014-2019. It referenced *Procurement in councils* and council officers assured the Cabinet that 'the Council's Procurement Strategy reflects the key messages... and that where appropriate, required actions have been incorporated into our Corporate Procurement Strategy Action Plan to respond to the key recommendations...'
- **East Dunbartonshire** – In June 2015, the council issued its Procurement Strategy for 2015-18. The strategy acknowledged the contribution made by *Procurement in councils*.¹⁷
- **East Renfrewshire** – The Audit and Scrutiny Committee considered a council report on *Procurement in councils*, profiling the council's stance on each recommendation.¹⁸
- **City of Edinburgh** – A report to the Finance and Resources Committee outlined the council's response to each recommendation in *Procurement in councils*. It noted, for example, that a programme of training and awareness sessions was being developed for delivery to elected members.¹⁹
- **Midlothian** – A report to the Audit Committee asked its members to consider the extent to which the council was working in accordance with the recommendations in *Procurement in councils*. It profiled the council against each recommendation and addressed work planned by the council to develop a local procurement policy to strengthen engagement with local businesses.²⁰
- **Moray** – The Audit and Performance Review Committee noted that '...the Corporate Management Team had tasked the procurement team to challenge services to consider community and environmental benefits which would align themselves with the council's social responsibility targets in the strategic plan.'²¹ The committee agreed further procurement training would be arranged for elected members.²²
- **Highland** – The Resources Committee welcomed *Procurement in councils* '...as a positive contribution to the national Procurement Improvement Programme'. The committee agreed its response to each recommendation in the report.²³
- **Renfrewshire** – The Audit, Petition and Scrutiny Board was briefed on *Procurement in councils*, and about the council's standing in relation to each of its recommendation.²⁴

Source: councils' online meeting papers and reports

¹⁷ Para 1.1, [Procurement Strategy 2015-2018](#), East Dunbartonshire Council, June 2015.

¹⁸ [Report to the Audit and Scrutiny Committee](#), East Renfrewshire Council, 12 June 2014.

¹⁹ Item 7: [Report to the Finance and Resources Committee](#), City of Edinburgh Council, 30 September 2014.

²⁰ Item 6: [Report to the Audit Committee](#), Midlothian Council, 16 June 2015.

²¹ Item 7: [Report to the Audit & Performance Review Committee](#), Moray Council, 14 May 2014.

²² Item 6: [Committee minutes, Audit & Performance Review Committee](#), Moray Council, 14 May 2014.

²³ Item 13, [Report to the Resources Committee](#), Highland Council, 24 February 2015.

²⁴ Item 7: [Report to the Audit, Petition and Scrutiny Board](#), Renfrewshire Council, 201

Contribution to national developments

29. The audit team for *Procurement in councils* was consulted during the development of the new Procurement and Commercial Improvement Programme (PCIP) tool for assessing councils' performance in future. The PCIP focuses on policies and procedures driving procurement performance, the results they deliver, and has been endorsed by the Scottish Government.²⁵ Scotland Excel anticipates rolling out the PCIP in local government during the first half of 2016.

Progress on implementing recommendations

30. Progress has been made across the recommendations in *Procurement in councils*, and is ongoing in some areas. Appendix 1 lists all the recommendations in the report and, where possible, profiles the progress that has been made.

Outlook

The method for assessing public bodies' procurement is about to change

31. The PCA tool is about to be replaced by the PCIP. Some key points are that:
- PCA was used to assess bodies annually whereas PCIP will occur every two years.
 - PCIP results will not be comparable to PCA results.
 - There will be three types of PCIP depending on an organisation's sector, size, complexity and uniqueness.²⁶

New procurement legislation will take effect

32. The regulatory framework for procurement is changing across the public sector. For example:
- The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a framework for integrating health and social care.²⁷ Scotland Excel plans to work with local government and the NHS to ensure procurement services respond to the needs of Joint Boards.²⁸
 - The Procurement Reform (Scotland) Act 2014 establishes a legislative framework for sustainable public procurement. It provides ministers with powers to make regulations and issue statutory guidance. The new duties are to take effect from April 2016.²⁹
 - The Community Empowerment (Scotland) Act 2015 aims to empower communities in making decisions about their local areas, including how services are provided, and takes effect from April 2016.³⁰

²⁵ [Procurement – Procurement and Commercial Improvement Programme](#), Scottish Government website as at 12 November 2015.

²⁶ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

²⁷ The Act, [Explanatory notes](#), The Public Bodies (Joint Working) (Scotland) Act 2014.

²⁸ Page 8, [Shared Vision, Shared Success: our corporate strategy 2015-18](#), Scotland Excel, June 2015.

²⁹ [The Procurement Reform \(Scotland\) Act 2014 \(Commencement No. 3 and Transitional Provisions\) Order](#), January 2016.

³⁰ [The Community Empowerment \(Scotland\) Act 2015 \(Commencement No. 3 and Savings\) Order 2015](#), November 2015.

Scotland Excel faces financial challenges

33. When Scotland Excel was established in 2008, the Scottish Government granted it £4.5 million to fund its set-up costs and procurement reform activities. At March 2013, £1.2 million remained.³¹ In the annual audit report on 2014/15, the external auditor reported that the ring-fenced funding for reform, £0.3m as at 31 March 2015, is likely to be fully utilised in 2016, with no plans in place to fund reform work from 2016 onwards.³² The auditor recommended that the organisation should prepare options as part of its budget-setting process for 2016/17. Scotland Excel developed funding proposals for its Joint Committee on 27 November 2015, which approved that the requisition for each council increase by 9.4 per cent for 2016/17 as a means of beginning to fund all of Scotland Excel's ongoing procurement activity sustainably.³³
34. In October 2015, Scotland Excel advised Audit Scotland that resolving the organisation's financial stability after 2016/17 will be challenging.³⁴ A significant portion of its income derives from the sale of training and support to councils, and Scotland Excel has indicated that the financial climate is impinging on councils' ability to pay for it. If Scotland Excel is compelled to scale back its support for councils, this could compromise the maintenance of the PCIP framework and periodic assessments of councils.

Councils continue to face staffing challenges

35. In 2014, the *Procurement in councils* report noted that 'councils and Scotland Excel believe shortages of skilled purchasing staff remain, and that there is a limited pool of experienced purchasing staff in the public sector from which to draw. As the economy improves, there is a risk that councils will lose qualified staff to other public sector organisations and the private sector, where salaries are higher.' Scotland Excel reiterated to Audit Scotland in October 2015 that these challenges remain and that some councils risk having an insufficient number of suitably qualified staff to properly plan and manage procurement.³⁵

There is scope for a procurement-related audit about three years from now

36. With the roll-out of the PCIP to councils happening 2016, it is likely to be 2018 before the second PCIP cycle occurs and like-for-like comparisons become possible. PCIP will shortly be rolled out in the NHS. So in a few years' time, it should also be possible to map the changing performance of NHS procurement between 2016 and 2018. There is also some potential to consider thematic aspects of procurement across the public sector.

Fraser McKinlay
Director of Performance Audit and Best Value
Audit Scotland

February 2016

³¹ Para 71, *Procurement in Scotland*, Accounts Commission, April 2014.

³² Scotland Excel: Annual audit report to Members and the Controller of Audit, 2015.

³³ Page 27, [Agenda document pack](#), Scotland Excel Joint Committee, 27 November 2015.

³⁴ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

³⁵ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

Appendix 1. Progress on implementing the recommendations

Recommendation	Progress
The Scottish Government should work with councils to:	
<ul style="list-style-type: none"> review and update the Best Practice Indicators (BPIs), drawing on councils' experiences, to reflect changes in procurement since 2008 and improve their usefulness to councils. 	<p>The Procurement Reform Delivery Group comprises the heads of centres of procurement expertise:</p> <ul style="list-style-type: none"> Scotland Excel (local government) Advanced Procurement for Universities and Colleges (APUC) NHS National Procurement, and Scottish Government representatives at deputy director level. <p>The Procurement and Commercial Improvement Programme Dashboard replicates some information from BPIs. In 2015, the Group therefore decided to drop BPIs except for indicators 1a and 1b, which relate to procurement savings. This does not affect the gathering of contract spend data into the Scottish Government's procurement Hub, which continues.³⁶</p>
Scotland Excel should:	
<ul style="list-style-type: none"> maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust, and with the associated joint venture companies 	<p>In its corporate strategy for 2015-18, Scotland Excel commits to <i>"monitor the progress of the Review of Procurement in Construction, working with the Scottish Futures Trust (SFT) and partners to determine how our collaborative contracts can support the implementation of its recommendations."</i>³⁷</p>
<ul style="list-style-type: none"> set realistic timescales and savings targets for contracts, particularly in new areas of contracting 	<p>A year-end performance report about Scotland Excel was taken by its Executive Sub-Committee in May 2015, showing performance against the business plan. For 2014/15, the plan had 21 objectives:</p> <ul style="list-style-type: none"> Nine objectives were fully achieved including: <ul style="list-style-type: none"> achieve savings of between two per cent and seven per cent against the delivery programme reduce and maintain sickness absence at below four per cent. Seven objectives were partially achieved including: <ul style="list-style-type: none"> eight extensions and 11 renewals were made to contracts developing a new three-year corporate strategy, which has subsequently been approved.

³⁶ Email from Scotland Excel to councils, 1 October 2015.

³⁷ Page 26, [Shared Vision, Shared Success: our corporate strategy 2015-18](#), Scotland Excel, June 2015.

Recommendation	Progress
	<ul style="list-style-type: none"> • Five objectives were not achieved, including: <ul style="list-style-type: none"> ◦ eight new contracts were delivered against a target of 16 ◦ the advertised annual value of contracts fell £102m below the target of £750m. <p>Scotland Excel's 2015/16 operating plan includes plans to deliver a rolling schedule of new contract opportunities, identified and agreed with local authority stakeholders.³⁸</p> <p>Scotland Excel's corporate strategy 2015-18 commits to ongoing partnership working, specifically mentioning areas like a Review of Procurement in Construction.³⁹ It claims that its 'growing portfolio of collaborative contracts delivers around £4 in savings for every £1 invested by councils, not to mention the efficiency gains of developing one national contract instead of 32'.⁴⁰</p>
Scotland Excel and councils should:	
<ul style="list-style-type: none"> • review and formalise arrangements to fund procurement reform activity beyond 2016 	<p>This has been flagged as a challenging issue by both Scotland Excel and its appointed auditor. In December 2014, Scotland Excel established a transformation programme to underpin the delivery of its corporate strategy. The programme comprises six project areas: funding; leading change; stakeholder engagement; organisational development; business intelligence; and governance, policy and process.⁴¹</p> <p>Scotland Excel developed funding proposals for its Joint Committee on 27 November 2015, which approved that the requisition for each council increase by 9.4 per cent for 2016/17 as a means of beginning to fund all of Scotland Excel's ongoing procurement activity sustainably.⁴²</p>

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³⁸ Pages 15-16, [Scotland Excel: Annual audit report 2014/15 to Members and the Controller of Audit](#), August 2015.

³⁹ Page 26, Shared Vision, Shared Success: our corporate strategy 2015-18, Scotland Excel, June 2015.

⁴⁰ Total savings from the use of standardised contracts versus Scotland Excel's requisitions on councils, information supplied to Audit Scotland in January 2016.

⁴¹ Page 42, Shared Vision, Shared Success: our corporate strategy 2015-18, Scotland Excel, June 2015.

⁴² Page 27, [Agenda document pack](#), Scotland Excel Joint Committee, 27 November 2015.

Recommendation	Progress
Council staff involved in procurement should	
<ul style="list-style-type: none"> submit accurate and complete information to the procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year) 	<p>Scotland Excel reports that councils are now much better at submitting their procurement data annually and on time. However, it also recognises the benefits to councils of quarterly reporting, which could provide a more timely national overview and useful benchmarking data for councils themselves.⁴³</p>
<ul style="list-style-type: none"> examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions 	<p>Not assessed.</p>
<ul style="list-style-type: none"> make greater use of the tools and facilities provided by the Hub, including the use of BPIs in their performance reporting and to benchmark their progress 	<p>The Procurement Reform Delivery Group comprises the heads of centres of procurement expertise:</p> <ul style="list-style-type: none"> Scotland Excel (local government) Advanced Procurement for Universities and Colleges (APUC) NHS National Procurement Scottish Government representatives at deputy director level. <p>The PCIP reporting Dashboard replicates some information from the BPIs. In 2015, the Group therefore decided to drop the BPIs except for indicators 1a and 1b, which relate to procurement savings. This decision does not affect the gathering of contract spend data into the Scottish Government's procurement Hub, which continues. The first cycle of PCIP assessments will be conducted in councils in 2016.</p>
<ul style="list-style-type: none"> engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts 	<p>The standardised contracts developed by Scotland Excel are devised following research with a range of stakeholders, including councils, service providers, and service clients. For example, a framework for care home services for adults with learning disabilities is now available as part of Scotland Excel's social care contracts portfolio. People with learning disabilities who had direct experience of living in care homes were involved in the development and evaluation of the framework, and their views were embedded in the service specification.⁴⁴</p>

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⁴³ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁴⁴ Page 3, [Scotland Excel News: Summer 2015](#), Scotland Excel, Summer 2015.

Recommendation	Progress
<ul style="list-style-type: none"> use the Public Contracts Scotland tender module for all applicable contracts 	<p>The Procurement Reform (Scotland) Act 2014 requires all public sector contracting organisations to keep and maintain a contract register, and to provide an internet-based publicly viewable version of it from 18 April 2016. While the onus is on individual organisations to produce and publish contract registers, in order to provide support to the public sector, Public Contracts Scotland (PCS) will provide functionality on the portal to produce a contract register that meets the requirements of the Act.⁴⁵</p>
<ul style="list-style-type: none"> make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee 	<p>Scotland Excel has developed contracts in areas including Construction and maintenance (16 contracts); Transport & environment (10); Social care (8); Education & corporate services (4). Councils are using many existing contracts. New contracts under development by Scotland Excel address: Surveying & construction management; Playground equipment & artificial surfaces; Home energy efficiency programme; Road services; Adult supported living; Architecture services.⁴⁶</p>
<ul style="list-style-type: none"> develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant council committee on a regular basis 	<p>Scotland Excel has included community benefits as a scored element in tenders since 2013.</p> <p>The Community Empowerment (Scotland) Act received Royal Assent in July 2015. The Act empowers communities in making decisions about their local areas, including how services are provided.⁴⁷</p>
<ul style="list-style-type: none"> calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement 	<p>Scotland Excel calculates that its standardised contracts have generated £85 million of savings in comparison to councils' £22 million of fees for membership of Scotland Excel, and that £1.4 billion has been spent through councils' use of its contracts since 2008.⁴⁸</p>

⁴⁵ [Forward Plan 30th October 2015](#), Public Contracts Scotland, website as at 26 November 2015.

⁴⁶ Presentation by Scotland Excel to councils during consultation events in 2015.

⁴⁷ [Explanatory Notes](#), Community Empowerment (Scotland) Act, July 2015.

⁴⁸ Presentation by Scotland Excel to councils during consultation events in 2015.

Recommendation	Progress
<ul style="list-style-type: none"> • make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements • aim to achieve the superior performance level in the PCA, particularly in relation to: <ul style="list-style-type: none"> ○ spend covered by an agreed commodity strategy ○ participation in Scotland Excel contracts ○ automation of procurement and payment processes ○ spend captured in the council's contract register 	<p>Scotland Excel claims its contracts follow this approach.⁴⁹</p> <p>Between 2013 and 2014, the number of councils in this category increased from one (Renfrewshire, 80 per cent) to four: Renfrewshire (83 per cent and the top performer in 2013 and 2014), City of Edinburgh (76), Glasgow City (76), South Lanarkshire (75).</p> <p>Standardised contracts designed by Scotland Excel now cater for fluctuations in commodity prices.</p> <p>Scotland Excel has advised Audit Scotland that, on average, councils use 42 out of 48 available contracts, ranging between 31 contracts used (East Ayrshire, Glasgow City) and all 48 (West Dunbartonshire).⁵⁰</p> <p>Please refer to the recommendation below on electronic procurement.</p> <p>Scotland Excel does not maintain a list of spend on councils' contract registers but, against this, a contract register is a key area of focus for the organisation.⁵¹</p>
<p>Councils' corporate management teams should:</p>	
<ul style="list-style-type: none"> • benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels 	<p>The gap between high- and low-performing councils has been closing. Scotland Excel indicates that councils have been recruiting procurement experts, but that the pool of suitable staff is limited.⁵²</p>
<ul style="list-style-type: none"> • examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts 	<p>Scotland Excel indicates that it continues to promote the potential benefits of councils' pooling qualified expertise. Scotland Excel has also advised Audit Scotland that there is considerable scope for further progress on this issue, especially given the limited pool of procurement professionals in Scotland.⁵³</p>

⁴⁹ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁵⁰ Email from Scotland Excel to Audit Scotland, 12 November 2015.

⁵¹ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁵² Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁵³ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

Recommendation	Progress
<p>• phase out paper purchasing systems and consider the business case for moving all purchasing systems to an electronic 'purchase-to-pay' basis</p>	<p>The purchase-to-pay process encompasses all the steps that are followed from the time someone orders a product/service that they need, through the authorisation process, to sending the supplier the purchase order and ultimately to receiving the products/services and paying the suppliers invoice. Using systems to automate this process can help to deliver greater efficiencies.⁵⁴</p> <p>A number of improvement programmes have been led by the Scottish Government, eg:</p> <ul style="list-style-type: none"> • Public Contracts Scotland (PCS) provides suppliers with free access to all essential information on public sector business opportunities. All public sector bodies in Scotland are expected to use PCS. • PCS-Tender is the national eSourcing system provided free of charge by the Scottish Government. The system provides buying organisations with a set of web-based procurement tools. • eInvoicing is an electronic service that facilitates information exchange between buyers and suppliers. It allows invoices and related documents to be issued, received and reconciled electronically through a secure channel. In April 2015, the Scottish Government announced that eInvoicing had been extended to all Scottish public sector bodies in Scotland.⁵⁵ <p>Scotland Excel has advised Audit Scotland that local government has been actively engaged in these initiatives, but that electronic procurement remains an area of weakness, and also of opportunity.⁵⁶</p>
<p>• raise staff awareness of accountability and controls by:</p> <ul style="list-style-type: none"> ○ implementing a written code of ethics ○ requiring staff involved in procurement to complete a register of interest statement ○ require internal audit to conduct a regular assessment of procurement risk, including the risk of fraud 	<p>The timescale for this impact assessment precluded a survey of all 32 councils.</p>

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⁵⁴ Scottish Government Procurement: [eCommerce](#), Scottish Government website as at 26 November 2015.

⁵⁵ [Public Contracts Scotland – Tender](#), Scottish Government website as at 10 November 2015.

⁵⁶ Email correspondence between Scotland Excel and Audit Scotland, 10 November 2015.

Recommendation	Progress
Councils should:	
<ul style="list-style-type: none"> require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis 	<p>Councils continue to seek savings from procurement, although reporting practices vary. For example:</p> <ul style="list-style-type: none"> Angus Council's Policy & Resources Committee took a report on '<i>...changes required to maximise Community Benefits from Angus Council's procurement activity in accordance with duties emerging from the Procurement Reform (Scotland) Act 2014 and aligned to the Tayside Sustainable Procurement Policy.</i>' East Renfrewshire Council's Cabinet took a report on the benefits of the council joining a nationwide telecommunications infrastructure for use by public bodies.⁵⁷ The City of Edinburgh Council prepared an Equality and Rights Impact Assessment in relation to procurement savings on independent contracts for Older People's and Disability services.⁵⁸
<ul style="list-style-type: none"> encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively 	<p>A total of 3,585 council delegates have attended Scotland Excel training courses since January 2009.⁵⁹ Some delegates have comprised elected members. In response to <i>Procurement in councils</i>, some councils have said procurement training is already in place, and some others have committed to improving training and support for elected members, eg:</p> <ul style="list-style-type: none"> Angus – the council has committed to deliver procurement training and briefing session(s) to councillors.⁶⁰ Moray – procurement training has been offered to elected members and can be repeated if requested.⁶¹ Renfrewshire – procurement awareness training sessions are available to elected members.⁶² <p>However, the timescale for this impact assessment precluded a survey of all 32 councils.</p>

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Final

⁵⁷ [Report by the Deputy Chief Executive to Cabinet](#), East Renfrewshire Council, March 2015.

⁵⁸ [Equality and Rights Impact Assessment](#), City of Edinburgh Council, February 2015.

⁵⁹ Presentation by Scotland Excel to councils in consultation events during 2015.

⁶⁰ Outcome 4, [Procurement Annual Report 2014/15 and Improvement Plan for 2014/17](#), Angus Council, September 2015.

⁶¹ Item 7: [Report to the Audit & Performance Review Committee](#), Moray Council, May 2014.

⁶² Item 7: [Report to the Audit, Petition and Scrutiny Board](#), Renfrewshire Council, September 2014.

An overview of local government in Scotland 2016



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
March 2016


The Accounts Commission

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

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

Our work includes:

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

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

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



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



Exhibit data

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

Chair's introduction



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

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

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

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

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

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

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

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

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

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

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

Douglas Sinclair
Chair of the Accounts Commission

Summary



Key messages

- 1** Councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17, bringing the real terms reduction in revenue funding since 2010/11 to 11 per cent. At the same time, they face additional financial pressures and greater demands on services. Councils have been effective in balancing their annual budgets until now but councillors face increasingly difficult decisions about how best to spend their reducing budgets. This requires clear priorities and better long-term planning.
- 2** Councils' responses to budget reductions have mainly focused on incremental savings to existing services. In the face of further funding reductions, councils should be evaluating options for more significant changes to delivering key services, beyond health and social care integration.
- 3** Despite reducing their spending, performance measures show that councils improved in areas such as educational attainment, the quality of council housing and waste recycling, in 2014/15. However, customer satisfaction with some services declined and there are more significant funding reductions to come in 2016/17 and beyond.
- 4** Most councils have reduced their workforces to save money, and many are planning further staff reductions. In doing so, they need to ensure they have people with the knowledge, skills and time to design, develop and deliver effective services in the future.
- 5** Councils and their partners also need to respond to the Community Empowerment (Scotland) Act 2015, by involving local people more in making decisions about services, and empowering local communities to deliver services that are sustainable and meet local needs.
- 6** Councillors need to keep updating their skills and knowledge to fulfil their complex and demanding role. In particular, it is increasingly important that they are able to challenge and scrutinise decisions and performance, and fully assess options for new and different ways of delivering services within their reducing budgets.

Recommendations

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

Councillors should:

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

About this report

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

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

- **Part 1** reviews the financial context in which councils are operating and gives a national overview of councils' financial performance. Information that compares one year with another is shown in real terms (taking inflation into account, based on 2014/15 prices) unless otherwise stated.
- **Part 2** considers how councils are performing in delivering services and how they are changing the way they operate in the context of increasing pressures. It looks at the implications for councils' workforces and highlights key aspects of governance.

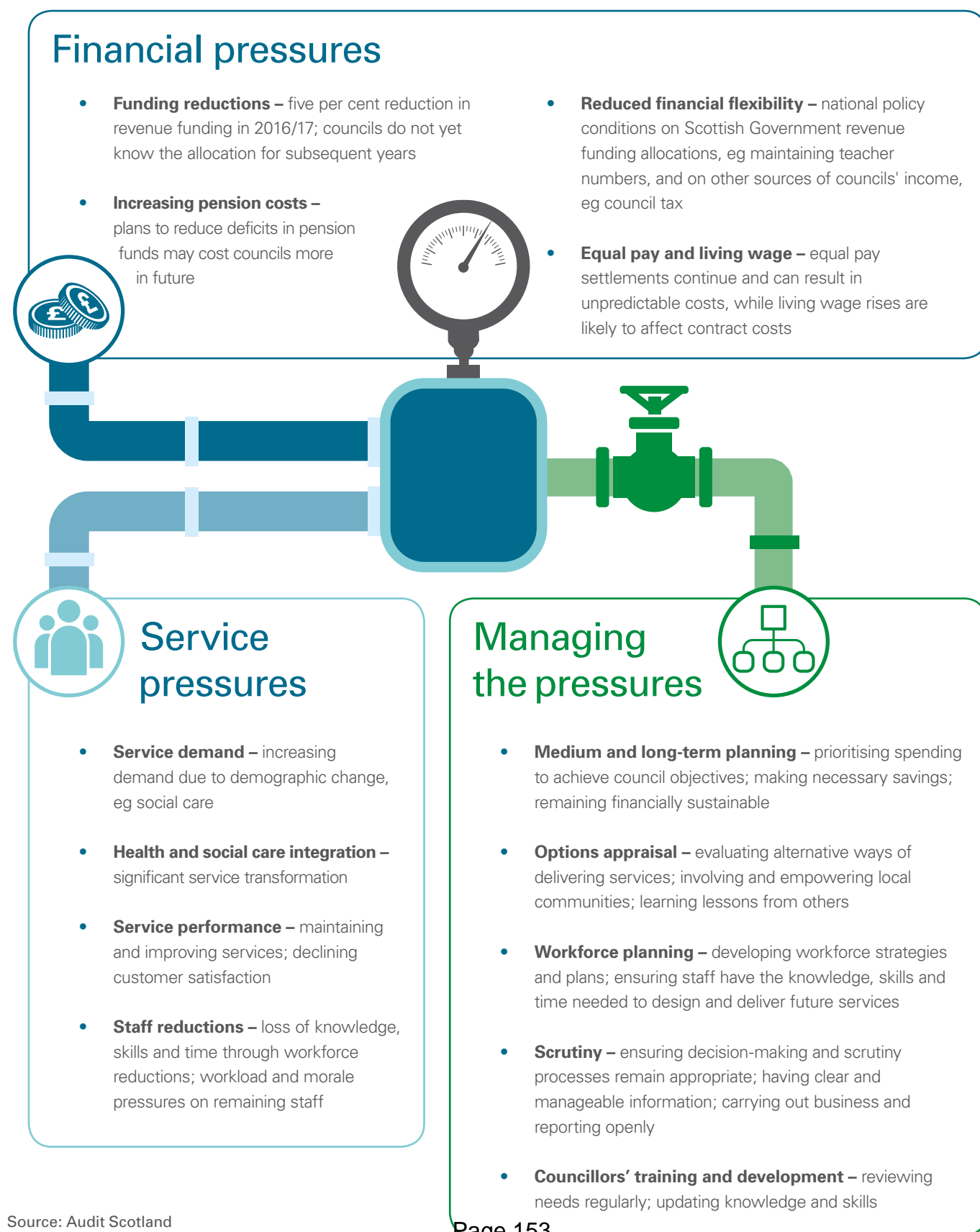
3. [Exhibit 1 \(page 9\)](#) provides a summary of the main pressures that councils face.

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

Exhibit 1

Local government pressures

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



Part 1

Managing financial performance

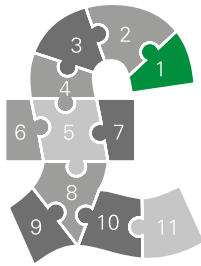


Key messages

- 1 Councils received £10.76 billion of funding from the Scottish Government in 2014/15. This included £9.92 billion for revenue funding, which helps pay for day-to-day running costs, including staff. This was almost the same as the previous year and 6.5 per cent less in real terms than in 2010/11. While revenue funding in 2015/16 also remained largely unchanged in real terms, major challenges lie ahead for councils. The Scottish Government has reduced revenue funding in 2016/17 by five per cent in real terms. This equates to an 11 per cent reduction in revenue funding between 2010/11 and 2016/17. Councils also received capital funding in 2014/15 of £0.84 billion.
- 2 Councils have continued to balance their budgets each year by reducing their spending. The majority underspent their 2014/15 budgets and increased their reserves in anticipation of future funding reductions.
- 3 Local Government Pension Scheme (LGPS) funds report shortfalls between the value of funds and the future pension commitments to be paid. This does not create immediate problems. Pension funds have plans in place to reduce any deficits within a 20-year period.
- 4 Councils' debt has been increasing since 2011/12, although it decreased slightly in 2014/15. In addition, many councils predict gaps between their income and spending in future years. This may threaten their financial sustainability if risks are not well managed.
- 5 The challenging financial environment, together with changing demographics and rising demands on services, means that effective medium-term (three to five years) and longer-term (five or more years) financial planning is critical for councils. This is more challenging for councils when they do not know what their future funding and income will be, meaning that they need to plan for a range of possibilities.

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

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



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



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

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

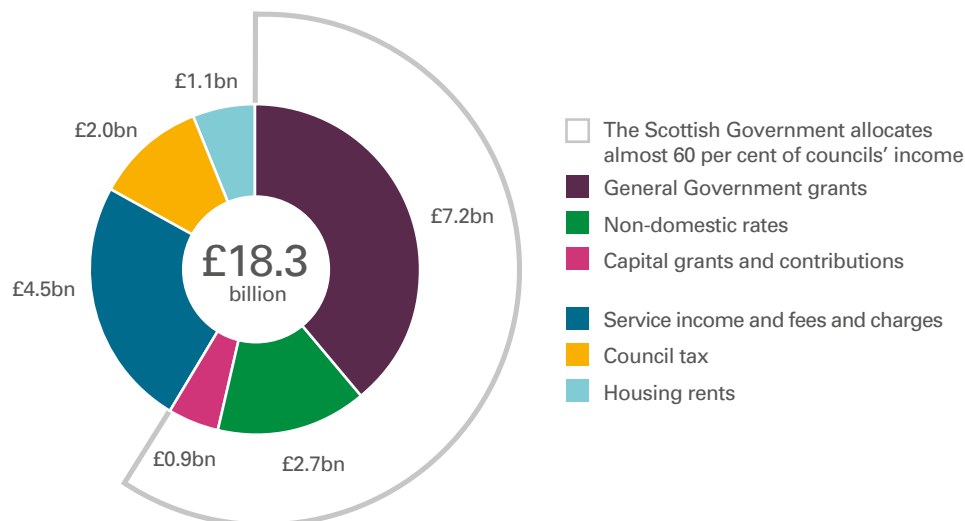
£18.3 billion: councils' total income in 2014/15

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

Exhibit 2

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

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



Notes:

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

Source: Councils' annual accounts, 2014/15

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

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

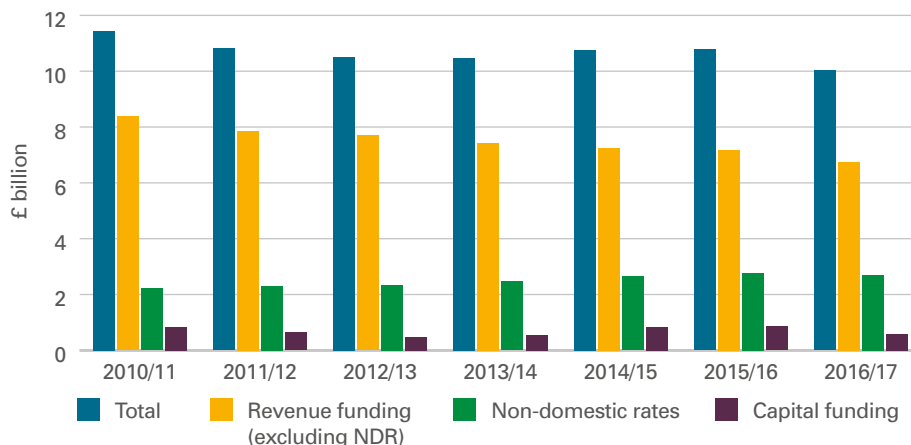
NDR makes up an increasing share of the revenue funding allocated by the Scottish Government

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

Exhibit 3

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

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



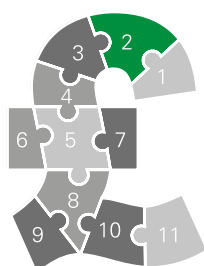
Notes:

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

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



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



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



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

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

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

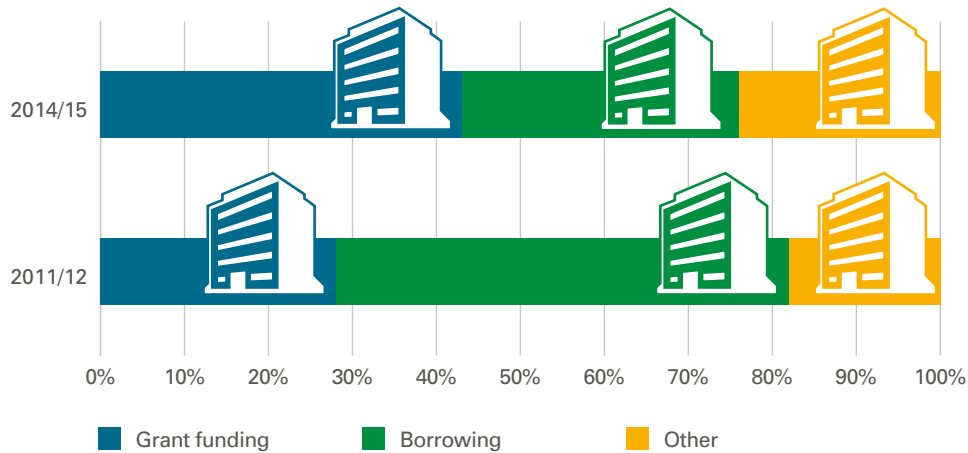
10. Between 2011/12 and 2014/15, capital grant funding increased from £720 million to £925 million (at 2014/15 prices). The Scottish Government provided about 80 per cent of grants in this period. Councils' total capital spending has decreased over the same period, from £2.5 billion to £2.2 billion (at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

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

Exhibit 4

Sources of funding for capital spending

From 2011/12 to 2014/15, funding from capital grants increased and funding through borrowing decreased.



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

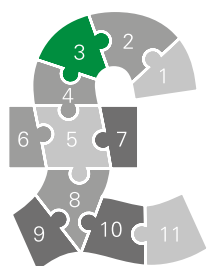
Source: Audit Scotland

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

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

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

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



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



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

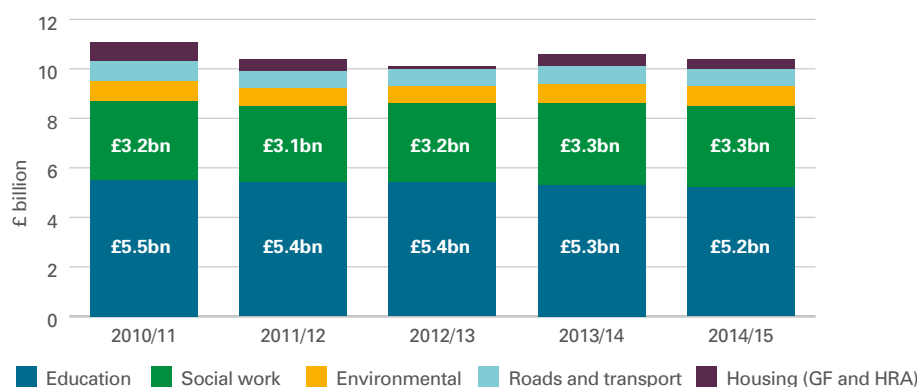
15. Councils have managed financial pressures by reducing spending across many of their main services and activities, except in social work ([Exhibit 5](#)). Councils' 2014/15 accounts showed expenditure of £18.7 billion. This looks like councils overspent by £0.4 billion but is actually due to adjustments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

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

Exhibit 5

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

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



Notes:

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

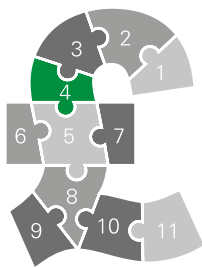
Source: Councils' annual accounts, 2010/11-2014/15



make savings ahead of schedule. Councils will find it increasingly challenging to underspend or balance their budgets from 2016/17 onwards because many incremental savings have already been made.

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

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



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



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

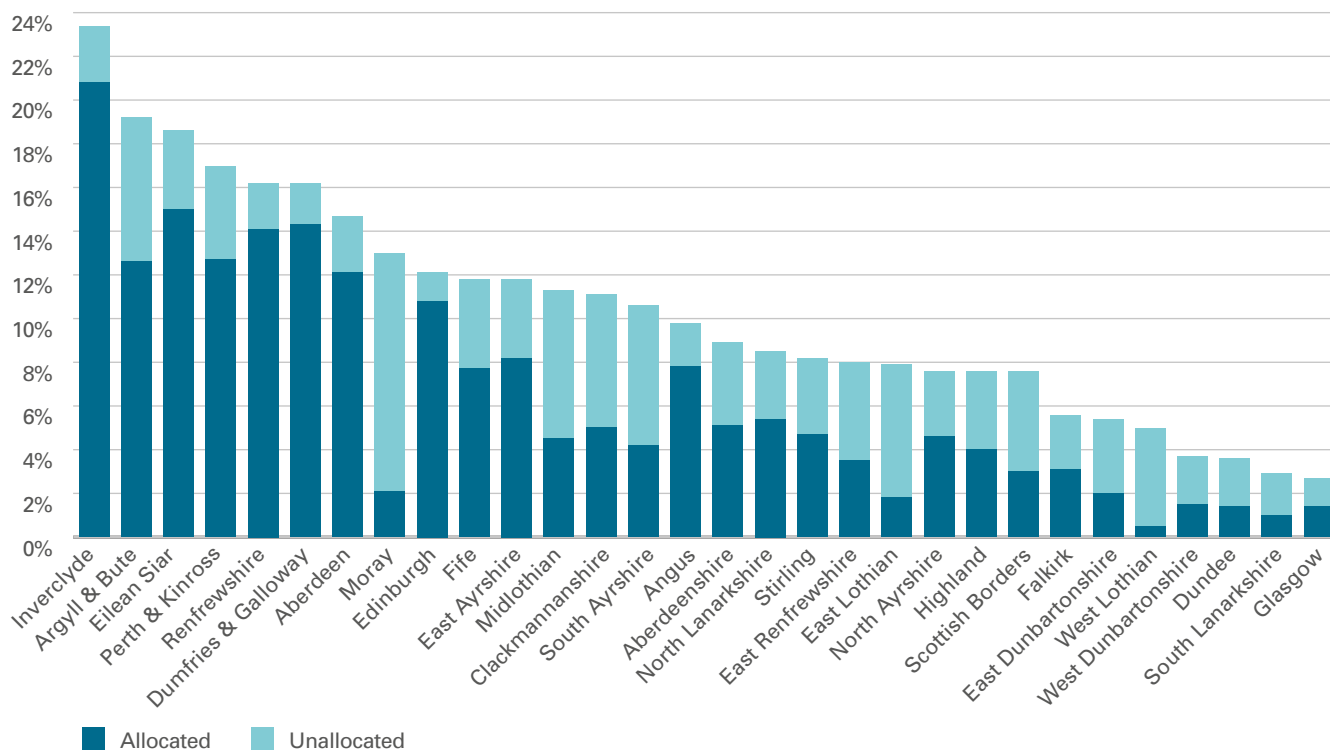
13 councils planned to use reserves for day-to-day spending in 2015/16

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

Exhibit 6

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

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



Notes:

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

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



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

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



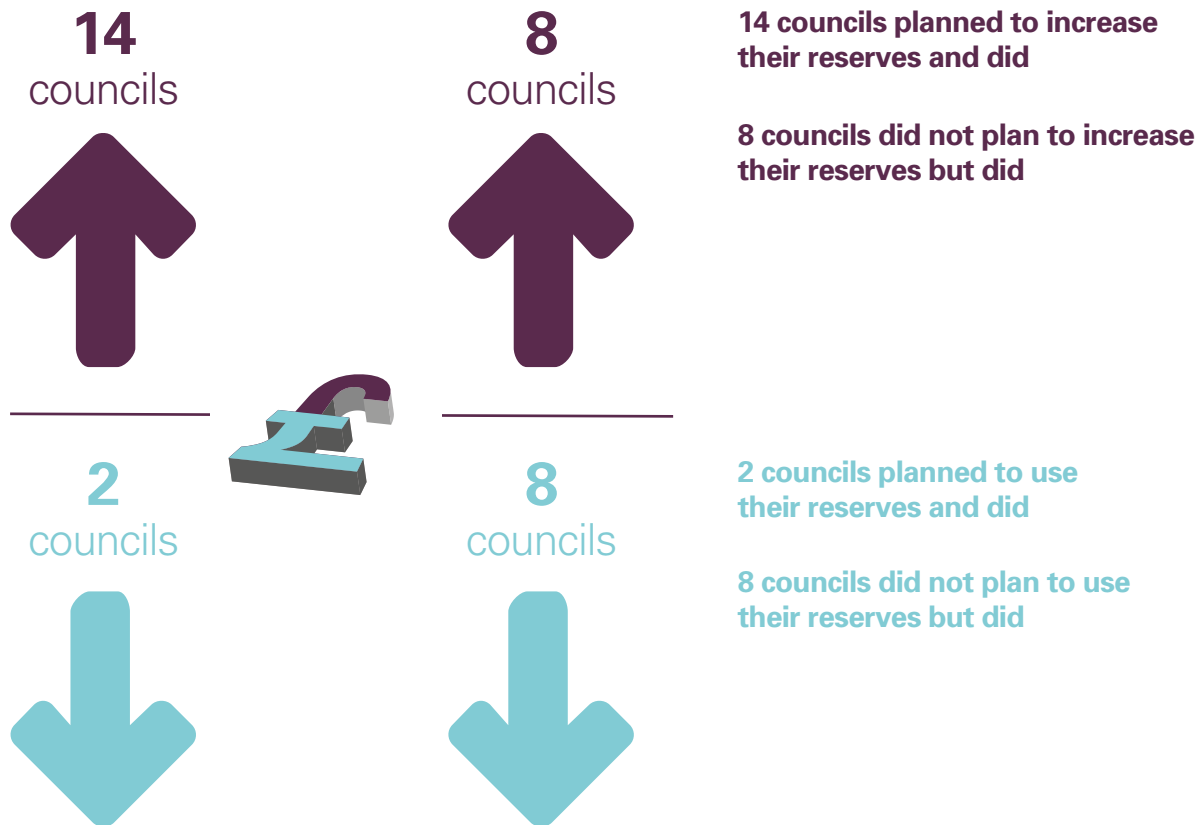
What level of reserves do we need, both allocated and unallocated?

How effectively are we using the reserves we hold?

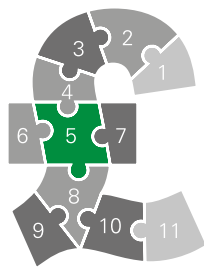
Exhibit 7

Increases and decreases in General Fund reserves

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



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



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



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

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

£0.5 billion: increase in borrowing during 2014/15

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

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

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

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

Exhibit 8

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

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



Notes:

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

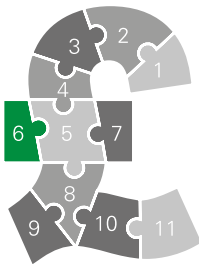
Source: Councils' audited accounts, 2010/11-2014/15

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



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

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



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

£44.5 billion: total liabilities of the 11 LGPS funds

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



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

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

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

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

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

The LGPS costs for councils are increasing

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

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

- Administration costs: these include the investment management fees for each fund, and other administration costs, and have been increasing. These are not comparable between funds, but the way the fees are reported has been changed to improve transparency and comparability between funds.
- Investment performance: the investment strategy for a fund takes into account the size of the fund's assets compared to its future liabilities, as well as other external market factors, when setting performance targets. Expected returns on investments are used to set employer contribution rates. In 2014/15, eight of the 11 LGPS funds reported above-expected returns and three reported returns below the targets they set for themselves (Highland, North East and Shetland).

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

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

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

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

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

Equal pay remains a significant cost pressure

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



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

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

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

Minimum and living wage rises have cost implications for councils

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

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

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

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

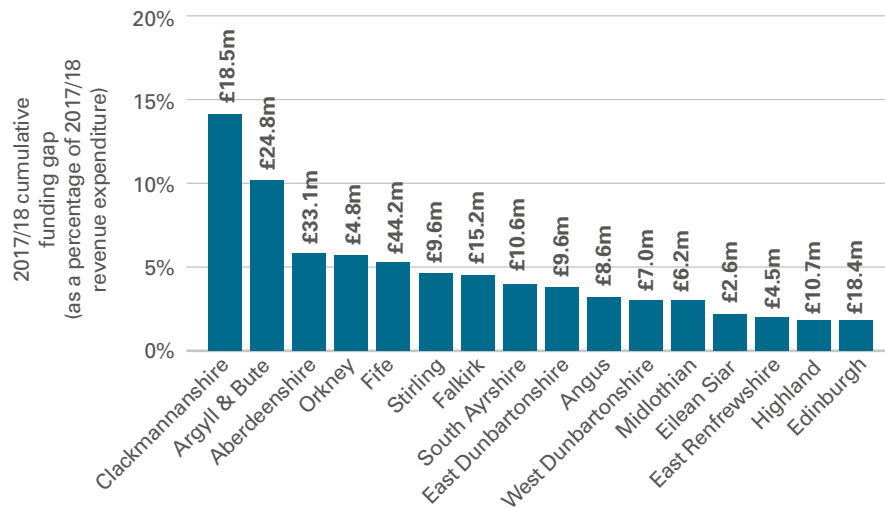


How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?

Exhibit 9

Predicted funding gaps at March 2015

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



Notes:

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

Source: Audit Scotland



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

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

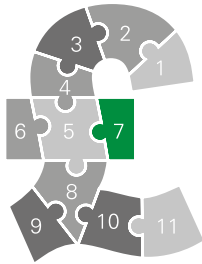


What options do we have to address this budget shortfall for example, redesign services, use reserves?

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

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

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



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

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



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

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

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

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



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

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

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

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

Part 2

Delivering services



Key messages

- 1 Councils' performance in 2014/15 continued to improve across many of the performance measures in the Local Government Benchmarking Framework (LGBF). Councils have well-established systems to manage their performance and are improving how they report to the public.
- 2 Health and social care integration is the most significant aspect of public sector reform for councils. New integration authorities may not be in a position to make an impact in 2016/17. Significant risks need to be addressed if integration is to fundamentally improve the way health and care services are delivered.
- 3 The Accounts Commission continues to be concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings to existing models of service delivery. There are some examples of councils achieving savings and community benefits through increasing online access to services, sharing services, collaborating on procurement and using arm's-length external organisations (ALEOs). Councils, however, need to be more ambitious in their plans, better at longer-term planning, and willing to appraise all practical options for delivering services more efficiently and effectively. This includes empowering and supporting local communities in delivering local services.
- 4 Most councils continue to reduce staff numbers. It is essential that they have comprehensive workforce strategies and plans, which must take into account not only workforce-related cost pressures, but the staff knowledge, skills and time they will need to plan and deliver services differently in future.
- 5 There is a need for councillors to continuously review and develop their skills and knowledge to help them carry out their increasingly complex and challenging role effectively. They need to have the skills and the necessary information to allow them to carry out effective scrutiny of performance. This becomes ever more important as councils develop new and different ways of delivering services within their reducing budgets.

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

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





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

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

Exhibit 10






Councils' service performance at a national level






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

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

Cont

Exhibit 10 continued

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

	Decline in performance from previous year		Improvement from previous year		No change in performance
	Baseline year		No data available		

Notes:

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

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

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

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

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



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

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


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

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

54. Our [Health and social care integration \[PDF\]](#) report found that integration authorities may not be in a position to make an impact in 2016/17.⁵ We reported on the significant risks that need to be addressed if integration is to fundamentally change the delivery of health and care services. These include:

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

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


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

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

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

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

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

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



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



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

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

Case study 1



Examples of online services in councils

City of Edinburgh Council

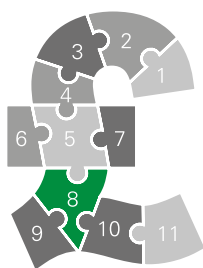
The council is currently redesigning many of its customer care services and moving services online where possible. The council plans to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact: 40 transactions,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

The Highland Council

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

Source: Audit Scotland


There is limited evidence of councils collaborating or sharing services




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



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

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

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

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



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

What options do we have for collaborating or sharing services?

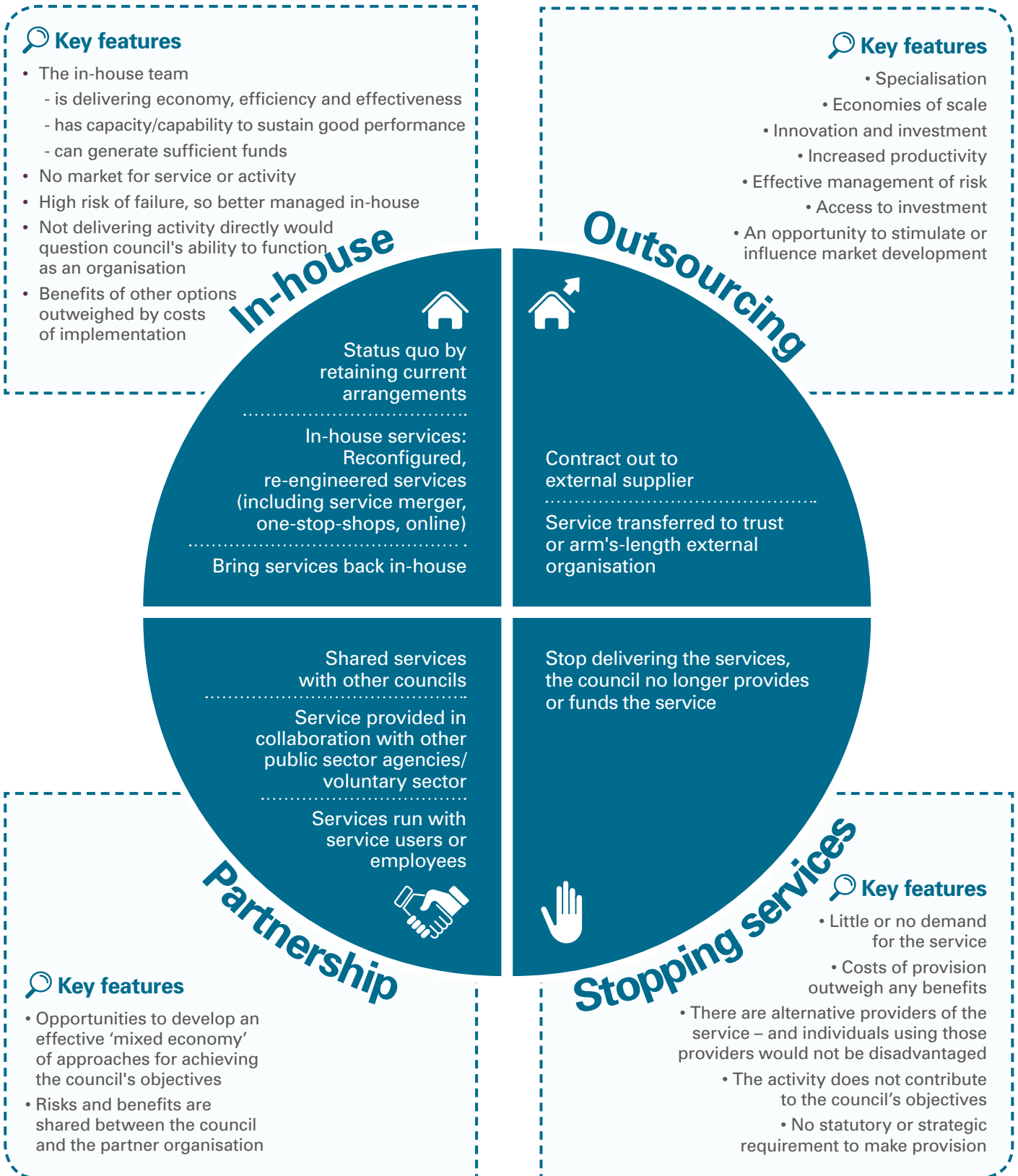


How are we involving and empowering local communities to design and deliver services to suit local needs?

Exhibit 11

Options for delivering services

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



Source: Audit Scotland

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

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



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

Case study 2

Examples of new and expanded ALEOs



SB Cares

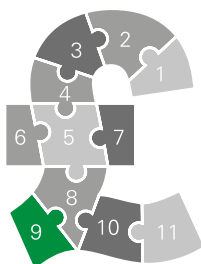
Scottish Borders Council established SB Cares to deliver most of the council's adult social care provision. Around 800 staff transferred to SB Cares on 1 April 2015. The new ALEO aims to make more efficient and flexible use of staff and generate additional income. The council expects to deliver £0.5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

Renfrewshire Leisure Limited

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

Source: Audit Scotland

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



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

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




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

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

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

Further workforce reductions must reflect councils' priorities

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

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



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

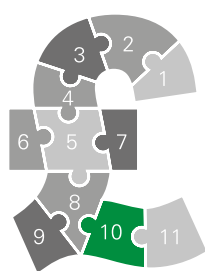


What do we need the workforce to look like in terms of numbers, skills and knowledge?

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

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

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



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

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



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

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

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

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

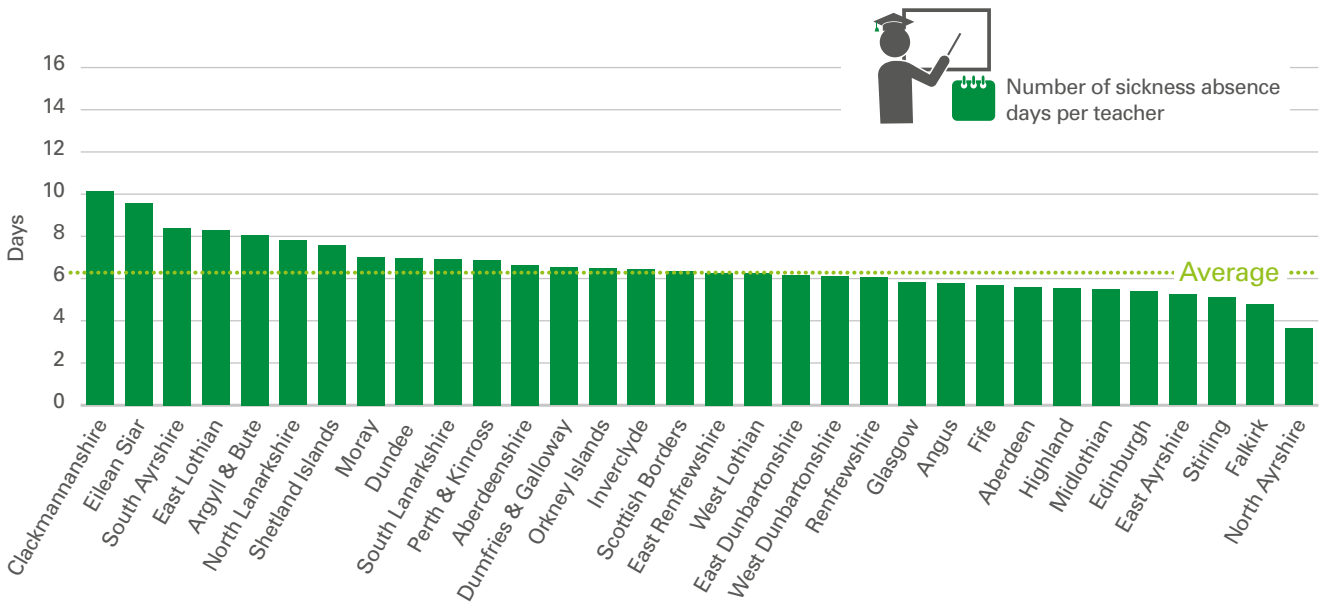
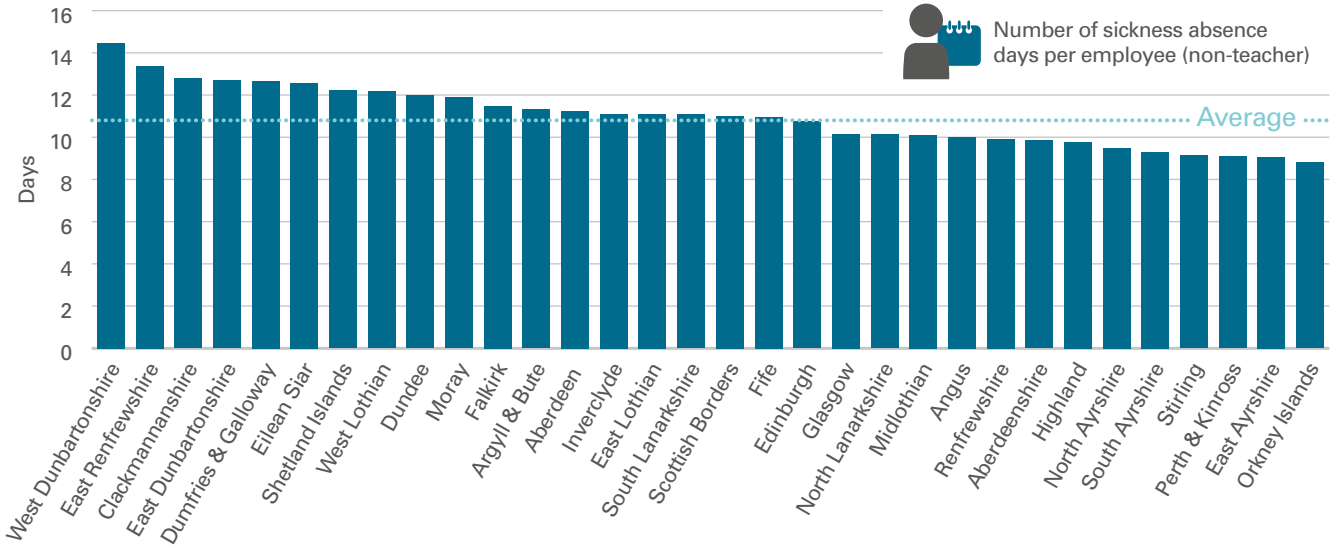


How effectively is the council working to improve sickness absence among employees?

Exhibit 12

Sickness absence for council employees in 2014/15

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

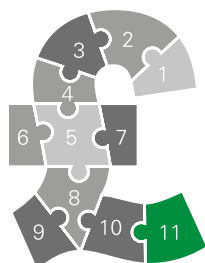


Note: Sickness absence varies from year to year. When councils use this LGBF information, they will want to consider the data for more than one year.

Source: Local Government Benchmarking Framework, Improvement Service, 2016



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




1,223: the number of councillors in Scotland

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



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

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

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

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

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



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




How can we consider more of our business in public?

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

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

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

82. Councils should have appropriate arrangements in place to approve, monitor and hold ALEOs to account for the public funding that is provided to them. This includes complying with the Following the Public Pound Code. The Code is designed to ensure that openness, integrity and accountability are applied to all council decisions when public money is being spent, for example when establishing funding relationships with ALEOs. The importance of good governance was highlighted in Audit Scotland's [Conclusions on issues relating to the Lennoxtown Initiative \[PDF\]](#)  in November 2015.¹⁴ The report found that more robust processes should have been put in place to demonstrate that the public funds provided were used for the charitable purposes intended, and that using resources in this way represented best value.

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




How can we involve our communities more in local decisions?

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

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

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

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

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













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

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


Endnotes



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- ◀ 1 [Borrowing and treasury management in councils \[PDF\]](#) , Audit Scotland, March 2015.
 - ◀ 2 [Major capital investment in councils: follow-up \[PDF\]](#) , Audit Scotland, January 2015.
 - ◀ 3 *The Prudential Code for Capital Finance in Local Authorities*, CIPFA.
 - ◀ 4 Living Wage Foundation.
 - ◀ 5 [Health and social care integration \[PDF\]](#) , Audit Scotland, December 2015.
 - ◀ 6 [Changing models of health and social care \[PDF\]](#) , Audit Scotland, March 2016.
 - ◀ 7 [East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report \[PDF\]](#) , Audit Scotland, June 2015.
 - ◀ 8 [Falkirk Council: the Audit of Best Value and Community Planning \[PDF\]](#) , Audit Scotland, August 2015.
 - ◀ 9 [Argyll and Bute Council: Best Value audit 2015 \[PDF\]](#) , Audit Scotland, December 2015.
 - ◀ 10 *Scotland's Digital Future – Delivery of Public Services*, November 2012.
 - ◀ 11 [Procurement in councils \[PDF\]](#) , Audit Scotland, April 2014.
 - ◀ 12 [How councils work: Options appraisal – are you getting it right? \[PDF\]](#) , Audit Scotland, March 2014.
 - ◀ 13 *Delivering good governance in local government, Guidance note for Scottish authorities*, SOLACE/CIPFA, 2008.
 - ◀ 14 [Conclusions on issues relating to the Lennoxton initiative \[PDF\]](#) , Audit Scotland, November 2015.


An overview of local government in Scotland 2016

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Health and social care series

Health and social care integration



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland
December 2015


The Accounts Commission

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

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

Our work includes:

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

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


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- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

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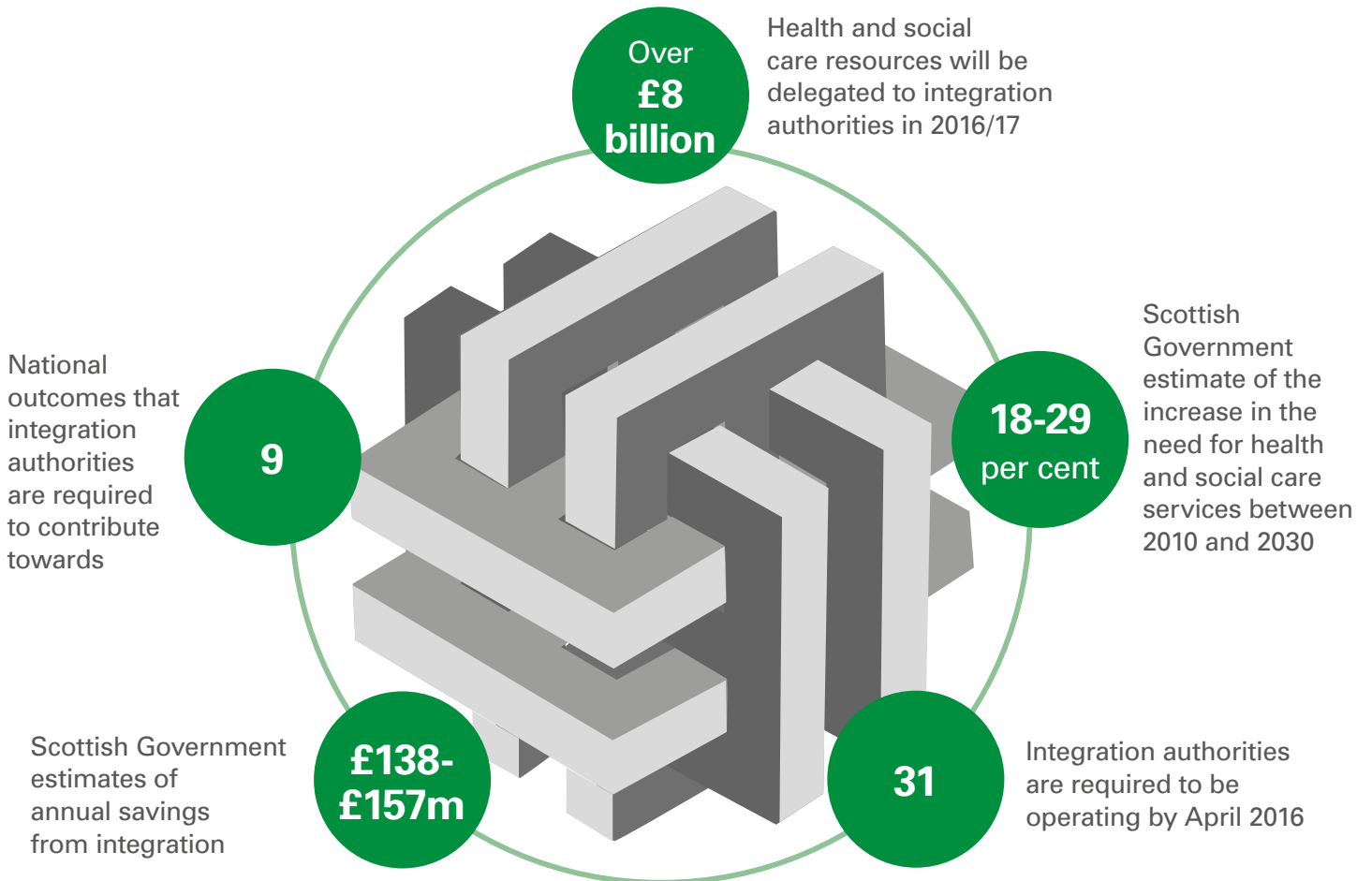
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Key facts



Summary



Key messages

- 1 The Public Bodies (Joint Working) (Scotland) Act 2014 introduces a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms aim to ensure services are well integrated and that people receive the care they need at the right time and in the right setting, with a focus on community-based and preventative care. The reforms are far reaching, creating opportunities to overcome previous barriers to change.
- 2 We found widespread support for the principles of integration from the individuals and organisations implementing the changes. The Scottish Government has provided support to partnerships to establish the new arrangements, including detailed guidance on key issues and access to data to help with strategic planning. Stakeholders are putting in place the required governance and management arrangements and, as a result, all 31 integration authorities (IAs) are expected to be operational by the statutory deadline of 1 April 2016.
- 3 Despite this progress, there are significant risks which need to be addressed if integration is to fundamentally change the delivery of health and care services. There is evidence to suggest that IAs will not be in a position to make a major impact during 2016/17. Difficulties in agreeing budgets and uncertainty about longer-term funding mean that they have not yet set out comprehensive strategic plans. There is broad agreement on the principles of integration. But many IAs have still to set out clear targets and timescales showing how they will make a difference to people who use health and social care services. These issues need to be addressed by April 2016 if IAs are to take a lead in improving local services.
- 4 There are other important issues which also need to be addressed. The proposed governance arrangements are complex, with some uncertainty about how they will work in practice. This will make it difficult for staff and the public to understand who is responsible for the care they receive. There are significant long-term workforce issues. IAs risk inheriting workforces that have been organised in response to budget pressures rather than strategic needs. Other issues include different terms and conditions for NHS and council staff, and difficulties in recruiting and retaining GPs and care staff.

there are significant risks which need to be addressed if integration is to fundamentally change the delivery of health and care services

Recommendations

Stakeholders have done well to get the systems in place for integration, but much work remains. If the reforms are to be successful in improving outcomes for people, there are other important issues that need to be addressed:

- Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an IA to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, Integration Joint Board (IJB) members need training and development to help them fulfil their role.
- IAs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IAs need to set out clearly:
 - the resources, such as funding and skills, that they need
 - what success will look like
 - how they will monitor and publicly report on the impact of their plans.
- NHS boards and councils must work with IAs to agree budgets for the new IAs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IAs should be clear about how they will use resources to integrate services and improve outcomes.

Integration authorities need to shift resources, including the workforce, towards a more preventative and community-based approach. Even more importantly, they must show that this is making a positive impact on service users and improving outcomes.

A more comprehensive list of recommendations is set out in [\(Part 4\)](#).

Background

1. The Public Bodies (Joint Working) (Scotland) Act 2014 (the Act) sets out a framework for integrating adult health and social care services. Social care services include supporting people to live their daily lives and helping them with basic personal care like washing, dressing and eating. People are living longer and the number of people with long-term conditions such as diabetes, and complex needs, such as multiple long-term conditions, is increasing. Current health and social care services are unsustainable; they must adapt to meet these changing needs. This means shifting from hospital care towards community-based services, and preventative services, such as support to help prevent older people from falling at home or to encourage people to be more active.

2. Integrating health and social care services has been a key government policy for many years. Despite this, there has been limited evidence of a shift to more community-based and preventative services. The Act sets out an ambitious programme of reform affecting most health and social care services. The scale and pace of the changes anticipated are significant, with a focus on changing how people with health and social care needs are supported.

3. The Act creates new partnerships, known as IAs, with statutory responsibilities to coordinate local health and social care services. The Act puts in place several national outcomes for health and social care and IAs are accountable for making improvements to these outcomes. The Act also aims to ensure that services are integrated, taking account of people's needs and making best use of available resources, such as staff and money. Each IA must establish at least two localities, which have a key role, working with professionals and the local community to develop services local people need.

4. IAs are currently at various stages in their development; all are required to be operational, that is taking on responsibility for budgets and services, by April 2016. The Scottish Government has estimated that IAs will oversee annual budgets totalling over £8 billion, around two-thirds of Scotland's spending on health and social work.

About this audit

5. This is the first of three planned audits of this major reform programme. Subsequent audits will look at IAs' progress after their first year of being established, and their longer-term impact in shifting resources to preventative services and community-based care and in improving outcomes for the people who use these services.



6. This first audit provides a progress report during this transitional year. We reviewed progress at this relatively early stage to provide a picture of the emerging arrangements for setting up, managing and scrutinising IAs as they become formally established. This report highlights risks that need to be addressed as a priority to ensure the reforms succeed. The audit is based on fieldwork that was carried out up to October 2015. We hope that the issues raised in the report are timely and helpful to the Scottish Government and local partners as they continue to implement the Act.

7. We gathered audit evidence by:

- reviewing documents available at the time of our work, including integration schemes, strategic plans, and local progress reports on integration arrangements¹
- drawing on the work of local auditors, the Care Inspectorate, and Healthcare Improvement Scotland
- issuing a short questionnaire to IAs on their timetable for reaching various milestones

- interviewing stakeholders who included, board members, chief officers and finance officers from six IAs, and representatives from the Scottish Government, the British Medical Association, the voluntary sector, the Convention of Scottish Local Authorities and NHS Information Services Division.²

[Appendix 1](#) provides further information on our audit approach.

8. This work builds on previous audits that have examined joint working in health and social care. For example, our [Review of Community Health Partnerships \[PDF\]](#)  highlighted the organisational barriers to improving partnership working between NHS boards and councils, and the importance of strong, shared leadership across health and social care.³ Our subsequent report [Reshaping care for older people \[PDF\]](#)  found continuing slow progress in providing joined up health and social care services.⁴ This lack of progress in fundamentally shifting the balance of care from hospital to community settings, coupled with the unsustainability of current services, mean that there is a pressing need for this latest reform programme to succeed.

9. The Accounts Commission and Auditor General are currently conducting two other audits which complement this work:

- *Changing models of health and social care* examines the financial, demographic and other pressures facing health and social care and the implications of implementing the Scottish Government's 2020 vision for health and social care. We will publish the report in in spring 2016.
- *Social work in Scotland* will report on the scale of the financial and demand pressures facing social work. It will consider the strategies councils and integration authorities are adopting to address these challenges, how service users and carers are being involved in designing services, and leadership and oversight by elected members. We will publish the report in summer 2016.

Part 1

Expectations for integrated services



Integration authorities will oversee more than £8 billion of NHS and care resources

10. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out a significant programme of reform for the Scottish public sector. It creates a number of new public organisations, with a view to breaking down barriers to joint working between NHS boards and councils. Its overarching aim is to improve the support given to people using health and social care services.

11. These new partnerships will manage more than £8 billion of resources that NHS boards and councils previously managed separately. Initially, service users may not see any direct change. In most cases, people seeking support will continue to contact their GP or social work services. But, behind the scenes, IAs are expected to coordinate health and care services, commissioning NHS boards and councils to deliver services in line with a local strategic plan. Over time, the intention is that this will lead to a change in how services are provided. There will be a greater emphasis on preventative services and allowing people to receive care and support in their home or local community rather than being admitted to hospital.

Change is needed to help meet the needs of an ageing population and increasing demands on services

12. Around two million people in Scotland have at least one long-term condition, and one in four adults has some form of long-term illness or disability. These become more common with age ([Exhibit 1, page 10](#)). By the age of 75, almost two-thirds of people will have developed a long-term condition.⁵ People in Scotland are living longer. Combined life expectancy for males and females at birth has increased from 72 to 79 years since 1980, although there are significant variations across Scotland, largely linked to levels of deprivation and inequalities.⁶ The population aged over 75 years is projected to increase by a further 63 per cent over the next 20 years.⁷

13. The ageing population and increasing numbers of people with long-term conditions and complex needs have already placed significant pressure on health and social care services. The Scottish Government estimates that the need for these services will rise by between 18 and 29 per cent between 2010 and 2030.⁸ In the face of these increasing demands, the current model of health and care services is unsustainable:

- The Scottish Government has estimated that in any given year just two per cent of the population (around 100,000 people) account for 50 per cent of hospital and prescribing costs, and 75 per cent of unplanned hospital bed days.

the
significant
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impact on
everyone
who needs
to access,
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plan health
and social
care services

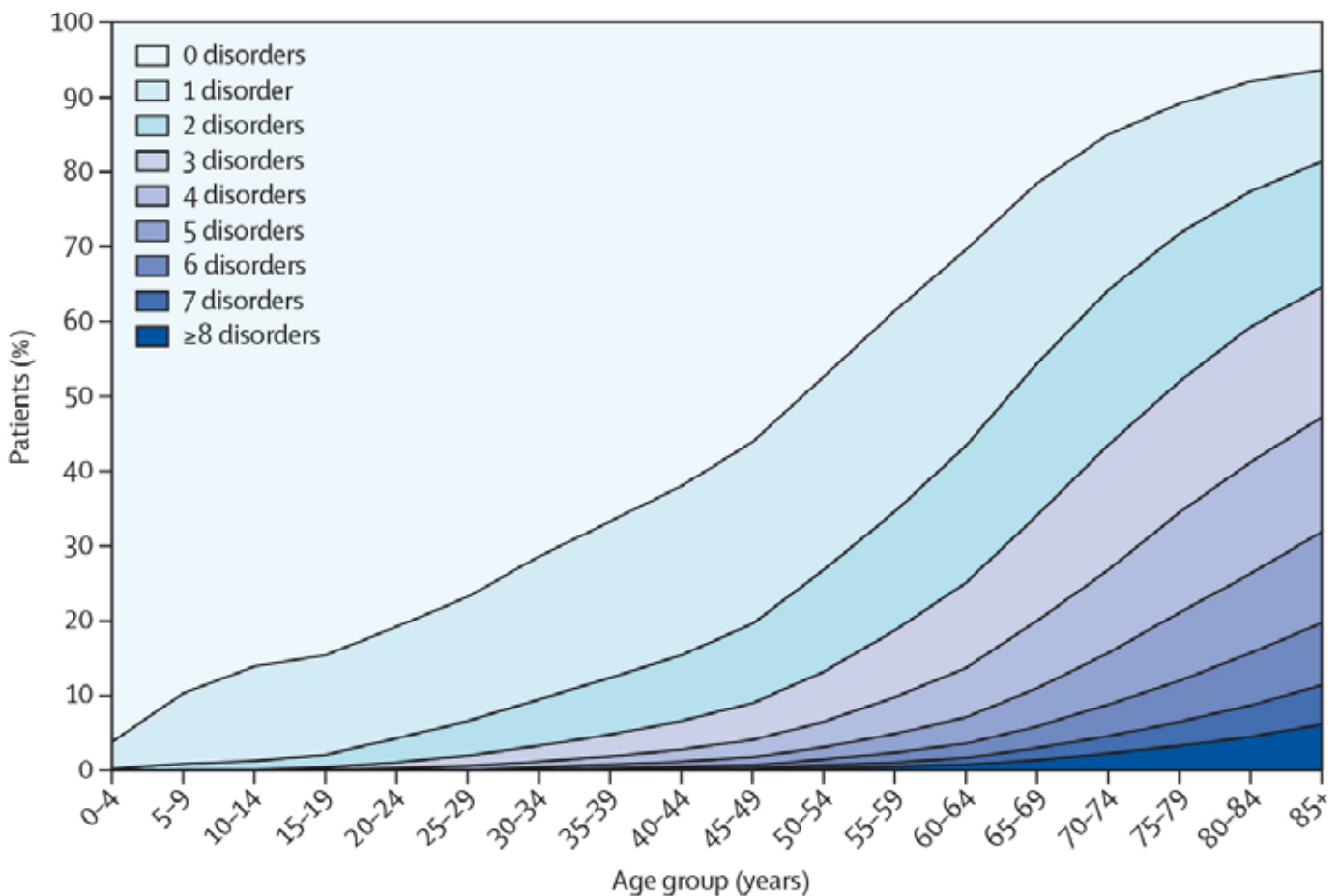
- A patient’s discharge from hospital may be delayed when they are judged to be clinically ready to leave hospital but unable to leave because arrangements for care, support or accommodation have not been put in place. In 2014/15, this led to the NHS in Scotland using almost 625,000 hospital bed days for patients ready to be discharged.⁹

14. As a result of these pressures, there is widespread recognition that health and social care services need to be provided in fundamentally different ways. NHS boards, councils and the Scottish Government have focused significant efforts on initiatives to reduce unplanned hospital admissions and delayed discharges, yet pressures on hospitals remain. There needs to be a greater focus on anticipatory care, helping to reduce admissions to hospitals. There also needs to be better support to allow people to live independently in the community.

Exhibit 1

Long-term conditions by age

The number of long-term conditions that people have increases with age.



Source: Reprinted with permission from Elsevier (*The Lancet*, 2012, 380, 37-43)

15. None of this is unique to Scotland. Other parts of the UK and Europe face similar challenges. There have been various responses across the UK, but all try to deal with the changing needs of an ageing population, putting more emphasis on prevention and anticipatory care and seeking to shift resources from hospitals to community-based care.

16. A series of initiatives in Scotland over recent years has aimed to encourage a more joined-up approach to health and social care ([Exhibit 2](#)). Perhaps the most significant of these was creating Local Health Care Cooperatives (LHCCs) in 1999 and replacing them with Community Health Partnerships (CHPs) in 2004. While these reforms led to some local initiatives, LHCCs and CHPs lacked the authority to redesign services fundamentally. As a result, they had limited impact in shifting the balance of care, or in reducing admissions to hospital or delayed discharges.¹⁰

Exhibit 2

A brief history of integration in Scotland

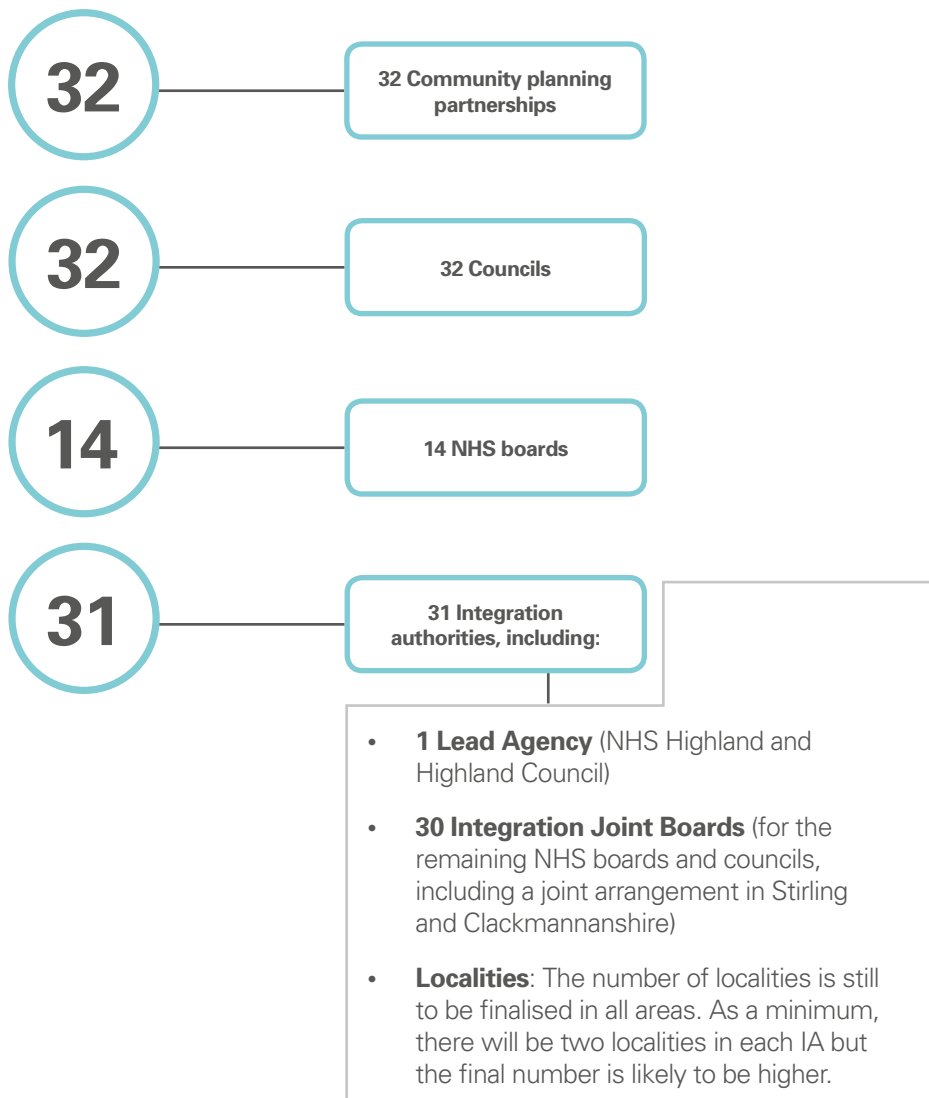
1999	Seventy-nine Local Health Care Cooperatives (LHCCs) established, bringing together GPs and other primary healthcare professionals in an effort to increase partnership working between the NHS, social work and the voluntary sector.
2002	Community Care and Health (Scotland) Act introduced powers, but not duties, for NHS boards and councils to work together more effectively.
2004	NHS Reform (Scotland) Act , required health boards to establish CHPs, replacing LHCCs. This was a further attempt to bridge gaps between community-based care, such as GPs, and secondary healthcare, such as hospital services, and between health and social care.
2005	Building a Health Service Fit for the Future: National Framework for Service Change . This set out a new approach for the NHS that focused on more preventative healthcare, with a key role for CHPs in shifting the balance of care from acute hospitals to community settings.
2007	Better Health, Better Care set out the Scottish Government's five-year action plan, giving the NHS lead responsibility for working with partners to move care out of hospitals and into the community.
2010	Reshaping Care for Older People Programme launched by the Scottish Government. It introduced the Change Fund to encourage closer collaboration between NHS boards, councils and the voluntary sector.
2014	Public Bodies (Joint Working) (Scotland) Act introduced a statutory duty for NHS boards and councils to integrate the planning and delivery of health and social care services.
2016	All integration arrangements set out in the 2014 Act must be in place by 1 April 2016.

Source: Audit Scotland

17. The relative lack of progress of earlier attempts at integration led to the Public Bodies (Joint Working) (Scotland) Act 2014. This is the first attempt in the UK to place a statutory duty on the NHS and councils to integrate health and social care services. The Act abolished CHPs, replacing them with a series of IAs ([Exhibit 3, page 12](#)). These bodies will manage budgets for providing all integrated services. Most will not initially employ staff, but instead direct NHS boards and councils to deliver services in line with a strategic plan.

Exhibit 3

The public sector bodies overseeing health and social care services



Note: See Exhibit 4 for details of Integration Joint Board and lead agency approaches.

Source: Audit Scotland

The Scottish Government has set out a broad framework that allows for local flexibility

18. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out a broad framework for creating IAs. The Act and the supporting regulations and guidance give councils and NHS boards a great deal of flexibility, allowing them to develop integrated services that are best suited to local circumstances. The main aspects of this flexible framework follow below.

Timing for establishing the new integration authorities

19. Scottish ministers must formally approve integration schemes for IAs: these set out the scope of services that are to be integrated and broad management and governance arrangements, including the structures and processes for

decision-making and accountability, controls and behaviour. Within this overall framework, IAs can choose when they become operational but all IAs must be established and operational, with delegated responsibility for budgets and services, by 1 April 2016.¹¹ Subject to the approval of their integration scheme, they can take on delegated responsibility for budgets and services at any time between April 2015 and 1 April 2016.

Scope of services to be integrated

20. Councils and NHS boards are required to integrate the governance, planning and resourcing of adult social care services, adult primary care and community health services and some hospital services. The hospital services included in integration are the inpatient medical specialties that have the largest proportion of emergency admissions to hospital. These include:

- accident and emergency services
- general medicine
- geriatric medicine
- rehabilitation medicine
- respiratory medicine
- psychiatry of learning disability
- palliative care
- addiction and substance dependence service
- mental health services and services provided by GPs in hospital.

Other, non-integrated, hospital services continue to be overseen directly by NHS boards. The Act also allows NHS boards and councils to integrate other areas of activity, such as children's health and social care services and criminal justice social work.

How IAs are structured

21. IAs will be responsible for overseeing certain functions that are delegated from the local NHS board and council(s). IAs can follow one of two main structural models ([Exhibit 4, page 14](#)).

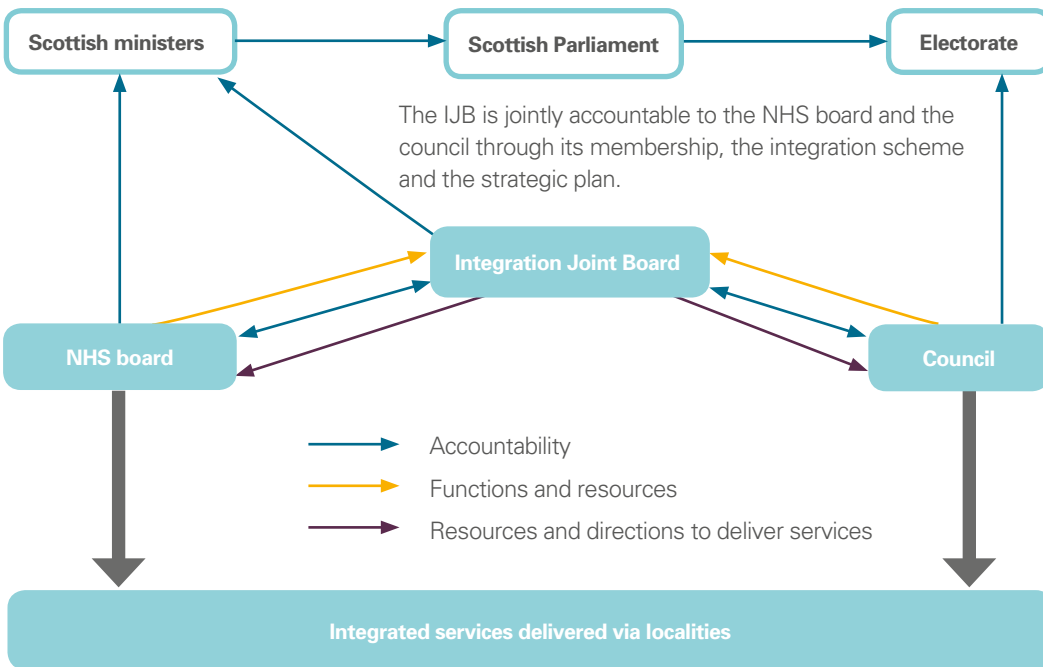
22. All areas, apart from Highland, are planning to follow the body corporate model, creating an Integration Joint Board to plan and commission integrated health and social care services in their areas. IJBs are local government bodies, as defined by Section 106 of the Local Government (Scotland) Act 1973. Partners will need to understand the implications of differences between how councils and NHS boards carry out their business, so they are able to fulfil their duties. For example:

- IJBs must appoint a finance officer. The finance officer, under the terms of Section 95 of the Local Government (Scotland) Act 1973, has formal responsibilities for the financial affairs of the IJB.

Exhibit 4

Integration authorities will follow one of two main models

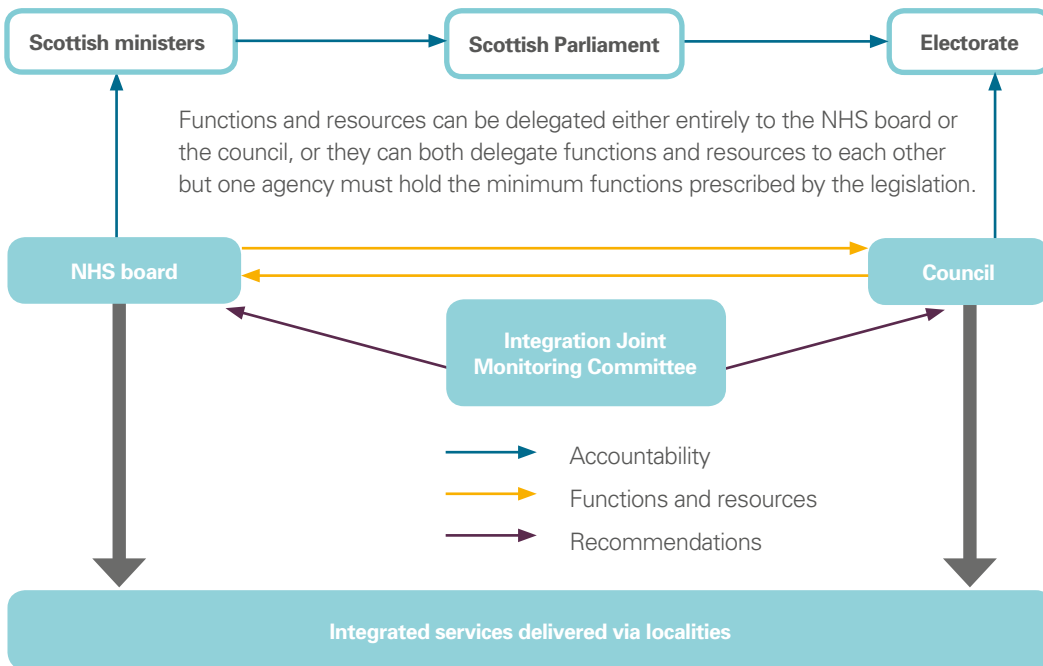
Body corporate or Integration Joint Board model



Body corporate

- NHS boards and councils delegate health and social care functions to an Integration Joint Board (IJB)
- The Act allows for partners to work jointly, for example, for two councils to work with their local NHS board to create a single IJB

Lead agency model



Lead agency

- NHS boards and councils delegate some of their functions to each other
- Carrying out of functions is overseen and scrutinised by an Integration Joint Monitoring Committee

Source: Audit Scotland

- The way local government bodies make decisions differs to NHS boards. Local government bodies in Scotland must take corporate decisions. There is no legal provision for policies being made by individual councillors.
- A statutory duty of Best Value applies to IJBs.

23. NHS boards and councils delegate budgets to the IJB. The IJB decides how to use these resources to achieve the objectives of the strategic plan. The IJB then directs the NHS board and council to deliver services in line with this plan. Only Highland has chosen the lead agency model, continuing arrangements established in earlier years for integrated services.¹² Under powers first set out in the Community Care (Scotland) Act 2002, NHS Highland is the lead for adult health and care services, with Highland Council the lead for children's community health and social care services. This provides continuity with lead agency arrangements in place in Highland since 2012. The council and the NHS board cannot veto decisions taken by the lead agency. Instead, as required by the legislation, they have established an integration joint monitoring committee (IJMC). The IJMC cannot overturn a decision made by the council or NHS board, but it can monitor progress in integrating services and make recommendations.

24. Whichever model is chosen, the underlying objective remains the same. The IA is expected to use resources to commission coordinated services that provide care for individuals in their community or in a homely setting and avoid unnecessary admissions to hospital.

Membership of Integration Joint Boards (IJBs)

25. For the IAs that follow the body corporate model, board members of IJBs are a mix of voting and non-voting members. Councils and NHS boards are each required to nominate at least three voting members. The NHS board and council can nominate more members, but both partners need to agree to this and the number from each body needs to be equal. The NHS board nominates non-executive directors to the IJB, and the council nominates councillors. Where the NHS board is unable to fill their places with non-executive directors, it is able to nominate other members of the NHS board. At least two of the NHS members should be non-executive directors. The IJB should also include non-voting members, including a service user and a representative from the voluntary sector ([Exhibit 5, page 16](#)).¹³

26. Initially, IJBs are not expected to directly employ staff, operating only as strategic commissioning bodies.¹⁴ This may change over time as the Act allows IJBs to employ staff, but this needs to be approved by Scottish ministers, rather than decided locally. A chief officer and finance officer provide support for the IJB, but they are employed by either the council or NHS board and seconded to the IJB. The finance officer, under the terms of Section 95 of the Local Government (Scotland) Act 1973, has formal responsibilities for the financial affairs of the IJB.

Scrutinising integrated health and social care

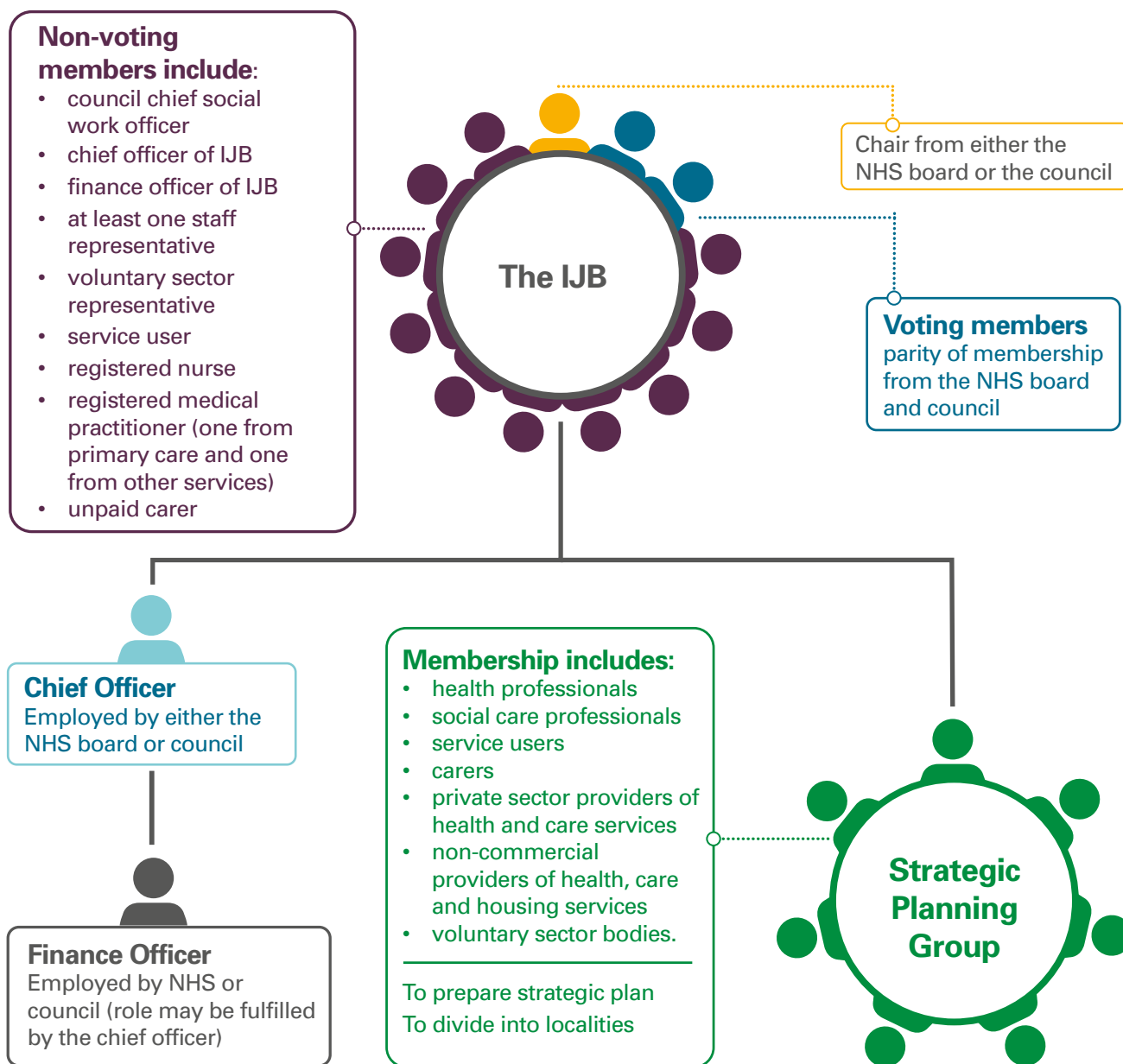
27. Various scrutiny bodies have an interest in the integration of health and social care:

- The Accounts Commission is responsible for appointing auditors to IJBs and so has an interest in financial management and governance arrangements. As local government bodies, IJBs are also covered by the duty of Best Value as set out in the Local Government in Scotland Act 2003. The Accounts Commission has the power to audit the extent to which local government bodies are discharging their Best Value duty.

- Health and social integration is a significant national policy development. Therefore, the Auditor General for Scotland (alongside the Accounts Commission) has an audit interest in the extent to which it is being implemented at a national and local level, and in its impact on NHSScotland.
- The Care Inspectorate and Healthcare Improvement Scotland are responsible for scrutinising and supporting improvement in health and care services. Both organisations inspect individual services and work together to perform joint inspections of health and care services. These organisations will inspect the planning, organisation or coordination of

Exhibit 5

Organisation chart for a typical IJB




Source: Audit Scotland

integrated health and social care services. From April 2017, the Care Inspectorate and Healthcare Improvement Scotland are required by legislation to assess progress in establishing joint strategic commissioning and the early impact of integration.

Implications for the public, voluntary and private sectors

28. The significant changes under way will have an impact on everyone who needs to access, provide or plan health and social care services. Integration is part of the Scottish Government's focus on developing person-centred care. This is aimed at improving services, ensuring people using health and social care services can expect to be listened to, to be involved in deciding upon the care they receive and to be an active participant in how it is delivered. The aim is that this will result in improved outcomes for people, enabling them to enjoy better health and wellbeing within their homes and communities.

29. Health and social care integration is complex and it is important that IAs engage with the public on an ongoing basis so that they understand the purpose of integration and are able to influence the way services change. People may not see a significant difference in the services they receive immediately, but the reforms are focused on making better use of all health and social care services. Therefore there are implications for how people use services, for example GP, A&E and community-based services. If the reforms are to be successful, IJBs, NHS boards and councils need to involve people in decisions about the implications for local services. To help with this, there is a requirement that a service user and unpaid carer are members of the IJB and that IJBs consult and engage with local people as they develop their strategic and locality plans. It is also important that IAs are clear about how they link into the wider community planning process.

30. It is not only statutory services that need to change, other providers need to be involved. Voluntary and private sector providers employ two-thirds of the social services workforce and provide many social care services across Scotland. They are significant partners in developing integrated services, with the voluntary sector represented on the IJB as a non-voting member. Our previous report [Self-directed support \[PDF\]](#)  highlighted some of the ways that councils have started to change how they work with the voluntary and private sectors.¹⁵ There are lessons here for IJBs.

Localities

31. The Act requires IAs to divide their area into at least two localities, but they can choose to create more. Localities have an important role in reforming how to deliver services. They bring together local GPs and other health and care professionals, along with service users, to help plan and decide how to make changes to local services. A representative from each locality is expected to be part of the IA's strategic planning group, helping to ensure that specific local needs are taken into account. Localities also have a consultative role. When an IA is planning a change that is likely to affect service provision in a locality significantly, it must involve representatives of the local population in that decision.

32. As part of their role in planning services, localities are expected to plan expenditure on integrated health and social care services in their area, based on local priorities and to help shift resources towards preventative and community-based health and care services.

Outcomes and performance measures

33. IAs are required to contribute towards nine national health and wellbeing outcomes (**Exhibit 6**). These high-level outcomes seek to measure the quality of health and social care services and their impact in, for example, allowing people to live independently and in good health, and reducing health inequalities. This is the first time that outcomes have been set out in legislation, signalling an important shift from measuring internal processes to assessing the impact on people using health and social care services. IAs are required to produce an annual performance report, publicly reporting on the progress they have made towards improving outcomes.

The Scottish Government is providing resources to help support integration

34. The integration of health and social care is a complex reform and the Scottish Government is providing support to help organisations as they establish the new arrangements. The Scottish Government will provide more than £500 million over the three years from 2015/16 to 2017/18 to help partnerships establish new ways of working that focus on prevention and early intervention in a bid to reduce

Exhibit 6

National health and wellbeing outcomes

IAs are required to contribute to achieving nine national outcomes.

- 1** People are able to look after and improve their own health and wellbeing and live in good health for longer.

- 2** People, including those with disabilities or long-term conditions, or who are frail, are able to live, as far as reasonably practicable, independently and at home or in a homely setting in their community.

- 3** People who use health and social care services have positive experiences of those services, and have their dignity respected.

- 4** Health and social care services are centred on helping to maintain or improve the quality of life of people who use those services.

- 5** Health and social care services contribute to reducing health inequalities.

- 6** People who provide unpaid care are supported to look after their own health and wellbeing, including to reduce any negative impact of their caring role on their own health and wellbeing.

- 7** People who use health and social care services are safe from harm.

- 8** People who work in health and social care services feel engaged with the work they do and are supported to continuously improve the information, support, care and treatment they provide.

- 9** Resources are used effectively and efficiently in the provision of health and social care services.

Source: National Health and Wellbeing Outcomes, Scottish Government

long-term costs. This money is not directly to support integration, but to continue initiatives that were already under way to improve services. The money is made up as follows:

- £300 million is an integrated care fund to help partnerships achieve the national health and wellbeing outcomes and move towards preventative services
- £100 million to reduce delayed discharges
- £30 million for telehealth
- £60 million to support improvements in primary care
- £51.5 million for a social care fund.

35. The Scottish Government has provided guidance to partnerships, covering issues such as strategic commissioning of health and care services, clinical and care governance, and the role of housing services and the voluntary sector. The timescales to implement the Act are tight. For some partnerships, guidance came too late. For example, the Scottish Government issued its guidance on localities in July 2015, yet localities play an important part in strategic plans and many partnerships had already begun the strategic planning process by then. The Scottish Government plans to issue further guidance on performance reporting late in 2015. However, for some areas this is coming too late – the three Ayrshire IJBs will present their first performance reports on or before 2 April 2016 and are developing these in advance of the guidance being issued.

36. The Scottish Government is supplementing this formal guidance with a series of support networks for IJB chairs and finance officers, such as regular learning events, and through the work of the Joint Improvement Team (JIT), including support for IJBs in developing their strategic plans.¹⁶ Healthcare Improvement Scotland and the Care Inspectorate are currently developing a support programme for IAs, tailoring training and development events to fit local needs.

37. IAs are also being supported by the Information Services Division (ISD) of NHS National Services Scotland. ISD is creating a single source of data on health, social care and demographics. It is making this information available to NHS boards, councils and IAs to help them to gain a better understanding of:

- the needs of their local population
- current patterns of care
- how resources are being used.

38. This is the first time this detailed information on activity and costs will be routinely available to partnerships to help them with strategic planning. It will also help inform decisions on how to better use resources to improve outcomes for service users and carers. ISD is also providing data and analytical support through a Local Intelligence Support Team initiative, where partnerships can have an information specialist from ISD working with them in their local area.

Part 2

Current progress



Integration authorities are being established during 2015/16

39. Thirty-one IAs are being established, with one for each council area and a shared one between Clackmannanshire and Stirling. All partners submitted their draft integration schemes to Scottish ministers by the April 2015 deadline. Some, such as East Dunbartonshire, already plan to extend the scope of services being integrated and will resubmit their integration scheme for approval. By October 2015, 25 integration schemes had been formally approved, with the remainder expected to be agreed by the end of 2015.

40. By October 2015, six IAs had been established and taken on operational responsibility for budgets and services ([Exhibit 7, page 21](#)). The remaining IAs plan to be operational just before the statutory deadline, in March and April 2016.

Most integration authorities will oversee more than the statutory minimum services, and their responsibilities vary widely

41. The Act requires councils and NHS boards to integrate adult health and social care services. But it also allows them to integrate other services, such as children's health and social care services and criminal justice social work services.

42. The scope of the services being integrated varies widely across Scotland. Almost all the IAs will oversee more than the minimum requirement for health services, mainly by including some aspects of children's health services. But there is a wide range in responsibilities for other areas, such as children's social work services, criminal justice social work services, and planned acute health services ([Exhibit 8, page 22](#)). These differences in the scope of services included create a risk of fragmented services in some areas. Good clinical and care governance arrangements will be important to ensure that vulnerable people using integrated and non-integrated services experience high standards of care.

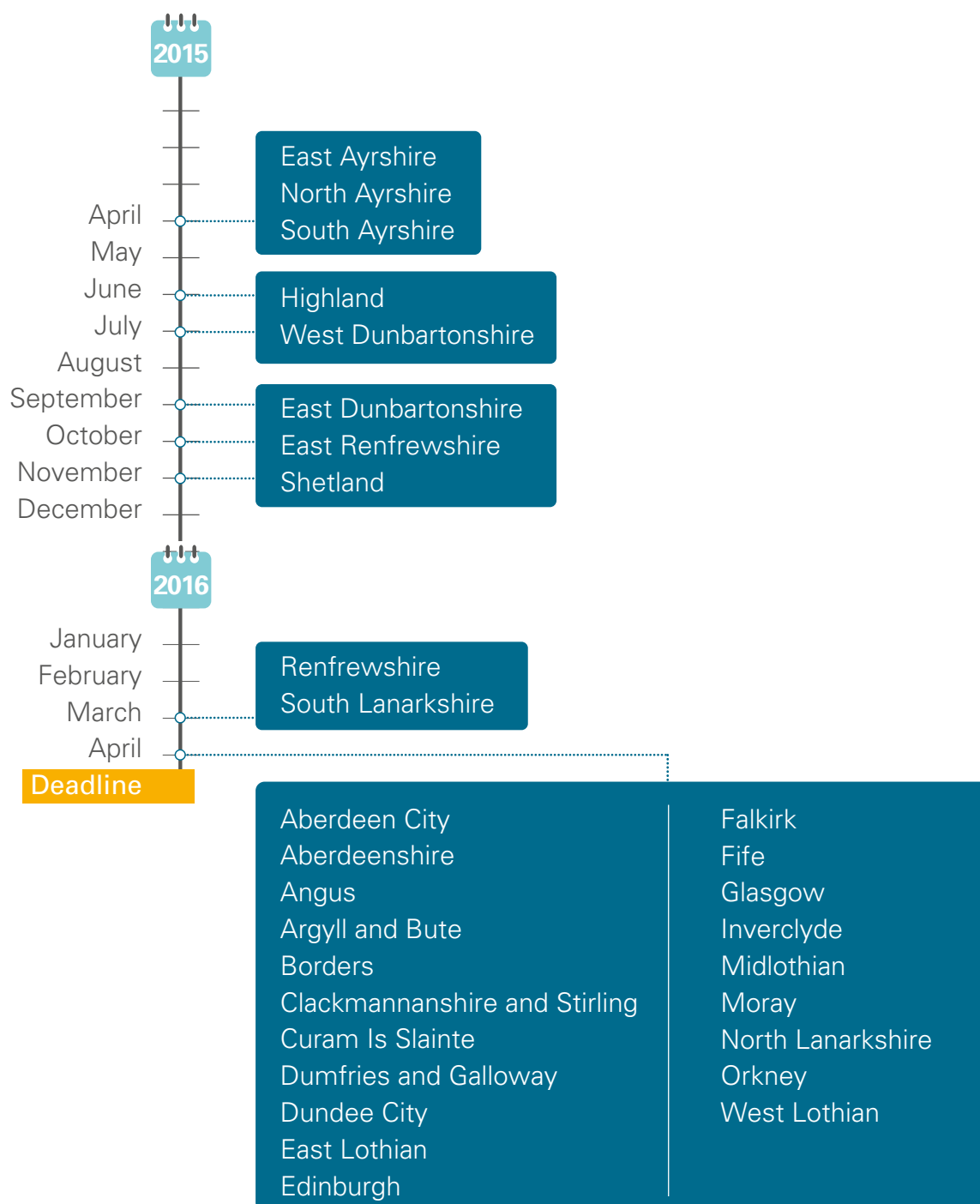
43. Among the variations the most notable are in Argyll and Bute IJB and Dumfries and Galloway IJB. These IJBs will oversee all NHS acute services, including planned and unplanned hospital services. In theory, this should allow these IJBs to better coordinate all health and care services in their area.

44. Various 'hosting' arrangements are also being implemented across the country. Where the area covered by an NHS board has more than one IJB it is often not practical or cost-effective to set up separate arrangements to deliver services for individual IJBs. This is particularly the case for specialist services, such as certain inpatient mental health services with small numbers of patients or staff. For example, North Ayrshire IJB hosts the following services on behalf of East Ayrshire and South Ayrshire IJBs:

the scope
of the
services
being
integrated
varies widely
across
Scotland

Exhibit 7

Services will be delegated to IAs throughout 2015/16 with most delegating in April 2016



Notes:

1. The date of becoming operational is still to be agreed in Perth and Kinross.
2. Curam Is Slainte is the name for the partnership between NHS Western Isles and Comhairle nan Eilean Siar.

Source: Audit Scotland





Exhibit 8

Additional integrated services

Partnerships are integrating a wider range of services in addition to the statutory minimum.

Argyll and Bute				
East Ayrshire				–
East Renfrewshire				–
Glasgow				–
Inverclyde				–
North Ayrshire				–
Orkney				–
South Ayrshire				–
West Dunbartonshire				–
Aberdeen City	–			–
Aberdeenshire	–			–
Curam Is Slainte	–			–
East Lothian	–			–
Midlothian	–			–
Moray	–			–
Shetland	–			–
Highland		–		–
Dumfries and Galloway	–	–		
Angus	–	–		–
Borders	–	–		–
Clackmannanshire and Stirling	–	–		–
Dundee	–	–		–
East Dunbartonshire	–	–		–
Edinburgh	–	–		–
Falkirk	–	–		–
Fife	–	–		–
North Lanarkshire	–	–		–
Perth and Kinross	–	–		–
Renfrewshire	–	–		–
South Lanarkshire	–	–		–
West Lothian	–	–		–

Key

-  Children's social work services
-  Criminal justice social work services
-  Children's health services
-  Planned acute health services

Notes:

1. Criminal justice social work services can include services such as providing reports to courts to assist with decisions on sentencing. Planned acute health services can include services such as outpatient hospital services.
2. The range of children's health services delegated varies by IA. They may include universal services (such as GPs) for people aged under 18, or more specialised children's health services such as school nursing or health visiting, or both universal and specialised services.
3. IAs may also be responsible for additional integrated services not listed here.
4. East Dunbartonshire plan to amend their integration scheme to include children's primary and community health services before 1 April 2016.
5. Where integration schemes have not yet been approved by ministers, the final integration scheme may vary from the information included here.

- inpatient mental health services
- learning disability services
- child and adolescent mental health services
- psychology services
- community infant feeding service
- family nurse partnership
- child health administration team
- immunisation team.

IJBs are appointing voting board members and most have chief officers in post

45. Most IJBs are currently appointing board members. Our review of the 17 IJB integration schemes that Scottish ministers had approved at the time of our audit shows the following:

- Thirteen IJB boards will initially be chaired by a councillor, with the remaining four chaired by a non-executive from the local NHS board.
- Only three areas have chosen to nominate the minimum of three voting members each from the council and NHS board.¹⁷ In 13 schemes, councils and NHS boards have each nominated four voting members. In Edinburgh, the council and NHS board each have five voting members.
- There are also local variations in the number of additional non-voting members. For example, East Renfrewshire has appointed an additional GP member to help provide knowledge on local service needs. In most cases, these variations do not add significantly to the number of IJB board members. But some IJBs have very large boards. For example, Edinburgh has 13 non-voting members, in addition to its ten voting members. The IJB board for Clackmannanshire and Stirling is expected to be even larger, reflecting the joint arrangements between the two council areas, with 12 voting members and around 23 non-voting members.

46. Almost all IJBs have now appointed a chief officer.¹⁸ Edinburgh and Falkirk expect to have their chief officers in post by the end of 2015.¹⁹ Chief officers are employed by either the NHS board or the council and then seconded to the IJB. Terms and conditions of employment vary between councils and NHS boards, so successful candidates choose their preferred employer, based on the packages offered.

Chief officer accountability

47. Accountability arrangements for the IJB chief officer are complex and while there may be tensions in how these arrangements will work in practice, we have attempted to set out the technical arrangements as clearly as possible. The chief officer has a dual role. They are accountable to the IJB for the

responsibilities placed on the IJB under the Act and the integration scheme. They are accountable to the NHS board and council for any operational responsibility for integrated services, as set out in the integration scheme.

Accountability to the IJB

- The chief officer is directly accountable to the IJB for all of its responsibilities. These include: strategic planning, establishing the strategic planning group, the annual performance report, the IJB's responsibilities under other pieces of legislation (for example, the Equalities Act and the Public Records Act), ensuring that its directions are being carried out, recommending changes and reviewing the strategic plan.
- Integration schemes can pass responsibility for overseeing the operation of specific services from the NHS board or council to the IJB. In these circumstances, the chief officer is accountable to the IJB for establishing the arrangements to allow it to do this. This includes setting up performance monitoring, reporting structures, highlighting critical failures, reporting back based on internal and external audit and inspection. If the council or NHS board passes responsibility for meeting specific targets to the IJB, the IJB must take this into account during its strategic planning, and the chief officer is accountable for making sure it does so.

Accountability to the NHS board and council

- All integration schemes should set out whether the chief officer also has operational management responsibilities. Where the chief officer has these responsibilities, they are also accountable to the NHS board and the council.
- Where the chief officer has operational management responsibilities, the integration scheme makes the chief officer the responsible operational director in the council and NHS board for ensuring that integrated services are delivered. The chief officer is therefore responsible to the NHS board and council for the delivery of integrated services, how the strategic plan becomes operational and how it is delivered. They are also responsible for ensuring it is done in line with the relevant policies and procedures of the organisation (for example staff terms and conditions).
- Although this is untested, the accountable officers for delivery should still be the chief executives of the NHS board and the council. But they must discharge this accountability through the chief officer as set out in their integration scheme. The chief executives of the NHS board and council are responsible for line managing the chief officer to ensure that their accountability for the delivery of services is properly discharged.

48. Although employed by one organisation only, most chief officers are line managed by the chief executives of both the council and the NHS board. This means that in some NHS board areas the chief executive is line managing several IJB chief officers. South Lanarkshire has adopted a more streamlined approach, where the chief officer reports to both the council and NHS board chief executive, but the organisation that employs the chief officer performs day-to-day line management.

Part 3

Current issues



There is wide support for the opportunities offered by health and social care integration

49. Integrated health and social care offers significant opportunities. These include improving the services that communities receive, the impact these services have on people, improving outcomes and using resources, such as money and skills, more effectively across the health and care system. The Scottish Government expects integrated services to emphasise preventative care and reduce both the level of hospital admissions and the time that some patients spend in hospital. A measure of success will be the extent to which integration has helped to move to a more sustainable health and social care service, with less reliance on emergency care.

50. Because integrated services with a focus on improving outcomes should result in more effective use of resources across the health and social care system, the Scottish Government expects integration to generate estimated annual savings of £138 - £157 million. The savings are as follows:

- Annual savings of £22 million if IAs can meet the current target to limit the delay in discharging patients to no more than two weeks and £41 million if they can reduce this further, to no more than 72 hours.
- Annual savings of £12 million by using anticipatory care plans for people with conditions that put them at risk of an unplanned admission to hospital. These plans provide alternative forms of care to try to avoid people being admitted to hospital.
- Annual savings of £104 million from reducing the variation between different IAs in the same NHS board area. The Scottish Government expects that IAs will identify the inefficiencies that cause costs to vary and, over time, reduce them.²⁰

51. The Scottish Government estimated the initial cost of making these reforms to adult services to be £34.2 million over the five years up to 2016/17, and £6.3 million after this. It has not estimated the additional costs, or savings, from integrating other services such as children's health and social care or some criminal justice services.²¹ It is unclear whether these anticipated savings will release money that IJBs can invest in more community-based and preventative care or how the Scottish Government will monitor and report progress towards these savings.

widespread support for the policy of health and social care integration, but concerns about how this will work in practice

52. There have been previous attempts at integration, as listed in [Exhibit 2 \(page 11\)](#). Our [Review of Community Health Partnerships \[PDF\]](#) highlighted that CHPs had a challenging remit, but lacked the authority needed to implement the significant changes required.²² We also found limited progress with joint budgets across health and care services. This latest reform programme contains important new elements to help partnerships improve care. The Act:

- provides a statutory requirement for councils and NHS boards to integrate services and budgets, in contrast to previous legislation that encouraged joint working with resources largely remaining separate
- provides, for the first time, a statutory requirement to focus on outcome measures, rather than activity measures
- introduces a requirement for co-production as part of strategic planning. Co-production is when professionals and people who need support combine their knowledge and expertise to make joint decisions
- has clear links to other significant legislation, including The Children and Young People (Scotland) Act 2014 and the Community Empowerment (Scotland) Act 2015, where similar principles of co-production, engagement and empowerment apply.

53. Throughout our audit, we found there is widespread support for the policy of health and social care integration, but concerns about how this will work in practice. In this part of our report, we summarise the most important risks and issues we have identified through our audit. These are significant and need to be addressed as a priority nationally and locally to integrate health and care services successfully.

NHS boards, councils and IJBs need to be clear about how local arrangements will work in practice

Sound governance arrangements need to be quickly established

54. Good governance is vital to ensure that public bodies perform effectively. This can be a particular challenge in partnerships, with board members drawn from a wide range of backgrounds. Previous audit reports on community planning partnerships (CPPs) and CHPs have highlighted the importance of issues such as:

- a shared leadership, which takes account of different organisational cultures
- a clear vision of what the partnership wants to achieve, with a focus on outcomes for service users
- a shared understanding of roles and responsibilities, with a focus on decision-making
- an effective system for scrutinising performance and holding partners to account.

Members of IJBs need to understand and respect differences in organisational cultures and backgrounds

55. IJBs include representatives from councils, NHS boards, GPs, the voluntary sector, and service users. Everyone involved in establishing the new arrangements needs to understand, respect and take account of differences in organisational cultures so these do not become a barrier to progress. Members of the IJB need quickly to establish a shared understanding of their new role, how they will work together and measure success.

56. Voting members are drawn exclusively from councils and NHS boards and it is particularly important that they have a shared vision and purpose. There are important differences in how councils and NHS boards operate. Councils, for example, are accountable to their local electorate, while NHS boards report to Scottish ministers. There are also differences in how councils and the NHS work with the private sector. Councils have had many years of contracting services out to the voluntary and private sectors; for example, around 25 per cent of home care staff are employed in the private sector.

57. IJBs are aware of the need to establish a common understanding of the roles and responsibilities of board members. We found that many are planning opportunities for board development by providing training and support to board members. Other IJBs are also reinforcing this by developing codes of conduct to ensure that their board members follow the same standards of behaviour.

58. IJBs include representatives from a wide range of organisations and backgrounds. This inclusive approach has benefits, including a more open and inclusive approach to decision making for health and care services, but there is a risk that boards are too large. For example, the Edinburgh IJB will have 23 members and the Clackmannanshire & Stirling IJB will have around 35. As we have highlighted in previous audits of partnerships across Scotland, there is a risk that large boards will find it difficult to reach agreement, make decisions and ensure services improve.

IJB members will have to manage conflicts of interest

59. The design of IJBs brings the potential for real or perceived conflicts of interest for board members. The NHS board and council nominate all voting members of the IJB. Their role is to represent the IJB's interests. Voting members will also continue in their role as an NHS board member or councillor. As a result, there is a risk that they may have a conflict of interest, particularly where there is a disagreement as part of IJB business.²³

60. There is a similar potential for a conflict of interest for senior managers. IJB finance officers, for example, are required to support the needs of the IJB, but may also have responsibilities to support their employer – either the local NHS board or council. Similarly, legal advisers to the IJB will be employed by the council or the NHS board and, at a time of disagreement, may have a conflict of interest.

61. There is also a particular issue for NHS board members. Some NHS boards have to deal with several IJBs, and this places significant demands on their limited number of non-executive members. As a result, the Act and its associated regulations allow for NHS executive members to be appointed as voting members of the IJB. This means that there is the possibility of individuals acting as IJB board members who commission a service, and as NHS board members, responsible for providing that service. IJBs need to resolve this tension as part of their local governance arrangements.

62. IJBs are taking action to manage these tensions. For example, they are providing training to alert board members to the need to act in the IJB's interests when taking part in IJB meetings, and declaring conflicts of interest when they arise. But underlying conflicts of interest are likely to remain a risk, particularly at times of disagreement between local partners.

Although IJBs will lead the planning of integrated services, they are not independent of councils and NHS boards

63. IJBs set out how they will deliver services in their strategic plans, which they develop through strategic planning groups. The legislation allows NHS boards and councils jointly to ask IJBs to change their strategic plans only if they think it hinders their work in achieving the national health and wellbeing outcomes. As such, NHS boards and councils cannot individually veto an IJB decision. However IJBs are not fully independent of NHS boards and councils which can influence them through the following:

- **Membership of IJBs:** Chairs, vice chairs and voting members are all nominated by NHS boards and councils.
- **The approval process to agree future budgets:** Guidance issued by the Scottish Government's Integrated Resources Advisory Group (IRAG) suggests that, for future years, each IJB develops a business case and budget request and submits this to the NHS board and council to consider.
- **Control of integration schemes:** NHS boards and councils can decide to resubmit their integration schemes, changing the terms under which the IJB operates, or replacing it with a lead agency approach.

64. IJBs may overcome the challenges of working with a large board, with different organisational cultures and tensions, but once difficult decisions have been made there are still complex relationships back to the NHS board and council to negotiate. As a result, it is not clear if IJBs will be able to exert the necessary independence and authority to change fundamentally the way local services are provided.

Only a few IJBs will oversee the operation of acute services in their area, potentially limiting their impact

65. Regulations allow NHS boards and councils to choose what role IJBs will have in relation to operational management of services, in addition to commissioning and planning services. This flexibility allows, for example, NHS boards to remain solely responsible overseeing the operation of large hospital sites. The alternative is a more complex arrangement where responsibility for overseeing the operation of an A&E department is shared across several IJBs. Where the IJB has no operational management of hospital services, the IJB will receive regular performance reports from the NHS board on hospital services, so the IJB can assess whether the NHS board is delivering services in line with the IJB strategic plan. From the 17 schemes we reviewed that establish IJBs, we found the following:

- All 17 IJBs oversee the operation of non-acute integrated services, such as district nursing.
- To date, only Argyll and Bute, and Dumfries and Galloway IJBs will oversee the operation of the acute hospital integrated services in their areas, and

the chief officer will operationally manage these services. In Argyll and Bute, this continues an arrangement that existed previously and arises because the NHS board contracts most acute services from NHS Greater Glasgow and Clyde. Argyll and Bute CHP received information from the NHS board as part of the contract monitoring process. The IJB and NHS Greater Glasgow and Clyde are in the process of agreeing the information the chief officer and IJB board members will receive on the operational performance and delivery of these services.

- In Dumfries and Galloway, the IJB will oversee the operation of all integrated services, including all acute hospital services. The chief officer will be responsible for managing the operation of these integrated services, receiving regular information from the council Chief Social Work Officer and the NHS board acute services management team. The geographical circumstances in Dumfries and Galloway help to make this arrangement possible, as there is only one IA in the NHS board area, with only one acute hospital.

There needs to be a clear understanding of who is accountable for service delivery

66. There is a risk that the complex interrelationship between IJBs and councils and NHS boards will get in the way of clear lines of accountability. Their respective roles appear to be clear: IJBs are responsible for planning and commissioning services; councils and NHS boards are responsible for delivering those services.

67. But this understanding of accountabilities could be tested when there is a service failure, either in the care of an individual or in meeting outcome targets. The consensus amongst those we spoke with during our audit is that responsibility would lie with the council or NHS board delivering the service. But it could also be argued that ultimate responsibility might lie with IJBs, which plan and direct councils and NHS boards in how services are to be delivered. All parties need to recognise this risk and set out clearly an agreed understanding of each other's roles and responsibilities. It is essential that the chief officer is clear about how this joint accountability will work in practice from the start.

68. Clear procedures also need to be in place for clinical and care governance. These are procedures for maintaining and improving the quality of services and safeguarding high standards of care. NHS boards use long-established clinical governance approaches within the NHS. Similarly, councils follow well-established approaches for social care. IJBs have a great deal of flexibility over this issue and are required only to consider what role they will have in supporting the councils' and NHS boards' clinical and care governance work and how integration might change some aspects of this.

69. The Act introduced a requirement that IJBs set out in their integration scheme how they will work with NHS boards and councils to develop an integrated approach to clinical and care governance. We found that, at present, most IJBs plan to retain existing arrangements, with NHS boards directly overseeing clinical governance and councils overseeing care governance. However, IJBs will need to have a role in monitoring clinical and care standards without duplicating existing arrangements. Perth and Kinross IJB has developed a new clinical and care governance framework that other IJBs are now considering. In addition, the Royal College of Nursing has developed an approach that helps IJBs, councils and NHS

boards review their clinical and care governance arrangements. The aim is to ensure consistent approaches within each integrated service, and that these are aligned to existing clinical and care governance arrangements in the NHS and councils.²⁴

IAs need to establish effective scrutiny arrangements to help them manage performance

70. IAs need to establish effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account. Using the nine statutory outcome measures, listed at [Exhibit 6](#), will help IAs to focus on the impact of health and care services. But as well as simply monitoring performance, IJB members will need to use these to help redesign services and ensure services become more effective.

71. There is also a need for regular reporting to partner organisations. This is particularly important where most members of the local council or NHS board are not directly involved in the IJB's work. Aberdeenshire Council, for example, has 68 councillors, with only five sitting on the IJB. Those not directly involved need to be kept informed on how the budgets provided to the IJB have been used and their effectiveness in improving outcomes for local people.

Councils and NHS boards are finding it difficult to agree budgets for the new integration authorities

72. At this stage, IAs are establishing financial procedures that look to be sound. While there is a range of approaches to financial monitoring and dealing with overspends and underspends, the processes outlined in the integration schemes are reasonable.

73. There are, however, significant concerns about funding. Councils and NHS boards are having great difficulty in agreeing budgets for the new IAs. At October 2015, six months before they were required to be established and commissioning health and care services, the Scottish Government had only been informed of the agreed budgets for six IAs. This uncertainty about budgets is likely to continue until early 2016. The results of the UK spending review were not announced until November 2015, and the Scottish Government will only publish its financial plans on 16 December 2015.

74. NHS boards and councils have faced several years of financial constraints and this is expected to continue in the coming years. There is a risk that, if NHS boards and councils seek to protect services that remain fully under their control, IAs may face a disproportionate reduction in their funding, despite the focus on outcomes that all partners should have. We have reported previously on increasing pressures on health and care budgets. This risk of budget overspends is a significant risk for IJBs. Other specific factors add to these difficulties in agreeing budgets:

- **Set-aside budgets:** These relate to the budgets retained by NHS boards for larger hospital sites that provide both integrated and non-integrated services. There are difficulties in agreeing these set-aside budgets, despite the Scottish Government issuing specific guidance. The current difficulties relate to how to determine the integrated and non-integrated costs for these hospitals and how to allocate a fair share to each IJB within the NHS board area. More fundamentally, however, there is a risk that NHS

boards may regard this funding as continuing to be under their control, making it difficult for IAs to use the money to shift from acute hospital care to community-based and preventative services. As a result of these uncertainties, not all of the strategic plans published so far consider the set-aside budgets or plan for the level of acute services that will be needed in future years.

- **Different planning cycles:** NHS boards and councils agree budgets at different times. In North Ayrshire, for example, the council agreed its 2015/16 budget in December 2014, while the NHS agreed its budget in March 2015. NHS budgets and allocations can change during the financial year. This could bring further challenges for IJBs. Similar budget-setting cycles exist across Scotland. If councils and NHS boards continue with these cycles, then IJBs will be involved in protracted negotiations for budgets and ultimately cannot expect partners to approve their plans until just before the start of each financial year. In response, NHS Forth Valley has adapted its budgeting process to allow it to provide an earlier indication of the integrated health budget to its local IAs. In addition, as part of the community planning process, there is an expectation that community planning partners will share information on resource planning and budgets at an early stage, before formal agreement.²⁵ This should help IAs' financial planning.

Integration authorities need to make urgent progress in setting out clear strategic plans

Most IAs are still developing their overall strategic plans, but those that are in place tend to be aspirational and lack important detail

75. Strategic planning is central to the role that IAs will have in commissioning and helping redesign local health and care services. Scottish Government guidance emphasises the importance of localities in this process, and of strategic plans to reflect the different priorities and needs of local areas.

76. At the time of our audit, only six IAs had published their strategic plans. Some, such as Aberdeen City, Aberdeenshire and Moray, have developed draft plans in advance of the formal approval of the integration schemes. Difficulties with reaching agreement on budgets are an important factor hindering IAs from developing comprehensive strategic plans. This raises concerns about the readiness of IAs to make an immediate impact in reshaping local services. Our audit involved speaking to people involved with strategic planning, including IJB board members. Many of them felt it would be at least another year before most IAs have established plans that are genuinely strategic and can redesign future service delivery rather than simply reflect existing arrangements.

77. Even where strategic plans are in place, there tend to be weaknesses in their scope and quality. They often set out the broad direction of how to provide integrated health and social care services in their areas over the next three or so years, identifying local priorities for their area and for localities. But they can be unclear about what money and staff are available, particularly over the longer term, or how to match these to priorities. They lack detail on what level of acute services is needed in an area and how they will shift resources towards preventative and community-based care. They generally lack performance measures that directly relate to the national outcomes.

78. Strategic planning is even less developed at the locality level. There is a risk that strategic planning is not joined up with locality planning. Some IAs have completed strategic needs assessments, helping to identify the different needs and priorities of individual localities. They are using these to develop local priorities and budgets. There are also significant challenges in involving a wide range of service users, voluntary organisations, GPs and other clinicians and other professional staff in the planning process. These groups are represented at IJB board level, as non-voting members. But involving these groups more widely and actively at locality level is crucial to providing community-based and preventative health and social care services.

Most IAs have still to produce supporting strategies

79. In addition to their overall strategic plans, IAs need to establish supporting strategies for important areas such as workforce, risk management, data sharing, and how they will work with people who use health and social care services. They are required to set out a broad timetable for producing these in their integration schemes.

80. We analysed the timetables in the approved integration schemes available at the time of our audit. This reveals some significant variations ([Exhibit 9, page 33](#)). Some risk management and workforce strategies have been developed and are scheduled to be agreed well in advance of the IA becoming operational. In others, however, it will be up to 12 months after the IA becomes operational before these strategies are due to be agreed and can start to contribute to progress with integrating services.

81. This raises questions about the effectiveness of some IAs, at least in the first year of their operation. It is important that IA strategies are well thought through, built on an analysis of local needs and resources and meaningful consultation, clearly setting out how the IA will deliver against the aspirations of the Act. We did not look in detail at the strategies produced at this early stage. But there is a risk that strategies produced quickly lack the detail needed to show how IAs will take practical steps that:

- improve outcomes
- integrate services
- make best use of the funds, skills and other resources available to them.

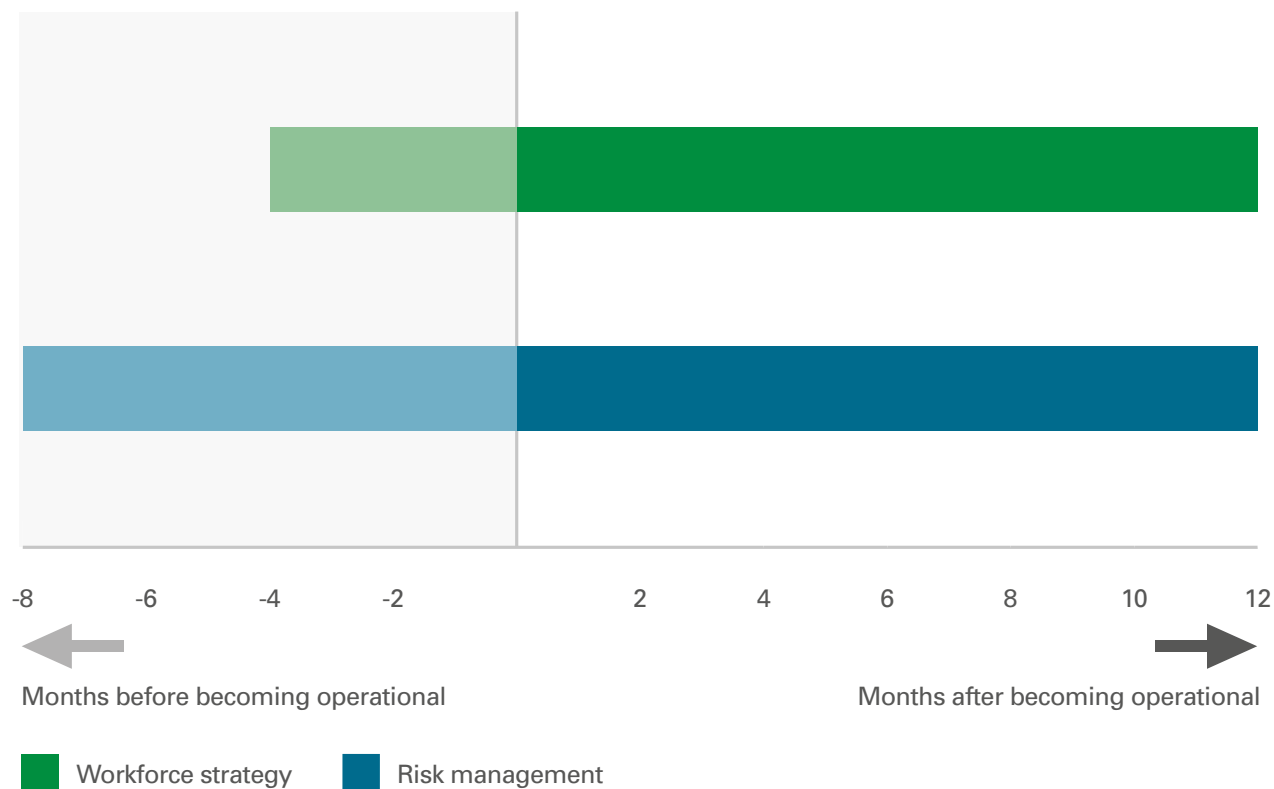
Equally, there are risks where the IA will not have plans in place until they have been operational for many months. It is important that IAs have clear strategic priorities and use these in developing:

- a workforce strategy, showing how they will redesign health and care services
- a risk management strategy to demonstrate that they are properly prioritising their work and their resources.

Exhibit 9

Range of timescales for supporting strategies

It will be up to a year before some IJBs have established workforce and risk management strategies.



Source: Audit Scotland analysis of available integration schemes

There is a pressing need for workforce planning to show how an integrated workforce will be developed

82. The health and social care workforce is critical to the success of integration. Health and social care services are personal services; it is important that staff have the skills and resources they need to carry out their roles, including providing emotional and physical support and clinical care.

83. At present, few IAs have developed a long-term workforce strategy. Developing a suitably skilled workforce is crucial to the success of integrated health and social care services. This is particularly challenging, given the wide range of people involved and the size of the workforce. NHS Scotland employs around 160,000 staff.²⁶ Social services employ almost 200,000, both directly employed council staff and others from the private and voluntary sector.²⁷ Furthermore, an estimated 759,000 people in Scotland are carers for family members, friends or neighbours.²⁸ IJBs need to work closely with professional and regulatory bodies in developing their workforce plans.

84. IJBs do not directly employ staff, but they are responsible for coordinating services from this varied mix of staff and carers. There will be implications for the skills and experience that staff will need to deliver more community-based support as services change. Developing and implementing workforce strategies to meet these needs will be challenging.

85. The following will add to these difficulties:

- **Financial pressures on the NHS and councils.** NHS boards and councils continue to face pressures from tightening budgets and rising demand for services. Most councils have responded to these pressures in part by reducing staff numbers and outsourcing some services to the private and voluntary sectors. These changes are less evident in the health sector. As a result, there are concerns that any future changes to the workforce will not affect health and care staff equally.
- **Difficulties in recruiting and retaining social care staff.** Over many years, councils have had difficulties recruiting and retaining care home and home care staff. Organisations in areas such as Edinburgh and Aberdeen, with high living costs, have had particular difficulties. There is a need to develop a valued, stable, skilled and motivated workforce. We found examples of organisations developing new approaches to making careers in caring more attractive. For example in Dumfries and Galloway and Aberdeen City they are considering creating caring roles that are part of a defined career path, to encourage more people into these roles.
- **The role of the voluntary and private sectors.** Voluntary and private organisations play an important role in providing care and support, but there are particular challenges in how IJBs can involve these diverse organisations as part of a coordinated workforce plan. The introduction of the national living wage will have a significant impact on the voluntary sector and their ability to provide the same level of support for health and care services. We will comment on this further in our audit of Social Work in Scotland.

86. GPs have a particularly important role but there are concerns over GPs having time available to contribute actively towards the success of integrated services. Most GPs are independent contractors, not employed by the NHS. GPs have a crucial role in patient referrals and in liaising with other health and care services. Ultimately, if there are concerns about the quality or availability of community-based services, there is a risk that GPs will refer patients to hospital to ensure they receive the care they need.

87. Throughout Scotland, there are difficulties in recruiting and retaining GPs. As a result, GPs are facing increasing pressures, at a time when a planned shift to community care and support can be expected to increase their workload. The Scottish Government has recognised this issue and has announced £2.5 million to fund a three-year programme to improve recruitment and retention of GPs and improve the number of people training to be GPs. It also has plans to revise GP contracts, to allow GPs to delegate some services to other healthcare professionals, freeing up GPs' time. However, it will be many years before these measures will have a significant impact.

The proposed performance measurement systems will not provide information on some important areas or help identify good practice

88. There is wide support for the Scottish Government's focus on health and wellbeing outcomes (set out earlier at [Exhibit 6](#)). In addition to the nine national outcomes, the Scottish Government developed core integration indicators to measure progress in delivering the national health and wellbeing outcomes and to allow national comparison between partnerships. These 23 measures, listed in [Appendix 2](#), cover a mixture of outcome indicators – based on people's perception of the service they received – and indicators based on system or organisational information, such as people admitted to hospital in an emergency or adults with intensive care needs receiving care at home.

89. The Scottish Government has provided further support through the Information Services Division (ISD) of NHS National Services Scotland. It provided access to local data and technical support to help partnerships understand and plan for their areas' health and social care needs. The ISD data brings together health, social care and demographic information for the first time and is a significant step forward in providing partnerships with the information they need to plan locally and to measure the impact of their activity. Much of the data is already available for partnerships to use, and ISD plans to develop the data further including analysing the cost of end-of-life care.

90. Some IAs have been unable to make use of this resource as data-sharing agreements are not yet in place. ISD has access to health data but requires permission from councils to access the social work data they hold for their areas. Before councils can grant access they need to ensure they are not breaching data protection legislation and are doing this by agreeing data-sharing procedures. Most councils and NHS boards are making progress with this, but where information sharing has not been agreed IAs are having to plan without it.

91. National care standards were created in 2002 to help people understand what to expect from care services and to help services understand the standard of care they should deliver. Given the way that services have changed since then, in June 2014, the Scottish Government issued a consultation on new national care standards. The consultation proposed developing overarching standards, based on human rights, setting out the core elements of quality that should apply across all health and social care services.

92. The standards are an important part of integrating and scrutinising health and care services and it is important that they are in place quickly and publicised widely. However, overarching principles will not be finalised until April 2016; this will be followed by a consultation on specific and generic standards, with a view to them being implemented from April 2017.

93. While all these developments are clearly a step in the right direction, all partners need to consider the following issues:

- **The core integration indicators do not fully take account of all the expected benefits of the reform programme.** Overall, the Scottish Government's reform programme is expected to shift the balance of care to community-based or preventative services. However, demographic pressure will create increased demand for both hospital and community-

based services. It is not clear how the proposed indicators will measure progress in transferring from hospital to community care. There may be central data that the Scottish Government can use to track some of these changes but these should be set out clearly as part of measures to publicly monitor and report on progress. It is also unclear how the Scottish Government will track expected savings. An example is the expected annual savings of £104 million from reducing some of the variation evident in the cost of providing health and social care services across different parts of Scotland.²⁹ The core set of integration indicators does not attempt to give a national measure of reductions in cost variation or the savings that arise from this. Anticipatory care plans are projected to yield savings of £12 million a year, but there are no proposed indicators to assess if IAs are using them, or what impact they have on releasing resources such as skills and equipment.³⁰ This means the Scottish Government will not know if integration has freed up resources for other uses, in line with its expectations, or if it has achieved a shift from institutional to community-based care.









- **The process of linking measures and outcomes is incomplete and it may be difficult to measure success.** This means that the Scottish Government will be unable to see what progress is being made nationally, or to compare the different approaches adopted by IAs to identify which are most effective. For example, one of the measures seen as indicating success is ‘reducing the rate of emergency admission to hospitals for adults’. (A reduction in this is seen as evidence of a positive impact on outcomes 1, 2, 4, 5 and 7, as listed at [Exhibit 6](#).) But hospital emergency admission rates can reduce for many reasons. At present, it is up to individual partnerships to decide which additional local measures they will adopt to explore why hospital emergency admission rates are changing.

Councils and NHS boards are required to set out in their strategic plans which local measures they will use. We compared plans for North Lanarkshire and North Ayrshire IAs, both relatively advanced in their performance management arrangements at the time of our audit. We found the following:

- They will use different measures from each other. This has the benefit of allowing IAs to focus on their local priorities. However, it will make it difficult for the Scottish Government to compare performance across IAs to identify what approaches are working best ([Exhibit 10, page 37](#)).
- In various places, both IAs have associated a different mix of indicators to an outcome from that set out in Scottish Government guidance. This occurs more frequently in North Ayrshire which developed its plans before the Scottish Government published its approach. But North Lanarkshire also has taken a different view on which indicators it will use to measure progress on some of the national outcomes, making it difficult for the Scottish Government to measure progress at a national level.
- We have provided a more detailed comparison of the approaches used by North Lanarkshire and North Ayrshire IAs in a [supplement](#) to assist other IJBs when developing their plans ([Exhibit 10, page 37](#)).


Exhibit 10

Integration authorities can use different information to measure progress towards national outcomes

National Outcome	Core integration indicator		Number of additional local indicators mapped to national outcome		
	Mapped to national outcome by both	Not mapped to national outcome by both	North Ayrshire	North Lanarkshire	
People are able to look after and improve their own health and wellbeing and live in good health for longer	Percentage of people who say they are able to look after their health very well or quite well	• Premature mortality rate		5	19
		• Emergency admission rate			
People who work in health and social care services feel engaged with the work they do and are supported to continuously improve the information, support, care and treatment they provide	None	• Percentage of staff who say they would recommend their workplace as a good place to work		8	8
Resources are used effectively and efficiently in the provision of health and social care services	None	• Percentage of adults supported at home who agree that their health and care services seemed to be well coordinated		10	31
		• Readmission to hospital within 28 days			
		• Proportion of last six months spent at home or in community setting			
		• Falls rate per 1,000 population aged 65+			
		• Number of days people spend in hospital when clinically ready to be discharged per 1,000 population			

 = North Lanarkshire map this to outcome

 = North Ayrshire map this to outcome

 = Neither map this to outcome

Source: Audit Scotland analysis of performance frameworks

- **It is important that there is a balance between targeted local measures and national reporting on impact.** This has the benefit of providing flexibility so that local partnerships can focus their efforts on priority areas. It is important that local partnerships set ambitious targets. The reforms bring the opportunity to have local outcome measures that local people recognise as responding to specific issues in their community. However, the Scottish Government and IAs need to resolve tensions between introducing better local measures and the need for clarity at national level about the impact that IAs are having. An increasing focus on local measures means it is timely to review whether existing national measures are fit for purpose.

The role of localities still needs to be fully developed

94. Localities are intended to be the key drivers of change, bringing together service users, carers, and health and care professionals to help redesign services. The Act requires IAs to establish at least two localities within their area. Scottish Government guidance, issued in July 2015, suggests that localities should be formed around natural clusters of GP practices. Naturally, the number and size of localities vary. Edinburgh, for example, has established four localities, with an average population of around 120,000. By contrast, Shetland has seven localities, each with an average population of around 4,000. Under the Act, localities need to be involved in both planning services and play a consultative role about service change in their local area. This raises an issue about the scale and size of localities – the optimal scale for locally planning services may not be the same as that for consulting on service change.

95. With IAs still focusing on their overall budgets and governance arrangements, the arrangements for localities are relatively underdeveloped. Some have now agreed priorities and budgets for individual localities, but in most cases, work at locality level has initially focused on networking with stakeholders and on needs assessments. Localities are key to the success of integration, therefore IJBs must focus on how localities will lead the integration of health and care.

96. We found that GPs are becoming involved in locality planning. But, in many areas, there are concerns about their ability to remain fully involved in locality planning. Some GPs are also sceptical, given earlier experiences with LHCCs and CHPs, which failed to provide a fundamental shift towards preventative and community-based services. In response, the Scottish Government is piloting a new approach in ten health centres across the country. These centres will form 'community care teams' and test different ways of delivering healthcare. It is important that there is a clear link between the work of these teams and locality planning arrangements to avoid confusion.

There will be a continuing need to share good practice and to assess the impact of integration

97. The 31 IAs are putting different arrangements in place to deliver integrated health and social care services. This high level of variation is permitted by the Act and, in allowing IAs to respond to their local context and priorities, has many advantages. However, at some point, the Scottish Government and individual IAs will need to review their initial arrangements and consider how these might evolve to reflect good practice in other parts of Scotland. We hope that this report, and our subsequent audits, will contribute towards this wider review.

Part 4

Recommendations



We have made recommendations to help organisations address potential risks to the success of health and social care integration. We will monitor progress as part of our future work on integration.

The Scottish Government should:

- work with IAs to help them develop performance monitoring to ensure that they can clearly demonstrate the impact they make as they develop integrated services. As part of this:
 - work with IAs to resolve tensions between the need for national and local reporting on outcomes so that it is clear what impact the new integration arrangements are having on outcomes and on the wider health and social care system
- monitor and publicly report on national progress on the impact of integration. This includes:
 - measuring progress in moving care from institutional to community settings, reducing local variation in costs and using anticipatory care plans
 - reporting on how resources are being used to improve outcomes and how this has changed over time
 - reporting on expected costs and savings resulting from integration
- continue to provide support to IAs as they become fully operational, including leadership development and sharing good practice, including sharing the lessons learned from the pilots of GP clusters.

Integration authorities should:

- provide clear and strategic leadership to take forward the integration agenda; this includes:
 - developing and communicating the purpose and vision of the IJB and its intended impact on local people
 - having high standards of conduct and effective governance, and establishing a culture of openness, support and respect
- set out clearly how governance arrangements will work in practice, particularly when disagreements arise, to minimise the risk of confusing lines of accountability, potential conflicts of interests and any lack of clarity about who is ultimately responsible for the quality of care and scrutiny.

This includes:

- setting out a clear statement of the respective roles and responsibilities of the IJB (including individual members), NHS board and council, and the IJB's approach towards putting this into practice
- ensuring that IJB members receive training and development to prepare them for their role, including managing conflicts of interest, understanding the organisational cultures of the NHS and councils and the roles of non-voting members of the IJB
- ensure that a constructive working relationship exists between IJB members and the chief officer and finance officer and the public.

This includes:

- setting out a schedule of matters reserved for collective decision-making by the IJB, taking account of relevant legislation and ensuring that this is monitored and updated when required.
- ensuring relationships between the IJB, its partners and the public are clear so each knows what to expect of the other
- be rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny, including:
 - developing and maintaining open and effective mechanisms for documenting evidence for decisions
 - putting in place arrangements to safeguard members and employees against conflict of interest and put in place processes to ensure that they continue to operate in practice
 - developing and maintaining an effective audit committee
 - ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints
 - ensuring that an effective risk management system is in place
- develop strategic plans that do more than set out the local context for the reforms; this includes:
 - how the IJB will contribute to delivering high-quality care in different ways that better meet people's needs and improves outcomes
 - setting out clearly what resources are required, what impact the IJB wants to achieve, and how the IA will monitor and publicly report their progress
 - developing strategies covering the workforce, risk management, engagement with service users and data sharing, based on overall strategic priorities to allow the IA to operate successfully in line with the principles set out in the Act and ensure these strategies fit with those in the NHS and councils
 - making clear links between the work of the IA and the Community Empowerment (Scotland) Act and Children and Young People (Scotland) Act







- develop financial plans that clearly show how IAs will use resources such as money and staff to provide more community-based and preventative services. This includes:
 - developing financial plans for each locality, showing how resources will be matched to local priorities
 - ensuring that the IJB makes the best use of resources, agreeing how Best Value will be measured and making sure that the IJB has the information needed to review value for money and performance effectively
- shift resources, including the workforce, towards a more preventative and community-based approach; it is important that the IA also has plans that set out how, in practical terms, they will achieve this shift over time.

Integration authorities should work with councils and NHS boards to:

- recognise and address the practical risks associated with the complex accountability arrangements by developing protocols to ensure that the chair of the IJB, the chief officer and the chief executives of the NHS board and council negotiate their roles in relation to the IJB early on in the relationship and that a shared understanding of the roles and objectives is maintained
- review clinical and care governance arrangements to ensure a consistent approach for each integrated service and that they are aligned to existing clinical and care governance arrangements in the NHS and councils
- urgently agree budgets for the IA; this is important both for their first year and for the next few years to provide IAs with the continuity and certainty they need to develop strategic plans; this includes aligning budget-setting arrangements between partners
- establish effective scrutiny arrangements to ensure that councillors and NHS non-executives, who are not members of the IJB board, are kept fully informed of the impact of integration for people who use local health and care services
- put in place data-sharing agreements to allow them to access the new data provided by ISD Scotland.

Endnotes



- ◀ 1 This included reviewing 18 approved integration schemes, 17 of which were for integration joint boards following the body corporate model and one of which was for Highland's lead agency model.
- ◀ 2 Clackmannanshire and Stirling, Dumfries and Galloway, East Renfrewshire, Edinburgh City, North Ayrshire and North Lanarkshire.
- ◀ 3 [Review of Community Health Partnerships \[PDF\]](#) , Audit Scotland, June 2011.
- ◀ 4 [Reshaping care for older people \[PDF\]](#) , Audit Scotland, February 2014.
- ◀ 5 *Maximising Recovery, Promoting Independence: An Intermediate Care Framework for Scotland*, Scottish Government, 2012.
- ◀ 6 *Scotland Performs*, Scottish Government, 2015.
- ◀ 7 *Projected Population of Scotland (2014-based)*, National Records Scotland, 2015.
- ◀ 8 *Finance Committee. 2nd Report, 2013 (Session 4): Demographic change and an ageing population*. Scottish Parliament, 11 February 2013.
- ◀ 9 *Bed days occupied by delayed discharge patients*, ISD Scotland, May 2015.
- ◀ 10 [Review of Community Health Partnerships \[PDF\]](#) , Audit Scotland, 2011.
- ◀ 11 After approval of its integration scheme, an IJB is established by parliamentary order. An IJB is operational when it has delegated responsibility from the NHS board and council for integrated budgets and services.
- ◀ 12 The lead agency is between Highland Council and NHS Highland. NHS Highland also has an IJB with Argyll and Bute Council.
- ◀ 13 Where the IJB spans across more than one council area, the minimum number of voting members is different. For IJBs of two council areas, at least two councillors from each council are required. For IJBs of more than two areas at least one councillor from each council is required. In both cases, the NHS board must nominate board members equal to the total number of councillors.
- ◀ 14 As IJBs have no plans to directly employ staff in this early stage of development, we are not commenting on related potential risks and issues. We are likely to return to this issue in more detail in future reports on integration.
- ◀ 15 [Self-directed support \[PDF\]](#) , Audit Scotland, June 2014
- ◀ 16 The Joint Improvement Team is a partnership between the Scottish Government, NHSScotland, COSLA (Convention of Scottish Local Authorities) and the voluntary, independent and housing sectors.
- ◀ 17 East Dunbartonshire, Shetland and West Dunbartonshire.
- ◀ 18 Some areas, have a chief officer designate. This happens where, although recruitment for a chief officer is complete, until the IJB is established it cannot formally appoint the chief officer.
- ◀ 19 Falkirk currently has an interim chief officer in post and expects to make a permanent appointment to this role by the end of the year.
- ◀ 20 Public Bodies (Joint Working) (Scotland) Bill, Financial Memorandum, 2013.
- ◀ 21 Ibid.
- ◀ 22 [Review of Community Health Partnerships \[PDF\]](#) , Audit Scotland, June 2011.
- ◀ 23 We explore these tensions more fully in our report [Arm's-length external organisations \(ALEOs\): are you getting it right? \[PDF\]](#) , Audit Scotland, June 2011.
- ◀ 24 *RCN briefing 2: Clinical and care governance in an integrated world*, May 2015, Royal College of Nursing.
- ◀ 25 *Agreement on joint working on community planning and resourcing*, Scottish Government and COSLA, September 2013.

- ◀ 26 *NHS Scotland Workforce Information Quarterly update of Staff in Post, Vacancies and Turnover at 30 June 2015*, ISD Scotland, 2015. This figure refers to all staff in NHS Scotland, not just those working in integrated services.
- ◀ 27 *Scottish Social Service Sector: Report on 2014 Workforce Data*, Scottish Social Services Council, 2015.
- ◀ 28 *Scotland's Carers*, Scottish Government, March 2015.
- ◀ 29 Public Bodies (Joint Working) (Scotland) Bill, Financial Memorandum, 2013.
- ◀ 30 Ibid.

Appendix 1

Audit methodology



We reviewed a range of documents during our audit. Where available, this included:

- the Act and national guidance and regulations on implementing the Act
- 18 approved integration schemes¹
- strategic and related financial plans
- minutes, papers and agendas for IJB meetings
- internal audit reports and local reports on integration arrangements
- financial audit information
- joint inspection reports from the Care Inspectorate and Healthcare Improvement Scotland.

We interviewed stakeholders in the following IA areas:

- Clackmannanshire and Stirling
- Dumfries and Galloway
- East Renfrewshire
- Edinburgh City
- North Ayrshire
- North Lanarkshire.

We drew on the work already carried out by:

- the Care Inspectorate
- Healthcare Improvement Scotland
- local auditors.

We also interviewed staff from:

- the Scottish Government
- the Joint Improvement Team
- the British Medical Association
- the Convention of Scottish Local Authorities
- NHS Information Services Division
- the Care Inspectorate
- Healthcare Improvement Scotland
- the voluntary sector.

Note: 1. We reviewed 17 integrations schemes establishing IJBs for Argyll & Bute, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Inverclyde, Midlothian, North Ayrshire, North Lanarkshire, Renfrewshire, Shetland Isles, South Ayrshire, South Lanarkshire, West Dunbartonshire and West Lothian, and Highland's integration scheme setting out its lead agency approach.

Appendix 2

Scottish Government core integration indicators



Outcome indicators, based on survey feedback, available every two years, include:

- Percentage of adults able to look after their health very well or quite well.
- Percentage of adults supported at home who agree that they are supported to live as independently as possible.
- Percentage of adults supported at home who agree that they had a say in how their help, care or support was provided.
- Percentage of adults supported at home who agree that their health and care services seemed to be well coordinated.
- Percentage of adults receiving any care or support who rate it as excellent or good.
- Percentage of people with positive experience of care at their GP practice.
- Percentage of adults supported at home who agree that their services and support had an impact in improving or maintaining their quality of life.
- Percentage of carers who feel supported to continue in their caring role.
- Percentage of adults supported at home who agree they felt safe.
- Percentage of staff who say they would recommend their workplace as a good place to work.*


Outcome indicators derived from organisational/system data, primarily collected for other reasons, available annually or more often, include:

- Premature mortality rate.
- Rate of emergency admissions for adults.*
- Rate of emergency bed days for adults.*
- Readmissions to hospital within 28 days of discharge.*
- Proportion of last six months of life spent at home or in community setting.
- Falls rate per 1,000 population in over 65s.*
- Proportion of care services graded 'good' or better in Care Inspectorate Inspections.
- Percentage of adults with intensive needs receiving care at home.
- Number of days people spend in hospital when they are ready to be discharged.
- Percentage of total health and care spend on hospital stays where the patient was admitted in an emergency.
- Percentage of people admitted from home to hospital during the year, who are discharged to a care home.*
- Percentage of people who are discharged from hospital within 72 hours of being ready.*
- Expenditure on end-of-life care.*

* Indicates indicator is under development.

Health and social care integration

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Changing models of health and social care



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland
March 2016


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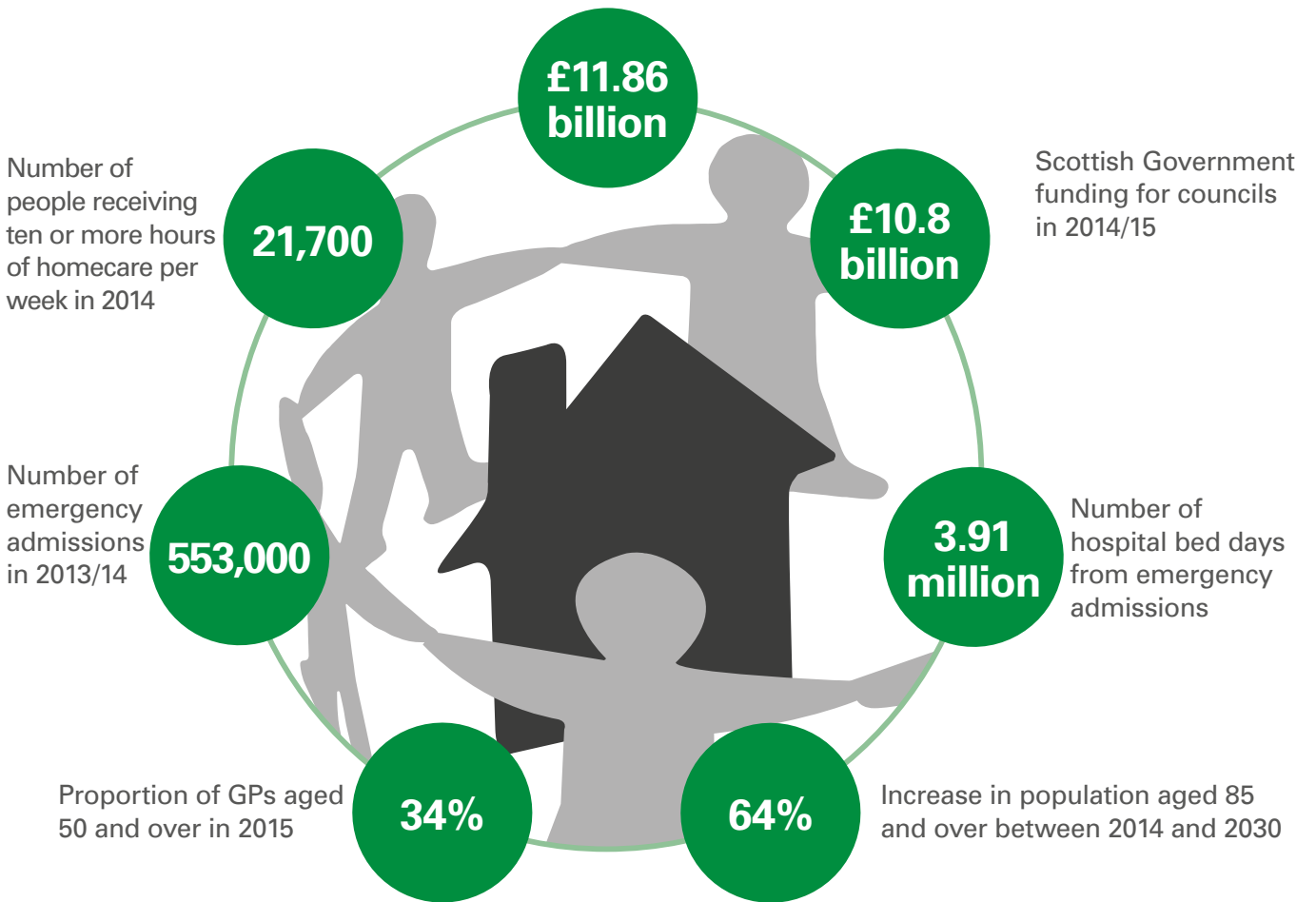
Exhibit data

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

Key facts



Health budget in 2014/15



Summary



Key messages

- 1** The growing number of people with complex health and social care needs, particularly frail older people, together with continuing tight finances, means that current models of care are unsustainable. New models of care are needed. With the right services many people could avoid unnecessary admissions to hospital, or be discharged more quickly when admission is needed. This would improve the quality of care and make better use of the resources available.
- 2** The Scottish Government has set out an ambitious vision for health and social care to respond to these challenges. There is widespread support for the 2020 Vision, which aims to enable everyone to live longer, healthier lives at home or in a homely setting. There is evidence that new approaches to health and care are being developed in parts of Scotland.
- 3** The shift to new models of care is not happening fast enough to meet the growing need, and the new models of care that are in place are generally small-scale and are not widespread. The Scottish Government needs to provide stronger leadership by developing a clear framework to guide local development and consolidating evidence of what works. It needs to set measures of success by which progress can be monitored. It also needs to model how much investment is needed in new services and new ways of working, and whether this can be achieved within existing and planned resources.
- 4** NHS boards and councils, working with integration authorities, can do more to facilitate change. This includes focusing funding on community-based models and workforce planning to support new models. They also need to have a better understanding of the needs of their local populations, and evaluate new models and share learning.

the shift to new models of care is not happening fast enough to meet the growing need

Recommendations

The Scottish Government should:

- provide a clear framework by the end of 2016 of how it expects NHS boards, councils and integration authorities to achieve the 2020 Vision, outlining priorities and plans to reach its longer-term strategy up to 2030. This should include the longer-term changes required to skills, job roles and responsibilities within the health and social care

workforce. It also needs to align predictions of demand and supply with recruitment and training plans

- estimate the investment required to implement the 2020 Vision and the National Clinical Strategy
- ensure that long-term planning identifies and addresses the risks to implementing the 2020 Vision and the National Clinical Strategy, including:
 - barriers to shifting resources into the community, particularly in light of reducing health and social care budgets and the difficulties councils and NHS boards are experiencing in agreeing integrated budgets
 - new integration authorities making the transition from focusing on structures and governance to what needs to be done on the ground to make the necessary changes to services
 - building pressures in general practice, including problems with recruiting and retaining appropriate numbers of GPs. The role of GPs in moving towards the 2020 Vision should be a major focus of discussions with the profession as the new GP contract terms are developed for 2017
- ensure that learning from new care models across Scotland, and from other countries, is shared effectively with local bodies, to help increase the pace of change. This should include:
 - timescales, costs and resources required to implement new models, including staff training and development
 - evaluation of the impact and outcomes
 - how funding was secured
 - key success factors, including how models have been scaled up and made sustainable
- work to reduce the barriers that prevent local bodies from implementing longer-term plans, including:
 - identifying longer-term funding to allow local bodies to develop new care models they can sustain in the future
 - identifying a mechanism for shifting resources, including money and staff, from hospital to community settings
 - being clearer about the appropriate balance of care between acute and community-based care and what this will look like in practice to support local areas to implement the 2020 Vision
 - taking a lead on increasing public awareness about why services need to change
 - addressing the gap in robust cost information and evidence of impact for new models.

NHS boards and councils should work with integration authorities during their first year of integration to:

- carry out a shared analysis of local needs, and use this as a basis to inform their plans to redesign local services, drawing on learning from established good practice
- ensure new ways of working, based on good practice from elsewhere, are implemented in their own areas to overcome some of the barriers to introducing new care models
- move away from short-term, small-scale approaches towards a longer-term approach to implementing new care models. They should do this by making the necessary changes to funding and the workforce, making best use of local data and intelligence, and ensuring that they properly implement and evaluate the new models
- ensure, when they are implementing new models of care, that they identify appropriate performance measures from the outset and track costs, savings and outcomes
- ensure clear principles are followed for implementing new care models, as set out in [Exhibit 9 \(page 30\)](#).

Information Services Division (ISD) should:



- ensure it shares and facilitates learning across Scotland about approaches to analysing data and intelligence, such as using data to better understand the needs of local populations.

Background

1. We have reported previously that NHS boards and councils are finding it increasingly difficult to cope with pressures facing health and care services. Our recent progress report on health and social care integration found that significant risks need to be addressed if integration is to fundamentally change the way health and care services are delivered. Evidence suggests that the new partnerships with statutory responsibilities to coordinate integrated health and social care services, integration authorities, will not be in a position to make a major impact during 2016/17. Many integration authorities have still to set out clear targets and timescales showing how they will make a difference to people who use health and social care services.

2. We have produced this report, building on our previous work on health and social care, to identify new local models of care and to help increase the pace of change. It aims to support new integrated authorities to implement new ways of working and address the challenges facing health and social care services.

3. We have produced two supplements to accompany this report:

- [Supplement 1 \[PDF\]](#)  is a handbook for local areas and includes:
 - case studies referenced throughout the report
 - a system diagram of the types of new care models being introduced across Scotland
 - links to useful documents and checklists.
- [Supplement 2](#)  is a model of East Lothian's whole-system approach to introducing new ways of working and the data analysis and intelligence that local partners are using to inform their work.

About the audit

4. This audit builds on key pressures identified in the demand and capacity work undertaken as part of the NHS in Scotland 2013/14 audit. It assesses how NHS boards, councils and partnerships might deliver services differently in the future to meet the needs of the population. Our report highlights examples of some of the new approaches to providing health and social care aimed at shifting the balance of care from hospitals to more homely and community-based settings. It also considers some of the main challenges to delivering the transformational change needed to deliver the Scottish Government's 2020 Vision for health and social care and actions required to address them.

5. We gathered evidence for the audit by:

- analysing national and local information, for hospitals, councils and community-based services to identify pressures in the system, including performance, activity and financial data
- carrying out projection analysis to estimate the potential effect of increasing pressures in health and social care
- conducting desk-based research to identify examples of new care models outside Scotland
- working closely with one partnership area to illustrate the types of changes required and how this affects different parts of the health and social care system
- interviewing staff from NHS boards, councils, the Convention of Scottish Local Authorities (COSLA), the Scottish Government and other relevant organisations, such as professional and scrutiny bodies.

Part 1

Health and social care in Scotland



Health and social care services are facing increasing pressures

6. In recent years, demands on health and social care services have been increasing because of demographic changes. People are living longer with multiple long-term conditions and increasingly complex needs. At the same time, NHS boards and councils are facing increasingly difficult financial challenges. There is general recognition that changes are needed and that NHS boards and councils need to support more people in the community.

The proportion of older, frail people is increasing

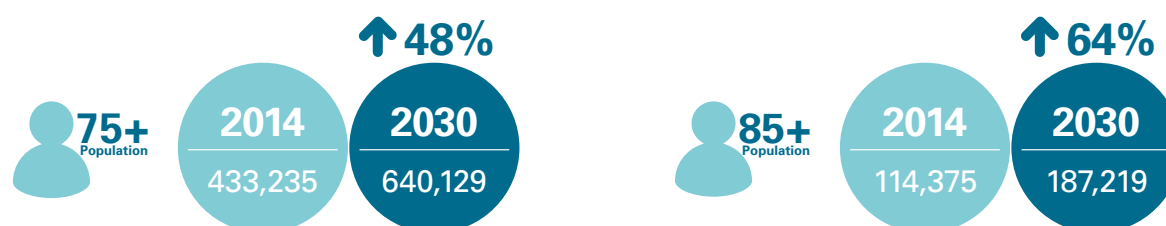
7. The proportion of older people is growing more rapidly than the rest of the population; this is a major factor contributing to the pressures on health and care services. The biggest changes are predicted in the 75 and over population ([Exhibit 1](#)). From 2002 to 2020, data shows an increase of around 6,600 people aged 75 and over each year. From 2021 up to 2039, it is estimated there will be around 16,000 more people aged 75 and over each year.¹ The 85 and over population is estimated to double by 2034.

health and social care services need to adapt to cope with the effects of the changing population

Exhibit 1

The projected population of older people in Scotland, 2014-30

The percentage of the population aged 75 and over is set to increase considerably over the next 15 years.



Source: *Projected population of Scotland (2014-based)*, National Records of Scotland, 2015

8. Although the population is ageing, overall healthy life expectancy (the number of years people might live in good health) has improved. Over time, this may help to reduce some of the pressure on health and social care services. Average healthy life expectancy increased between 2002 and 2008. It has remained at around the same level between 2009 and 2014. In 2014, average life expectancy for men was around 77 years and healthy life expectancy 60 years, and for women it was around 81 and

63 years.^{2, 3} However, healthy life expectancy for men in the most deprived areas in Scotland still remains 18 years lower than those in the least deprived areas. GPs working in deprived areas face significant challenges in tackling health inequalities. GPs working in practices serving the 100 most deprived areas in Scotland (Deep End project) reported the following:

- They treat more patients with multiple health problems than GPs working in less deprived areas.⁴
- They are constrained by a shortage of consultation time with patients that limits the opportunity to provide appropriate treatment, advice and referral to suitable services.⁵

9. As people age they are more likely to have multiple conditions and become frail. Frailty is a decreased ability to withstand illness or stress without loss of function. For frail people, a minor injury or illness can result in a significant loss of function. Common conditions, such as dementia, also contribute to frailty.⁶ In Scotland, an estimated ten per cent of people aged over 65 are frail and a further 42 per cent are at risk of becoming frail.⁷

10. Not all older people need support from health and care services, but for those that do, it is important that these services are well coordinated. They should focus on preventing ill health and where possible reduce the need for hospital-based care. Older people make more use of hospital services than the rest of the population, particularly unplanned care such as A&E services and emergency admission to hospital. Older patients are more likely to remain in hospital for longer. The majority of people who are nursed at home, and get help with daily living activities such as washing, dressing and eating, are aged 75 or older.⁸

The number of emergency admissions to hospital is increasing

11. The number of people admitted to hospital in an emergency is an important measure that can indicate problems in other parts of the health and care system, such as a lack of social care support in the local area. Of all admissions to acute hospitals, around 85 per cent are emergency admissions. Around 30 per cent of emergency admissions relate to surgical specialties, such as orthopaedic surgery or urology. The majority of these admissions are not preventable and these patients require hospital treatment. However, there is scope to reduce emergency admissions by providing more preventative and community-based services. This includes emergency admissions in medical specialties such as general medicine, geriatric medicine, psychiatry of old age, rehabilitation medicine, and GP beds. The number of people admitted to hospital in an emergency between 2005/06 and 2013/14 increased by almost 80,000 (17 per cent), to 553,000. The number of emergency admissions increased by 17 per cent for people aged 65-74, by 19 per cent for people aged 75-84 and by 39 per cent for people who were aged 85 and older (**Exhibit 2, page 11**). Older people are more likely to be admitted to hospital in an emergency than people aged under 65. In 2013/14, 71 per cent of emergency bed days were occupied by people aged 65 and over. Of these:

- 18 per cent were occupied by people aged 65-74
- 29 per cent were occupied by people aged 75-84
- 23 per cent were occupied by people aged 85 and older.

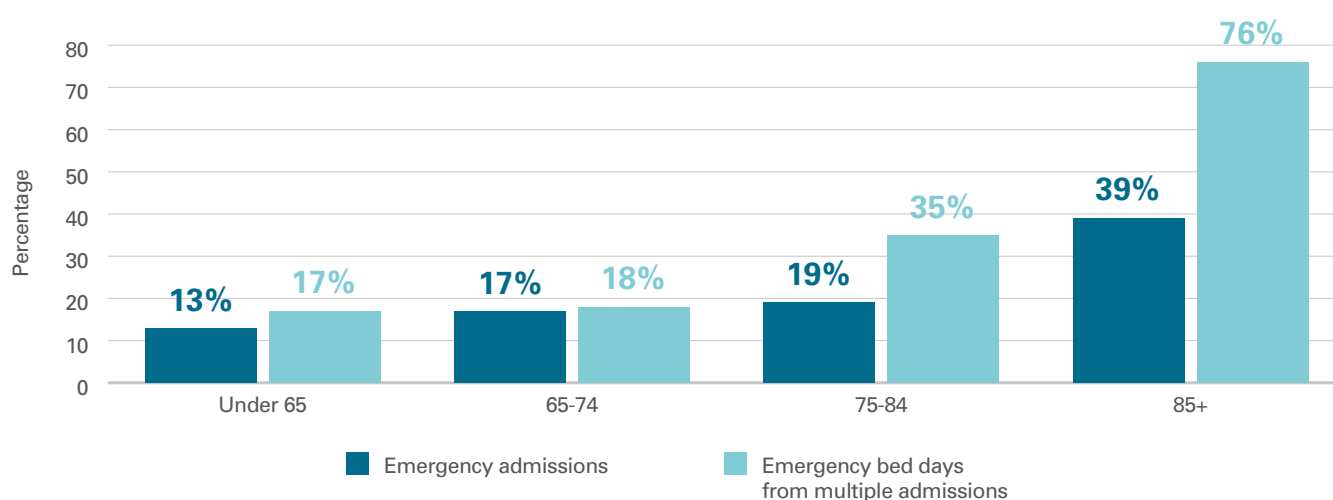
12. The number of emergency bed days for older people admitted to hospital three or more times in a year is increasing. Between 2005/06 and 2013/14, the number of bed days occupied by people aged 65 and over from multiple emergency admissions increased by 38 per cent to over 685,000 bed days. For people aged 65-74, the number of bed days increased by 18 per cent, for people aged 75-84 by 35 per cent, and for people aged 85 and older by 76 per cent ([Exhibit 2](#)).⁹

13. Although the overall number of emergency bed days has been reducing, the number of emergency admissions has been increasing along with the associated costs. Patients admitted to hospital in an emergency have a shorter length of stay, but most costs are incurred in the first few days when tests,

Exhibit 2

Increase in emergency admissions and multiple emergency admission bed days, by age group, 2005/06 to 2013/14

The number of older patients admitted to hospital in an emergency and the number of bed days for multiple emergency admissions (three or more admissions in one year) have increased considerably.



Source: SMR01 activity analysis provided to Audit Scotland by ISD, November 2015

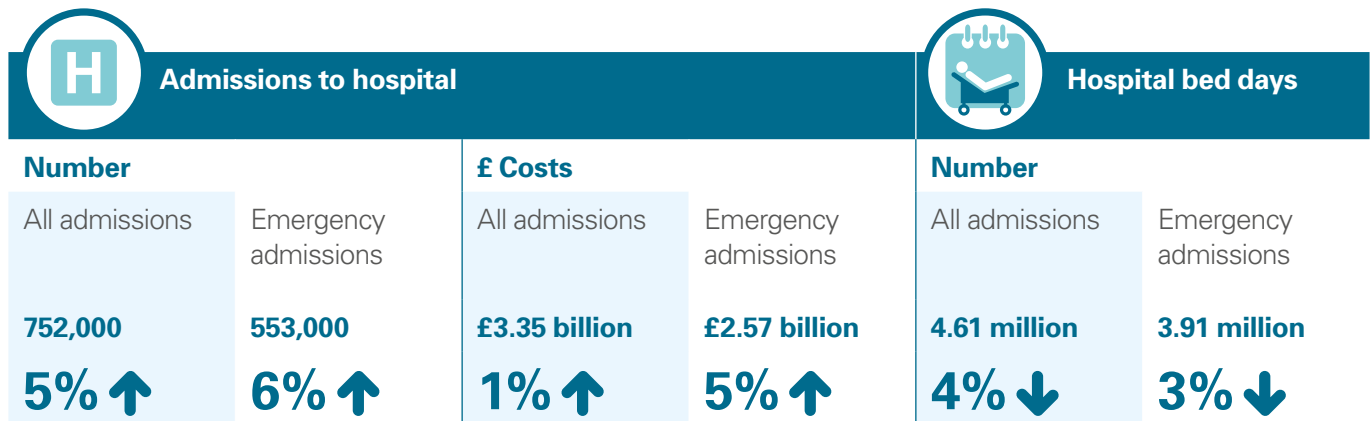
investigations or treatments are carried out. An emergency admission to hospital is more expensive than a planned admission. This means that although the percentage increases in the number of all admissions to hospital and in the number of emergency admissions are similar, the percentage increase in costs for emergency admission is higher ([Exhibit 3, page 12](#)).

14. There is more to be done to ensure that people are receiving the best care and treatment, rather than being admitted to hospital as an emergency, and to reduce hospital costs to allow more effective use of resources. An example is putting in place models of care to support older people in the community and prevent admission to hospital where possible. We highlight examples of this happening in some areas later in the report. To address the current challenges in relation to emergency admissions, a number of partners across the health and care system need to work well together. This includes GPs, community nurses and social care staff.

Exhibit 3

Changes in admissions to hospital and associated costs and bed days, 2010/11 to 2013/14

The total number of emergency bed days has been decreasing, but the number of emergency admissions has been increasing along with the associated costs.



Source: IRF–NHS Scotland and Local Authority Social Care Expenditure–Financial Years 2010/11–2013/14, ISD Scotland, March 2015; SMR01 activity analysis provided to Audit Scotland by ISD, November 2015

Health and social care services need to adapt to cope with the effects of the changing population

15. Pressures on health and social care services are likely to continue to increase over the next 15 years. It is difficult to know the extent of this growth but NHS boards and councils are finding it challenging to cope with the present demand for health and social care services. These increasing pressures have significant implications for the cost of providing health and social care services and challenges in ensuring that people receive the right care, at the right time and in the right setting. To address this, local partnerships need to redesign services to avoid unnecessary admissions to hospital. Where hospital admissions cannot be avoided, support needs to be put in place to get people home as quickly and as safely as possible. Local areas are developing approaches involving targeting both small numbers of individuals who use high levels of resources and prevention in the broader population.

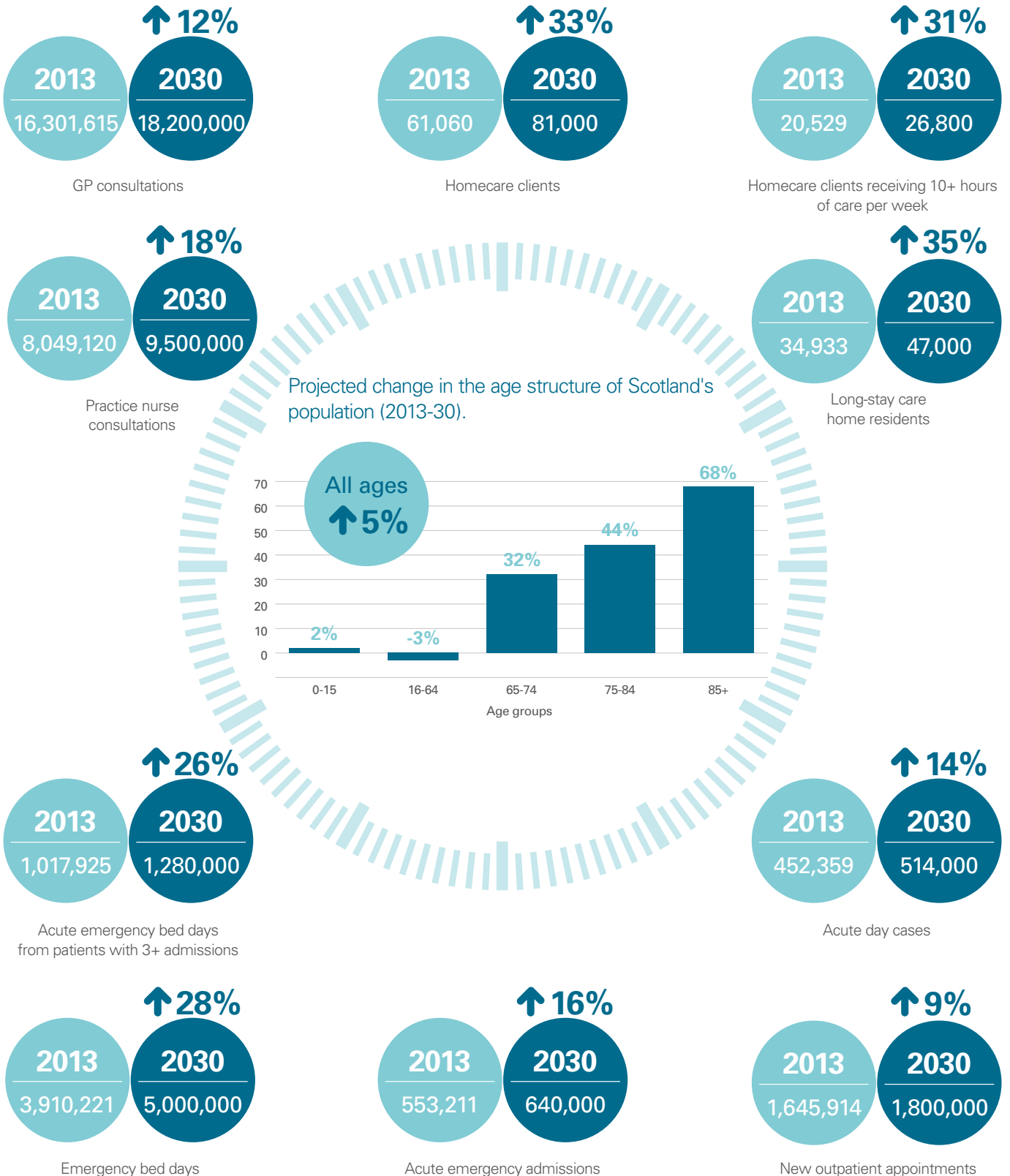
16. To help to explain the complexity of the health and social care system, and the potential impact changing demographics will have on services over the next 15 years, we have prepared [Exhibit 4 \(page 13\)](#). It shows projected rises in activity arising from a growing, ageing population. These are based on applying projected increases in the population to key measures that can indicate how well the system is working. The health and social care system is inter-related. If anything goes wrong in one part of the system, it can affect other parts of the system. The growing population will affect all parts of the health and social care system. If the population increases as predicted, and services continue to be delivered in the same way, the impact across the system is significant and highlights the need for change. Based on our projection analysis, in 2030, compared to 2013, there could be an additional:

- 1.9 million GP appointments and 1.5 million practice nurse appointments

Exhibit 4

Pressures on health and social care services, 2013-30

If current rates of activity continue, it is unlikely that health and social care services will be able to cope with the effects of the changing population unless they make major changes to the way they deliver services.



Note: Each indicator (eg, number of emergency admissions) is calculated as a rate of the population by using National Records of Scotland mid-year population estimates. The rate in 2013/14 is assumed to continue over the projection years. Over each of the projected years, the estimated rate is multiplied by the estimated projected population to find the number of the indicator.

- 20,000 homecare clients and 12,000 long-stay care home residents
- 87,000 emergency admissions to hospital and 1.1 million associated hospital bed days
- 62,000 hospital day cases and 154,000 outpatient appointments.

17. A number of factors will affect how much these pressures continue to increase, including: the ageing population; levels of deprivation and health inequalities; changes in healthy life expectancy; and the extent to which new ways of providing services are adopted, particularly preventative and community-based services. However, it is clear that health and social care services will need to be delivered differently to cope with the increasing pressures associated with the growing population.

NHS boards and councils are facing increasing financial pressures

18. The Scottish Government has estimated it would need an annual increase in investment of between £422 million and £625 million in health and social care services to keep pace with demand.¹⁰ Its assumption is based on current service models remaining the same and demand increasing in line with the growth in the older population and changes in healthy life expectancy. This level of investment is not sustainable in the current financial climate. Budgets for health and social care services are reducing. Over the period 2010/11 to 2014/15:

- The health budget decreased by 0.6 per cent in real terms, that is allowing for inflation, to £11.86 billion.¹¹ The draft health budget is set to increase by 3.6 per cent in real terms in 2016/17. It includes £250 million of funding in NHS boards' budgets for integration authorities aimed at improving outcomes in social care.¹²
- Scottish Government overall funding for councils decreased by 5.9 per cent in real terms to £10.8 billion. Between 2010/11 and 2013/14, spending on social care services increased slightly by two per cent to around £3 billion.^{13, 14} In 2016/17, Scottish Government funding for local government is set to decrease by 7.2 per cent.

GPs are central to developing new types of care, but pressures are building in general practice

19. GPs have a key role to play in coordinating care for patients, involving other professionals such as nurses, occupational therapists, physiotherapists and social workers as required. Owing to increasing pressures on GPs' time, new models of care will need to ensure patients are referred to the most appropriate professional based on needs, allowing GPs to focus on patients with complex needs.

20. There is currently a major gap in information about demand and activity for most community health services, including general practice services. Until 2012/13, the Information Services Division (ISD) of National Services Scotland collated practice team information (PTI). This will be replaced by a new system, Scottish Primary Care Information Resource (SPIRE). A phased roll out of SPIRE is due to start in March 2016 and complete by January 2017. It is essential to have good information on the patterns of use of general practice and demand for services to be able to design new models of care.

21. In the absence of published demand and activity data, a number of other indicators point to pressures building in general practice. These include patients' declining satisfaction with access to general practice, increasing patient visits to general practice, recruitment and retention issues, and dissatisfaction among GPs ([Exhibit 5, page 16](#)). These all have implications for the quality of care patients receive and their health outcomes. The National Audit Office has found that similar issues also exist in England.¹⁵ The Scottish Government is in the process of negotiating a new contract for 2017 with GPs, partly to address some of these concerns.

The Scottish Government has set out an ambitious vision for health and social care

22. In September 2011, in recognition of the challenges facing health and social care, the Scottish Government set out an ambitious vision to enable everyone to live longer, healthier lives at home or in a homely setting by 2020.¹⁶ This vision aims to help shape the future of healthcare in Scotland in the face of changing demographics and increasing demand for health services. Central to the vision is a healthcare system with integrated health and social care, and a focus on prevention, anticipation and supported self-management. Some of the main principles of the policy, particularly in relation to shifting more care and support into the community, are:

- focusing on prevention, anticipation, supported self-management and person-centred care
- expanding primary care, particularly general practice
- providing day case treatment as the norm when hospital treatment is required and cannot be provided in a community setting
- ensuring that people get back into their home or community environment as soon as appropriate, with minimal risk of re-admission
- improving the flow of patients through hospital, reducing the number of people attending A&E, and improving services at weekends and out-of-hours
- improving care for people with multiple and chronic conditions
- reducing health inequalities by targeting resources in the most deprived areas
- planning the workforce to ensure the right people, in the right numbers in the right jobs
- integrating adult health and social care.

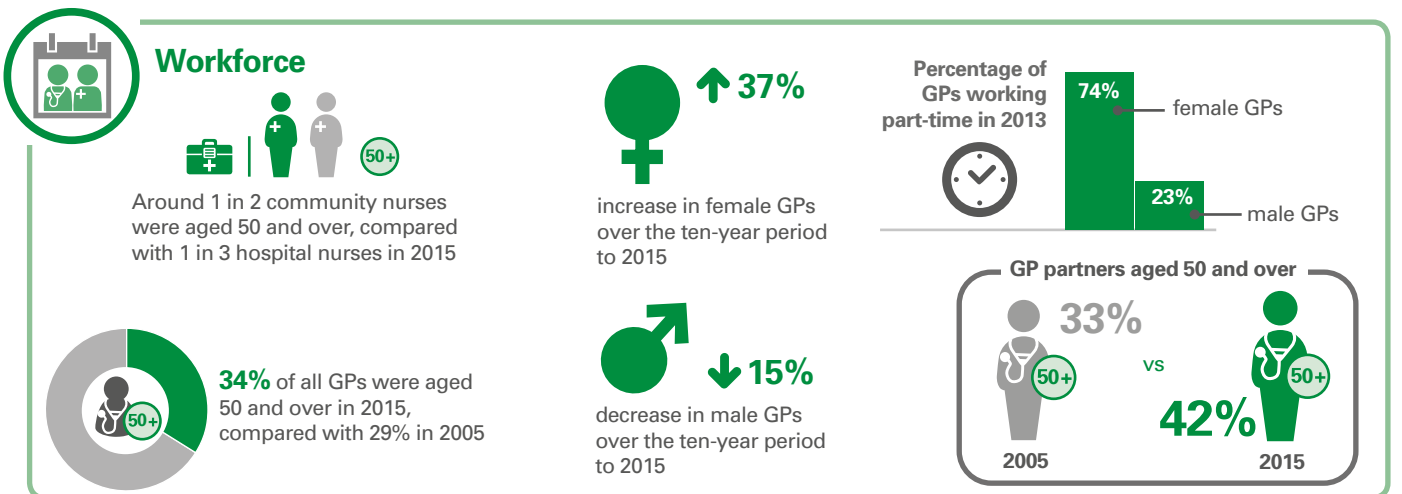
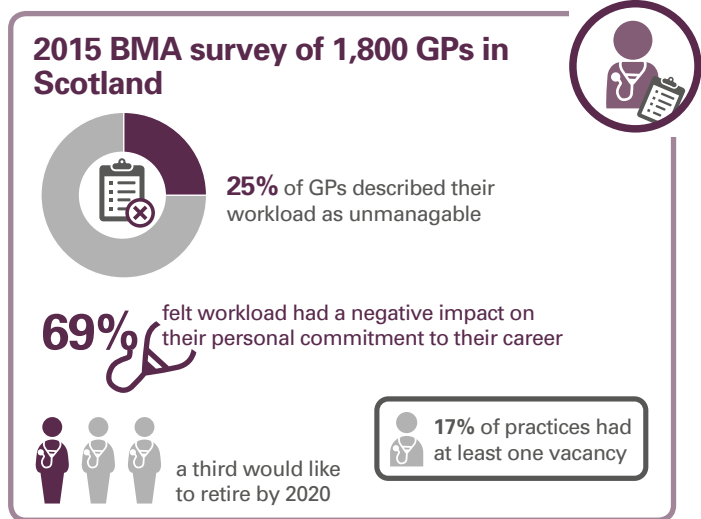
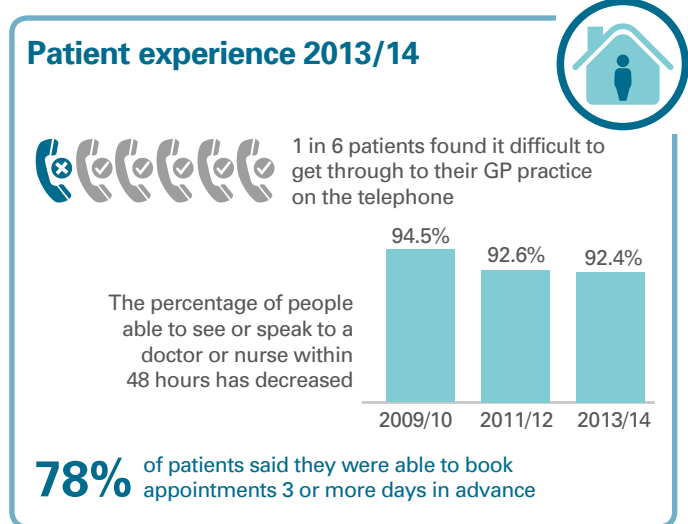
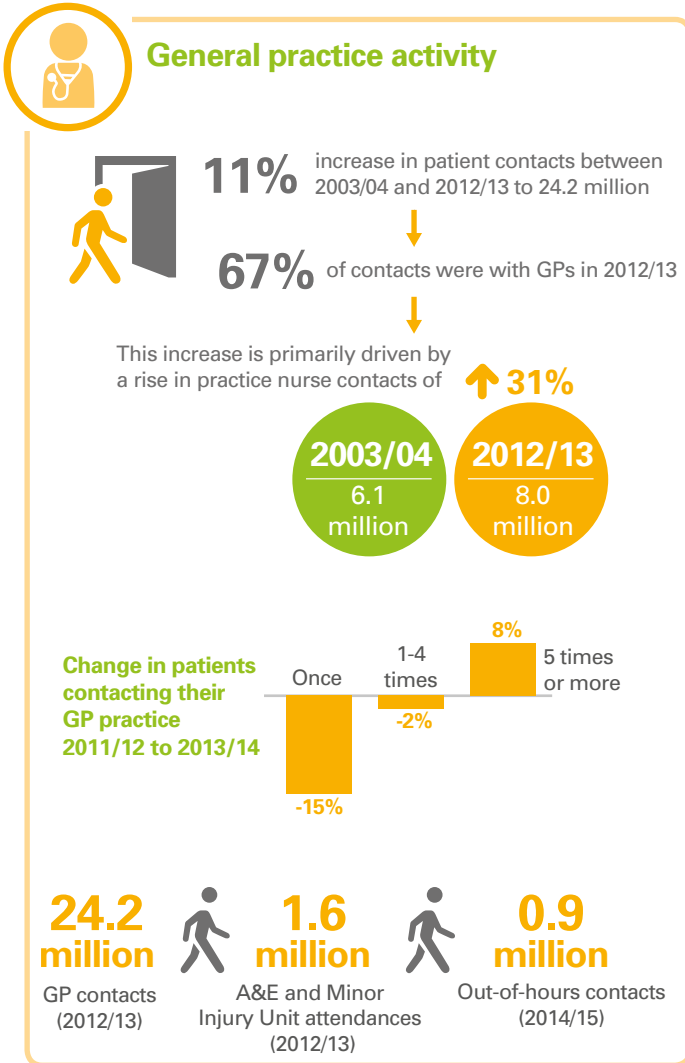
Integration of health and social care is integral to delivering the 2020 Vision

23. Health and social care services in Scotland are currently undergoing reform. Under these arrangements NHS boards and councils are required, as a minimum, to combine their budgets for adult social care, adult primary healthcare and aspects of adult secondary healthcare. This accounts for more than £8 billion of funding that NHS boards and councils previously managed separately. The new integration authorities are expected to coordinate health and care services and commission NHS boards and councils to deliver services in line with a local strategic plan. Over time, the intention is that this will lead to a change in how services are provided, with a greater emphasis on preventative services and

Exhibit 5

Indicators of building pressure in general practice

There is a lack of data on general practice activity and demand for services. But available indicators show pressures on general practice continuing to build.



Source: Health and Care Experience Survey 2013/14, Scottish Government, May 2015; Practice Team Information (PTI), ISD Scotland, October 2013; GP Out of Hours Services in Scotland, 2014/15, ISD, August 2015; A&E and minor incidents unit (MIU) activity data provided to Audit Scotland by ISD, January 2014; Primary Care Workforce Survey 2013, ISD Scotland, September 2013; The UK nursing labour market review 2013, Royal College of Nursing, September 2013; The future of general practice - survey results, British Medical Association (BMA), February 2015; Community nursing staff in post and vacancies, ISD Scotland, September 2015; Nursing and midwifery staff in post, ISD Scotland, September 2015; BMA press release, 13 March 2015; Number of GPs in Scotland by age, designation and gender, ISD Scotland, December 2015.

allowing people to receive care and support in their home or local community, rather than being admitted to hospital. The integration authorities will be responsible for delivering new National Health and Wellbeing Outcomes.¹⁷ These focus on the experiences and quality of services for people using those services, carers and their families. Examples of the outcome indicators include the percentage of adults able to look after their health very well or quite well, and the percentage of people with a positive experience of the care provided by their GP practice.¹⁸

24. Our recent report on progress towards integration of health and social care services confirms that the new integration authorities are expected to be operational by the statutory deadline of 1 April 2016. However, there are a number of issues that the integration authorities need to address if they are to take a lead on improving local services. These include agreeing budgets, and setting out comprehensive strategic plans, clear targets and timescales to show how they will make a difference to people who use health and social care services. They will also need to deal with significant long-term workforce issues and ensure that complex governance arrangements, including the structures and processes for decision-making and accountability, work in practice.¹⁹

Part 2

New ways of providing health and social care



New approaches to delivering health and social care are emerging

25. We have identified a number of new models across Scotland that are designed to deliver more care to people in community settings in line with the 2020 Vision. We have identified different types of care models in local areas, including:

- community preventative approaches
- better access to primary care and routine hospital treatments
- enhanced community care models
- intermediate care models
- initiatives designed to reduce delayed discharges.

26. We have not reviewed all new models in all areas of Scotland. We have selected a number of examples in some areas of Scotland to illustrate the different types of models that exist and to highlight particular aspects of good practice ([Exhibit 6, pages 20-21](#)). These include ten primary and community care ‘test sites’ referenced in the Scottish Government’s Programme for Government, published in September 2015.^{20, 21} Some of these are at an early stage of development and others are more established. They include:

- local GP surgeries working together for faster appointments
- GPs and health professionals, such as nurses, physiotherapists and pharmacists, working together in multidisciplinary teams
- providing treatment that patients currently have to travel to hospital to receive.

27. The Scottish Government intends to work closely with the ten test sites over the next two years to offer support and guidance and share learning.

28. We have produced a supplement to the report containing case studies ([Supplement 1 \[PDF\]](#)). There are hyperlinks throughout the report to the relevant case studies.

29. Most new care models are designed to relieve pressures on the acute sector but have an impact on different parts of the health and social care system. A high-level system diagram showing where the new models of care described in [Exhibit 6](#) sit within the overall health and social care system is set out in [Supplement 1 \[PDF\]](#).

new care models are emerging but there is a lack of evidence about what works

New models need to be implemented and evaluated properly

30. A common issue with many of the new care models being introduced across Scotland is a lack of evidence about the impact, implementation costs, efficiency gains or cash savings, and outcomes for service users. Some new ways of working are based on similar models from elsewhere, either another part of Scotland or other countries. But it is still important to monitor any new models to assess the impact on local systems and assess the costs, savings, outcomes and sustainability. This will help to assess the value for money of new models, whether the benefits justify the costs and if they should be rolled out more widely. For many of the new models that have been introduced in Scotland, it is too early to assess their impact. We were not able to carry out a cost benefit analysis for the care models described in [Exhibit 6](#) owing to a lack of local cost information.


31. Many organisations highlighted the lack of time, resource and skills as a barrier to carrying out major change and also to properly evaluating new models. Senior managers in local bodies need to recognise that a successful change programme requires strong leadership and experience in change management to take forward major changes to services. Also, sufficient resources need to be included in the business case for changes to be properly implemented and evaluated.

More can be learned from the innovation of others

32. Although not all the models and approaches listed in [Exhibit 6](#) will be directly transferable in their entirety to other areas, they each include aspects of innovation and improvement which can help inform how services could develop in other areas. In the following paragraphs we explore particular aspects of some of the models in more detail to provide a flavour of the new approaches being taken in some local areas.

Using a model of care focusing on the whole population to achieve a sustainable service

Population health models of care aim to improve the health of the entire population, rather than targeting specific age groups or certain conditions. Within this model the focus is on preventative measures and reducing inequalities.

[Case study 1 \[PDF\]](#)  provides details of a GP practice in Forfar developing a model of care focused on the whole population to improve access, health and wellbeing and to sustain services in the longer term in the light of the pressures we highlighted in [Part 1](#).

33. The Nuka model of care from Alaska, also described in [Case study 1 \[PDF\]](#) , has influenced the model the Forfar GP practice is developing. Native Alaskans create, manage and own the whole healthcare system. Multidisciplinary teams provide integrated health and care services in primary care centres and the community. These are coordinated with a range of other services and combined with a broader approach to improving family and community wellbeing.

Multidisciplinary teams working together to keep people at home


34. Recent work by the King's Fund suggests that collaboration through place-based systems of care offers NHS organisations the best opportunity for tackling the growing challenges facing them. This is where organisations work together to improve health and care for the local populations they serve.²² There are examples of place-based care in Scotland in Tayside ([Case study 2 \[PDF\]](#) ) and Glasgow ([Case study 3 \[PDF\]](#) )




Exhibit 6

New models of health and social care in Scotland

We have identified different types of new approaches to delivering health and social care in Scotland.

Community preventative approaches

These help people to stay in the community, in particular people with multiple conditions and complex needs. These approaches aim to help people self-care and to reduce people's demands for healthcare in the longer term. Examples of self-care include changing diet, taking more exercise or taking medicines at the right time.

- Two GP practices in Forfar are planning to merge into one of the largest practices in Scotland. Patients will be allocated to one of five multidisciplinary teams within the practice, each delivering a patient-centred model of care. Each multidisciplinary team will include GPs, nurses, healthcare assistants, an administrator and a named community nurse. The patients are encouraged to manage their conditions and self-care ([Case study 1 \[PDF\]](#) )
- [The House of Care](#) model is being tested in Lothian, Tayside and Glasgow. This approach encourages people living with multiple, long-term conditions to self-manage their care through joint planning, goal-setting and action planning.
- Patients with complex and/or multiple conditions from deprived areas in Glasgow may be eligible to be part of the [CAREplus](#) initiative. Inclusion allows patients longer consultations with a GP or nurse. This enables them to discuss their problems in more detail and make a list of priorities ([Case study 3 \[PDF\]](#) )
- [The Links Worker Programme](#) has placed community links practitioners in GP practices in deprived areas of Glasgow. They are not medically qualified, but link practices and patients with community-based services and resources such as lunch clubs and self-help groups based on individual patients' needs ([Case study 3 \[PDF\]](#) )


Improved access to primary care and routine hospital treatments

These approaches are designed to improve access to care for local people by health professionals working together, or in a different way.

- [New community health hubs in Fife and Forth Valley](#): Patients will be able to get access to a range of services that they would normally have had to travel to an acute hospital to receive. A new type of doctor will be part of the healthcare team. They will be qualified GPs with an extra year of training to give them the skills they need to work across primary and acute care. This training began in autumn 2015.
- [The new model of delivering healthcare for the Small Isles](#) (Canna, Rum, Eigg, Muck and surrounding islands) is a combination of telehealth facilities and improving local skills to deal with healthcare needs. This is alongside a visiting service provided through NHS Highland's new rural support team, initially led by two GPs based on Skye. The rural support team includes GPs, nurse practitioners and paramedics.





Enhanced community care

This is a multidisciplinary team approach aimed at keeping people at home or in a homely setting, managing crisis situations and avoiding inappropriate admission to hospital. Some models also support quicker discharge from hospital.

- [The Tayside Enhanced Community Support Service](#) enables GPs, with the support of a multidisciplinary team, to lead the assessment of older people with frailty and at risk of unplanned hospital admission, and to respond to any increased need for health and social care support ([Case study 2 \[PDF\]](#) )


Cont.

Enhanced community care (continued)

- **East Lothian service for the integrated care of the elderly (ELSIE):** This whole-system approach offers access to multidisciplinary and multiagency emergency care at home, or the place people call home, to older people. The service offers a single point of contact for both people who are at risk of being admitted to hospital, and to actively facilitate the discharge of people from hospital ([Supplement 2](#) )
- **Forth Valley's Advice Line For You (ALFY)** is a nurse-led telephone advice line to help older people remain well at home. Nursing advice is available 24 hours a day, seven days a week ([Case study 5 \[PDF\]](#) )
- **The Govan SHIP project** aims to reduce demand for acute and residential care and improve chronic disease management. Four GP practices in Govan Health Centre provide a multidisciplinary approach to patients of any age who are known to be vulnerable ([Case study 3 \[PDF\]](#) )
- **Community-based dementia care:** In Perth and Kinross, the closure of a number of community hospital dementia beds allowed increased investment in community mental health teams that are looking after more patients in their own homes ([Case study 8 \[PDF\]](#) )

Intermediate care

This involves time-limited interventions aimed at promoting faster recovery from illness and maintaining the independence of people who might otherwise face unnecessarily prolonged hospital stays or inappropriate admission to hospital or residential care.


- **The Glasgow Reablement Service** provides tailored support to people in their own home for up to six weeks. It builds confidence by helping people regain their skills to do what they can and want to do for themselves at home ([Case study 8 \[PDF\]](#) )
- **Bed-based intermediate care** is provided across most health and social care partnerships. **Step-up beds** are for people admitted from home for assessment and rehabilitation as an alternative to acute hospital admission. **Step-down beds** are for people who are well enough to be discharged from acute hospital but need a further period of assessment and rehabilitation before they can return home.


Reducing delayed discharges

These approaches aim to increase the understanding of the reasons for delays in patients being discharged from hospital, and find ways to reduce this. A number of models combine reducing delayed discharges with providing enhanced care in the community to prevent people being admitted to hospital in the first place.



- **Tayside Enhanced Community Support Service** (as above)
- **East Lothian Service for the integrated care of the elderly (ELSIE)** (as above)
- **The Glasgow 72-hour discharge model** ensures patients who are considered fit for discharge from hospital are discharged within 72 hours. Their options for discharge are to go home, or home with support in place if needed. Another option is for people to go to a temporary care bed for a maximum of four weeks where they will be assessed and rehabilitated and a care plan will be developed and agreed for them.
- **The East Lothian 'Discharge to Assess' service** is delivered by physiotherapists and occupational therapists who provide early supported discharge and assess patients at home, rather than in an acute setting. This includes arranging equipment, active rehabilitation and developing packages of care. The service is an integral part of ELSIE (as mentioned in the above section: 'Enhanced community care').

Source: Audit Scotland

35. A number of areas across Scotland have recently introduced an enhanced community support model. This tends to involve multidisciplinary teams delivering an enhanced level of care, working together to keep people at home or in a homely setting, managing crisis situations and avoiding inappropriate admission to hospital. Tayside has combined this model of care with a local area-based approach that aligns consultant geriatricians to GP practices ([Case study 2 \[PDF\]](#) )

36. Most enhanced community support service models are targeted towards older people. However, in one area of Glasgow, three new linked approaches to delivering health and social care are facilitating an enhanced service for anyone in the local population who is judged to be vulnerable. This includes people with mental health problems or people who use services frequently and people with complex needs. [Case study 3 \[PDF\]](#)  provides more detail of these three approaches and includes patient stories to illustrate the difference the new approaches have made to people using the service.

Nurse-led approaches that maximise the population's resilience



37. The Buurtzorg model of care from the Netherlands is an example of an effective nurse-led approach to delivering health and social care that maximises people's resilience (their ability to withstand stress and challenge) ([Case study 4 \[PDF\]](#) ). Health and social care organisations can help to build people's resilience by: supporting them to look after themselves; providing preventative services that keep them well in the community; and by ensuring they know how to access help if things go wrong. Forth Valley has introduced some of the elements of this approach in its Advice Line For You (ALFY) model ([Case study 5 \[PDF\]](#) .

38. The ALFY model's *Your Plan* enables people to take responsibility for the challenges they face and to use their own skills and abilities, and friends, family and people who care for them, to develop resilience. This echoes the Buurtzorg service that promotes self-care, independence and the use of informal carers. The Buurtzorg model has improved the quality of patient care through round-the-clock access to a district nursing team by telephone or a home visit service. Results have shown:

- a correlated decrease in unplanned care and hospital admissions
- better patient satisfaction, when compared to other homecare providers in the Netherlands.²³

Longer-term strategic approaches

39. We have found evidence of longer-term programmes supporting the 2020 Vision, where organisations have built on previous work, identified priority areas to focus on and are working on scaling up a number of models:

- The Scottish Ambulance Service's strategic approach to patient care involves closer working with primary care teams to ensure patients are referred to the most appropriate service, and to avoid admission to hospital wherever possible ([Case study 6 \[PDF\]](#) .
- The Scottish Centre for Telehealth and Telecare's Technology Enabled Care Programme encourages more use of established technology to help improve health and wellbeing outcomes ([Case study 7 \[PDF\]](#) .

Taking a whole-system approach

40. East Lothian partnership is taking a whole-system approach to understanding its local population and planning health and social care services and has the following long-term objectives:


- to increase the percentage of over 65s living at home
- to increase the percentage of spending on community care compared with institutional care
- to increase years of healthy life.

41. East Lothian recognises a number of challenges to providing health and social care services to its local population. East Lothian is developing intelligence about various parts of the health and social care system and using it to improve the way it delivers services. An analysis of East Lothian's population and primary care data shows:

- an ageing population with increasing levels of frailty and complex health needs
- increasing hospital admissions in some local areas from younger people with increasing long-term conditions and ill-health
- the groups of people who use a disproportionately high level of health services are those who are nearing the end of their life, are in care homes or have mental health needs
- relatively low numbers of people being admitted to hospital in an emergency, but high rates of occupied bed days and delays in discharge from hospital
- variety in the quality of access to GPs in different practices across East Lothian
- a predicted shortage of GPs owing to an ageing workforce
- preliminary information on the demand levels on GPs, such as the percentage of the practice population presenting to the GP each week.

42. To meet its objectives, East Lothian is focusing on:

- understanding the pattern of service use by high resource users and working out ways of intervening earlier to improve the support people receive and reduce unnecessary demand for services
- expanding ELSIE for people who are at risk of admission to hospital or have just been discharged from hospital to 24 hours a day, seven days a week
- supporting primary care services to meet demand to improve access for patients and to promote early intervention and prevention
- conducting a comprehensive bed modelling exercise to address the problem of delayed discharges, bring patients from Edinburgh hospitals closer to home and ensure efficiency and effectiveness of services.

43. East Lothian is bringing together growing intelligence about its population, how people access services, and various strands of work which all aim to improve how it delivers services. This is allowing the partnership to build a comprehensive picture of the needs of its local population. It is also taking into account how changes to services affect different parts of the health and social care system and how these are linked. However, the partnership still has to fully evaluate the impact of new ways of working it has recently introduced. The different elements of East Lothian's whole-system approach to health and social care are summarised in [Exhibit 7 \(pages 24-25\)](#). An interactive version of this exhibit is set out in [Supplement 2](#)  and provides more detail on the overall approach.

Part 3

Making it happen



The transformational change required to deliver the 2020 Vision is not happening

44. Public sector bodies have continued to deliver health and social care services in an increasingly challenging environment. This includes tightening budgets, changing demographics, growing demand for services, increasing complexity of cases and rising expectations from people who use these services. Alongside these pressures, NHS boards and councils are implementing major service reform to integrate adult health and social care services. It is clear that services cannot continue in the same way within the current resources available.

45. Transformational change is required to meet the Scottish Government's vision to shift the balance of care to more homely and community-based settings. NHS boards and councils need to significantly change the way they provide services and how they work with the voluntary and private sectors. Traditionally there has been an emphasis on hospital and other institutional care rather than the community-based and preventative approach outlined in the 2020 Vision. We have highlighted in previous reports that despite the Scottish Government's considerable focus and resources aimed at shifting the balance of care over a number of years, this has not changed to any great extent.²⁴ We will monitor trends in the balance of care as part of our ongoing work on health and social care integration.

46. Over the four-year period from 2010/11 to 2013/14, the balance of expenditure on institutional services, such as hospitals and care homes, and on care at home or in community settings, has remained static. The percentage of total expenditure on adult health and social care (around £11.7 billion) has remained at 56 per cent for institutional-based care and 44 per cent for community-based care ([Exhibit 8, page 27](#)).

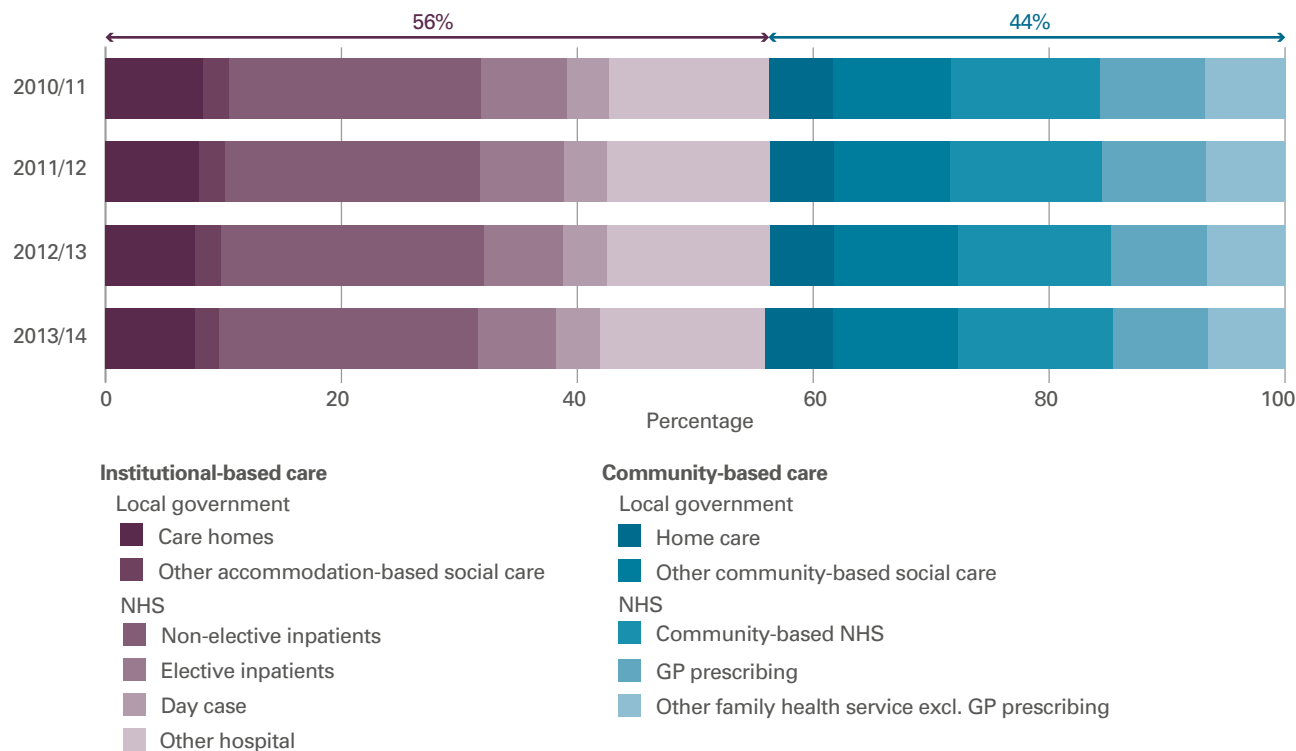
47. Our 2015 annual report on the NHS in Scotland highlighted that the Scottish Government has not made sufficient progress towards achieving its 2020 Vision of changing the balance of care to more homely and community-based settings.²⁵ In this audit looking at changing models of care, we found that there are many small-scale models and pilots across Scotland delivering new approaches to health and social care. However, there is limited evidence of transformational change happening on the scale required to meet the objectives of the 2020 Vision. Most initiatives are at a relatively early stage and have yet to be fully evaluated. This means the potential outcomes for service users and impact on resources are still to be fully established. Currently clear plans are lacking at a national and local level about what is needed to sustain new models of care. Examples include the funding, workforce and long-term planning requirements that are needed to ensure successful pilots are continued and scaled up.

the Scottish Government needs to provide stronger leadership by developing a clear framework to guide local development

Exhibit 8

Breakdown of adult health and social care expenditure, 2010/11 to 2013/14

The proportion of expenditure on institutional and community-based care has remained static.



Note: **Other accommodation-based social care** includes sheltered housing, hostels and supported accommodation. **Other community-based social care** includes meals, community service, prison social work, youth crime and youth work services. **Other hospital** includes maternity inpatients, special care baby units, outpatients and day patients. **Other family health service excl. GP prescribing** is General Medical Services expenditure.

Source: IRF–NHS Scotland and Local Authority Social Care Expenditure–Financial Years 2010/11–2013/14, ISD Scotland, March 2015



48. In June 2015, the Cabinet Secretary for Health, Wellbeing and Sport confirmed that the Scottish Government and NHS boards had not made sufficient progress towards delivering the 2020 Vision. At the same time, the Scottish Government announced plans to launch a new national conversation on the future of healthcare in Scotland. The Scottish Government decided to consider a longer-term plan, beyond 2020, to make more progress and increase the pace of implementing the vision and to expand the current focus of the vision.

49. The Scottish Government has engaged with staff, service users and other interested groups about improving the health of the population and its plans for health and social care services. It published a National Clinical Strategy in February 2016 setting out its plans for health and social care in Scotland over the next 10 to 15 years. The Scottish Government has published this strategy to help partners as they implement the 2020 Vision. The strategy also comments on the direction of travel beyond 2020. The new strategy describes a number of new proposals and changes to current services. GPs will focus on care that is more complex and the wider primary care team will develop extended skills and responsibilities. A new structure is proposed for a network of hospital services with more specialities planned and provided on a regional or national basis. There is also a strong focus on the need to reduce waste, harm and variation in treatment and making more use of technology to support and improve care.

The Scottish Government needs to provide stronger leadership and a clear plan for implementing the 2020 Vision

50. The Scottish Government's overall aim of enabling everyone to live longer, healthier lives at home, or in a homely setting, by 2020 is widely accepted. In May 2013, the Scottish Government set out high-level priority areas for action during 2013/14.²⁶ This lacked a clear framework of how it expects NHS boards and councils to achieve this in practice, and there are no clear measures of success, such as milestones and indicators to measure progress. The cost implications of implementing the 2020 Vision are unknown and there is a lack of detail about the main principles of the policy (paragraph 22). There is also slow progress in developing the workforce needed for new models of care and a lack of information about capital investment to support the 2020 Vision.²⁷ The recently published National Clinical Strategy is intended to provide a clearer framework, but it does not detail how the high-level proposals will be implemented or contain any milestones or indicators or financial analysis.

51. The introduction of health and social care integration means there is now much more flexibility for partners to develop local solutions to local problems as they develop services and support systems to help people to live independently at home or in a homely setting. There is still an important role for Government to set the strategic direction and then to provide the support local partners need to ensure they are able to implement more effective models of care, if the pace of change is to increase.

52. In order for the 2020 Vision and the National Clinical Strategy to be realised, the Scottish Government needs to clarify:

- the immediate and longer-term priorities for local bodies to focus on
- a clear framework to guide local development of new care models, including the types of models to be tested, the resources required (such as funding and skills, job roles and responsibilities of the workforce), and how new models will be tested and rolled out in a coordinated way
- long-term funding plans to help implement the 2020 Vision and the National Clinical Strategy, to allow local bodies to plan and implement sustainable, large-scale changes to services
- how it will measure progress, for example by setting milestones and indicators.


The Scottish Government needs to identify priorities and risks

53. The Scottish Government needs to provide a clear plan now about what needs to be done to reach its longer-term strategy up to 2030. It should identify short, medium and long-term priorities for delivering its vision over the next 15 years. Examples include focusing on implementing high-impact changes to providing services in the short term, identifying the funding and other resources required for the medium term and achieving improved outcomes for the population in the long term. In its plans, the Scottish Government needs to identify and take into account specific risks to delivering its 2020 Vision and longer-term strategy. This should include the following:

- The risks we have highlighted in our report on health and social care integration. Up to late 2015, the focus has been on getting the structures and governance in place for health and social care integration. The Scottish Government will need to ensure that the new partnerships make the transition to focusing on what needs to be done on the ground to make the necessary changes to services.
- Health and social care budgets. Real-terms reductions in NHS and council budgets will pose risks to implementing new models and shifting more care into community-based settings. Council budgets have seen significant cuts in recent years and although new integrated health and social care budgets should allow funding to flow from NHS to social care budgets, it is not yet certain this will happen in practice. Councils and NHS boards are finding it difficult to agree budgets for the new integration authorities.
- The building pressures in general practice, including problems with recruiting and retaining the workforce. The new GP contract that will come into effect in Scotland in 2017 will be crucial in managing the role of general practice in helping to implement the changes required to meet the 2020 Vision. The role of GPs in moving towards the 2020 Vision should be a major focus of the discussions between the Scottish Government and the profession as the new contract terms are developed.

The Scottish Government should outline clear principles for implementing new care models

54. Various principles should be followed for new care models to be implemented, tested, evaluated and rolled out successfully. If local bodies are to expand and roll out new models, they must have thorough information on the costs involved for planning and ensuring the models are sustainable. The Scottish Government has not provided an estimate of the investment needed to implement its 2020 Vision and longer-term strategy, and whether it can be achieved within existing resources. It needs to model how much investment is needed in new services and new ways of working and if it can be achieved within existing and planned resources.

55. Staff implementing new models should have a business plan that clearly details how they will implement, monitor and review them. [Exhibit 9 \(page 30\)](#) summarises principles for implementing new care models. It draws on the information collated from our fieldwork and the learning shared by local bodies and other organisations. Links to toolkits and reports that may be useful for NHS boards, councils and integration authorities for implementing new models of care are included in [Supplement 1 \[PDF\]](#) .

56. Few of the models outlined in [Exhibit 6](#) have been fully costed or properly evaluated. In several cases, it is too early to assess the impact of new ways of working. However, sometimes this is due to the lack of good monitoring data or the lack of skills and resources to carry out an evaluation. Generally, there is a lack of evidence of community-based models having a major impact and clarity about what works. This is a common problem, not unique to Scotland, but a crucial one to address so that local areas can efficiently identify and implement the most effective models.²⁸

Exhibit 9

Principles for planning, implementing, monitoring and reviewing new care models

New care models should be properly planned, implemented, monitored and evaluated to ensure value for money and sustainability.






Source: Audit Scotland

Mechanisms to support a significant shift in resources from acute to community settings are needed

57. Moving towards more community-based care is central to the 2020 Vision, but the balance of care is not shifting (Exhibit 8). To achieve the transformational change required to meet the 2020 Vision, the Scottish Government needs to

identify mechanisms that will drive a significant shift of resources from acute to community settings. Some local partnerships have found innovative ways to overcome barriers to improvement, but more can be done to facilitate change locally. The Scottish Government has an important role to play in supporting local bodies make these changes.

58. There are tools that can facilitate the transfer of resources across a local system, demonstrated in the examples seen in Tayside, Glasgow and Highland ([Case study 8 \[PDF\]](#)  and [Case study 9 \[PDF\]](#) ). Scotland could apply learning from other countries. For example, Canterbury, New Zealand, shifted the balance of care through strong leadership, a clear vision, and a collaborative and whole-system approach. An important factor was its focus on 'one system, one budget'. It prioritised spending on those in greater need to reduce relying on residential care and to keep people in their own homes for longer. This had the effect of reducing demand and costs for hospital and other institutional care, and allowed for more investment in the community ([Case study 10 \[PDF\]](#) .

59. The Scottish Government needs to identify what balance of care it wants to achieve, what this will look like in practice and the financial implications of achieving this. The Scottish Government should challenge local partnerships to be clear about their specific ambitions in relation to the balance of acute and community care in their local areas, with clear timescales and milestones for achieving it.

60. The continued focus on targets in the acute sector is counterproductive to moving more funding into the community. NHS boards are under significant pressure to meet challenging hospital waiting time targets. This means that the acute sector continues to absorb considerable resources to meet these targets. A focus on short-term funding and increasing use of the private sector to help meet targets does not demonstrate value for money. The focus on annual targets does not help to achieve the longer-term aims and objectives of the NHS. Integration authorities are required to deliver outcome measures. This recent development with a greater focus on improving people's experiences of health and social care services is more helpful than focusing on narrow performance targets.

61. The Scottish Government needs to identify adequate and timely longer-term funding to support transformational change. It has provided multiple short-term funds to help local bodies implement change, but these do not provide the level of funding or certainty to make large-scale sustainable changes.²⁹ It has announced a £30 million transformational change fund to 'support creativity and transformation' in its draft budget for 2016-17.

62. In 2014, we reported on progress of the Scottish Government's policy of reshaping care for older people.³⁰ As part of this audit, we considered the impact of the £300 million Change Fund over four years, introduced by government in 2011/12 to support its policy. We found that the Change Fund had led to the development of a number of small-scale initiatives, but that they were not always evidence-based or monitored on an ongoing basis. It was unclear how successful projects would be sustained and expanded.³¹

63. Similar challenges in transforming services to have a greater focus on community-based care are also evident in England. There may be lessons to learn from the approach NHS England is taking to testing and rolling out new models of care, but it is too early to assess the effectiveness of its approach.

The Health Foundation and the King's Fund have recommended that existing disparate strands of funding for transforming services in NHS England should be pooled into one transformation fund. They also recommend that a single body, with strong, expert leadership, oversees the investment for transformational change and that ongoing evaluation should be a core activity of the fund. They advise that the fund must be properly resourced to support investment in the four key areas that are essential for successful transformation: staff time, programme infrastructure, physical infrastructure and double-running costs.³²

There is a lack of coordinated, clear and accessible learning

64. The current fragmented approach to implementing new ways of working means that the learning within individual organisations, and the work carried out by various national bodies, is not being consolidated. The Scottish Government needs to coordinate new ways of working and information at a national level to ensure a more efficient and effective approach. The Scottish Government should draw on successful improvement models it has implemented in other areas, such as its patient safety programme.

65. Support for service change and improvement has been available to local bodies from a number of national organisations, such as the Quality, Efficiency and Support Team (QuEST) within the Scottish Government, Healthcare Improvement Scotland (HIS), ISD, the Scottish Centre for Telehealth and Telecare, and the Joint Improvement Team (JIT). However, the activities of these various organisations are not well coordinated. They all have slightly different roles and the learning from the work they do with local bodies is not drawn together. A significant amount of information is available on the various organisations' websites, but it is not always easy to navigate or identify the key information partners should use when they are considering implementing a new model of care. This information could be used to better effect to help increase the pace of change.

66. From April 2016, QuEST, HIS and JIT will combine into one integrated improvement resource. Its overall aim is to support and facilitate NHS boards, integration authorities and their partners to deliver care and support that will improve health and wellbeing outcomes for their populations.³³ This new integrated improvement resource is a positive step and will facilitate a more coordinated national approach and will make better use of improvement resources available to support partnerships.

The public's perception of health and social care services needs to change

67. The Scottish Government first set out its vision for a different health and social care system in 2011, but the system remains largely the same, and the public has not seen major redesign of local services in many parts of Scotland. NHS boards, councils and integration authorities will need to adopt innovative models of care and ways of working that are quite different from traditional services to provide opportunities for better care. They will need to exercise much more flexibility in how they use resources, such as money; assets, including buildings and equipment; and their workforce. This involves making difficult decisions about changing, reducing or cutting some services. Services cannot continue as they are and a significant cultural shift in the behaviour of the public is required about how they access, use and receive services. The introduction of health and social care integration provides an opportunity to engage more directly with communities about services and the need for change.

68. Local communities have strong ties to existing services which can make discussions about changes difficult, for example discussions about changing how hospital services are delivered. There are recent examples in NHS Tayside where the board consulted extensively with the public about closing community hospital beds. The board explained why it needed to close beds and the benefits of providing services differently. It also engaged with patients and their families about their needs and how they could best be met in the new care model in a more homely setting. By closing care of elderly and dementia beds in a number of community hospitals, NHS Tayside has been able to shift more resources into community teams. This has allowed many more patients to be supported in the community and they are now receiving care in their homes instead of being admitted to hospital ([Case study 8 \[PDF\]](#)). It is important that NHS boards, councils and partnerships involve staff and local people as they develop new models of care. The Nuka model of care illustrates the benefits of staff and local people being closely involved in developing their local services ([Case study 1 \[PDF\]](#)).

69. The Scottish Government cannot make the significant changes that are required on its own. Local bodies also need to work closely with staff to develop and implement new ways of working. Fifty-five per cent of staff in NHS Scotland responding to the 2015 national staff survey reported that they are kept well informed about what is happening in their NHS board. Only 28 per cent of staff reported that they are consulted about change at work.³⁴ A focus on local populations within integration authorities will have an important role in reforming how to deliver services. This should bring together local GPs and other health and care professionals, along with service users, to help plan and decide how to make changes to local services.

NHS boards and councils can do more to address barriers and facilitate change

70. Staff within NHS boards and councils still face many barriers to making the level of changes required. We highlighted in [Part 2](#) some examples of new care models being introduced across Scotland. Staff leading these often faced difficulties getting these in place or rolling them out. But new models have been successfully implemented where staff have taken a strategic approach with clear plans, aims and outcomes. Some of the main challenges to implementing new models include:

- overcoming structural and cultural barriers when bringing together staff from different parts of an organisation or from different organisations
- freeing up staff time to develop and implement new care models
- securing funding for new approaches owing to limited evidence of what works
- having resources for a long enough period to be able to fully test new models to demonstrate any benefits and outcomes for service users
- lack of robust evaluation of new models and being able to identify the attributable impact of a particular approach alongside other services and programmes
- temporary funding and staffing preventing the models continuing or expanding
- shifting resources from acute to community-based settings to allow new care models to develop significantly in line with national policy.

Funding needs to be focused on new community-based models

71. At the same time as dealing with increasing demand, NHS boards are facing a tightening financial position and councils are experiencing budget cuts ([Part 1](#)). The NHS is finding it difficult to release funding from the acute sector to increase investment in the community. Councils are finding it difficult to fund the level of social care services required to meet current demand, and the demands on health and social care services are likely to continue to increase. Barriers to releasing funding to invest in new care models include the following:

- Some NHS boards are overspending against their planned hospital budgets owing to pressures on hospital services. This makes it more challenging to release any funding to invest in community-based services. For example, NHS Highland has overspent on its budget for Raigmore hospital over the last five years (£9.6 million in 2013/14) and NHS Fife has overspent on its acute services division budget for the last two years (£10.6 million in 2014/15).^{35, 36} In August 2015, NHS Greater Glasgow and Clyde reported spending levels of £5.3 million over its projected acute services division budget. The board had aimed to be £1.7 million over of its budget at that point in the year to be able to achieve a breakeven position by the end of the financial year.³⁷
- Investment in NHS community-based services has not increased at the same rate as investment in hospital-based services. Between 2010/11 and 2013/14, spending on community-based services increased by 4.9 per cent in cash terms, but reduced by 0.5 per cent in real terms. Spending on hospital-based services increased by 8.4 per cent in cash terms and by 2.8 per cent in real terms.³⁸
- Making improvements in preventing hospital care can increase costs in the community. For example, new care models to prevent admission to hospital increase the costs in community-based health and social care services, such as additional homecare, but the savings in hospital care are often not realised or transferred.
- New community-based care models may place additional pressure on councils already struggling to cope with demand for social care services and are not sustainable without a shift in funding.
- Public and political resistance to closing local hospitals or wards makes it difficult to release significant amounts of funding to invest in radically changing the way services are delivered.
- Closing a small number of hospital beds, or one or two wards, releases limited cash as many of the overhead costs remain or are only slightly reduced. Examples of overhead costs include theatre costs, input from staff covering a number of wards or specialties, cleaning and porter costs, and heating and lighting costs.

72. We did find some examples of local areas overcoming these difficulties and finding innovative ways to direct more funding to community-based care models. In Tayside, closure of community hospital dementia beds has allowed increased investment in community-based teams that are looking after more patients in their own homes. In Glasgow, the reablement service is helping more people to live independently and freeing up more resources for homecare

services ([Case study 8 \[PDF\]](#)). In Perth and Kinross and Highland, local areas are using tools to manage scarce resources and competing demands ([Case study 9 \[PDF\]](#)). There are also lessons from other countries. In Canterbury, New Zealand, a long-term transformational programme and integrated system has increased investment in community-based care and shifted the balance of care ([Case study 10 \[PDF\]](#)). The introduction of health and social care integration brings opportunities for partners to overcome barriers to shifting resources to more community-based and preventative services.

Changing models of care have implications for the structure and skills of the workforce

73. NHS boards and councils face major challenges in ensuring that staff with the right skills are able to provide new community-based models of care to meet the needs of the population. Recruiting and retaining staff on permanent contracts remains a significant problem for the NHS and the social care sector. In the NHS, vacancy rates, staff turnover rates and sickness absence levels all increased during 2014/15. Our [NHS in Scotland 2015 \[PDF\]](#) report stated that a national coordinated approach is needed to help resolve current and future workforce issues. It highlighted that the approach should assess longer-term changes to skills, job roles and responsibilities within the sector as well as aligning predictions of demand and supply with recruitment and training plans. This is necessary to help ensure the NHS workforce adapts to changes in the population's needs and how services are delivered in the future. We plan to carry out further work on the NHS workforce during 2016/17.


74. Over many years, councils have had difficulties recruiting and retaining care home and homecare staff. Organisations in areas such as Edinburgh and Aberdeen, with high living costs, have had particular difficulties. There is a need to develop a valued, stable, skilled and motivated workforce. We plan to publish a report on Social Work in Scotland in Summer 2016. This will examine issues with recruiting and retaining social work staff in more detail.

75. To shift to more community-based services and care in homely settings, the availability and development of community-based staff with the right skills is crucial. But the balance of community-based staff has not increased significantly in recent years. For example:

- Between 2009 and 2013, the estimated number of GPs in post in Scottish general practices increased by less than one per cent, from 3,700 WTE to 3,735 WTE. The Royal College of General Practitioners in Scotland has calculated that an additional 740 GPs are required in Scotland by 2020, based on predicted population growth.³⁹
- Between 2009 and 2014, there have been some changes in the number of people in the social care workforce. Adult day care services staff decreased by nine per cent. The number of adult care home staff increased slightly (one per cent). Staff providing housing support and care at home services increased overall by four per cent, however decreased by three per cent between 2009 and 2013, and only increased again between 2013 and 2014 by six per cent.⁴⁰ Between 2010 and 2014 the number of people receiving homecare fell by nearly seven per cent to 61,740, while the total number of homecare hours rose by over seven per cent to 678,900. The number of people receiving ten or more hours of homecare per week, those with more complex needs, increased by four per cent to 21,700.⁴¹

76. A number of other workforce issues were raised in our fieldwork, including the following:

- Limited capacity in general practice to cope with increasing demand.
- An increasing workload for GPs and the wider primary care team from monitoring patients on long-term medicines.
- GPs do not have protected time for service development, research and strategic meetings. This makes it difficult for GPs to get involved in developing new care models.
- Fewer junior doctors are choosing general practice as a profession.
- Problems recruiting nurses in specialty areas linked to caring for frail and elderly patients.
- A need to train more nurses who currently work in hospitals so they can work in the community.

77. Some local areas are finding solutions to the workforce issues we describe above. We found examples of different groups of staff getting involved in new community-based care models to reduce the pressure on limited GP capacity. Different professions are also working together in multidisciplinary teams to provide more efficient and better quality care, for example in Glasgow, Grampian and East Lothian ([Case study 11 \[PDF\]](#) .

78. BMA Scotland has set out a new role for GPs. It has proposed that GPs should be the senior clinical decision-makers in the community, become more involved in making improvements across the system and focus on complex care in the community. This would mean GPs being less involved in more routine tasks and other health professionals in the wider community team taking on extended roles.⁴² This is a proposal in the new National Clinical Strategy. A review of primary care out-of-hours services also recognises the importance of a multidisciplinary team approach and the contribution of the wider team. It proposes a new model for patient access to out-of-hours care.⁴³

79. In June 2015, the Scottish Government announced it was providing a primary care investment fund of £50 million over three years to help address workload and recruitment issues in primary care. It is a modest amount and represents around 3.5 per cent of the Scottish Government's primary and community services budget.⁴⁴ The Scottish Government anticipates that it will provide an initial impetus to encourage GPs to try new ways of working over the next three years. But it is not clear how its effectiveness will be monitored.

80. Key elements of the three-year fund include the following:

- Primary Care Transformation Fund allocating £20.5 million to GP practices to test new ways of working to address current demand. The Scottish Government is developing a framework for the fund and is inviting health boards and integration authorities to develop proposals to test new ways of working in primary care. Information on the application process and selection criteria was made publicly available in February 2016.

- An investment of £16.2 million for Pharmacist Independent Prescribers to recruit up to 140 new pharmacists. The aim is that they will work with GP practices to help care for patients with long-term conditions and to free up GPs' time so they can spend it with other patients.
- A GP Recruitment and Retention Programme of £2.5 million to explore the issues surrounding recruiting and retaining GPs. The programme will implement proposals to increase the number of medical students who choose to go into GP training and encourage GPs to work in rural and economically deprived areas.
- A £6 million Digital Services Development Fund to help GP practices put digital services in place more quickly. This includes developing online booking for appointments and implementing webGP, an electronic consultation and self-help web service hosted on a GP practice's website.
- The balance of just under £5 million will be used to fund:
 - equipment to enable optometrists to screen people for glaucoma
 - changes to front-line services so that Allied Health Professionals, such as physiotherapists, can better support active and independent living
 - a leadership programme to equip GPs with the necessary skills to play a leading role in developing local integration work
 - additional research and training through the Scottish School of Primary Care.⁴⁵

81. In February 2016, the Scottish Government announced a further £27 million investment over the next five years to develop the NHS workforce. This includes £3 million to train 500 advanced nurse practitioners and over £23 million to increase the number of medical school places and widen access to medical schools. A new entry-level programme will be introduced to support and encourage more people from deprived backgrounds to study medicine.

82. Many general practices are struggling to recruit and retain staff. During 2015, NHS boards had to support nine practices that were not able to continue as successful businesses and provide the services required to their local population. This may become an increasing problem in light of the building pressures we have outlined throughout this report what impact it has on. Where NHS boards have had to step in, it is not clear what impact this has had on the performance of practices and the services provided to patients. The Scottish Government should monitor these practices for any improvements or deterioration in the way services are provided, and share any learning.

A better understanding of the needs of local populations is required


83. NHS boards, councils and partnerships need to have a good understanding of their local population and how people use different services so they can provide services that effectively meet local needs. This understanding can help to identify where resources, including money and staff, are being directed and if they are using these resources in the best way. It can also help to identify changes required to the way services are delivered and how resources can be redirected to priority areas.

84. We found that NHS boards, councils and partnerships are at varying stages with this kind of analysis and taking different approaches to it. However, integration authorities will all have to carry out needs assessments of their local population, and this is an important step in improving local analysis. The organisations that are making good use of their local data are starting to think differently about how they can best deliver and redesign services. They are identifying a small number of priorities to focus on, which is much more manageable than trying to fix everything at once. It is also more effective than having too many small-scale projects that are difficult to manage and unlikely to demonstrate a significant impact.

Health and social care data is improving

85. ISD is developing an extensive database of linked data on health and social care activity and costs and demographic information. It is making this information available to NHS boards, councils and partnerships to help them gain a better understanding of the needs of their local population, current patterns of care and how resources are being used. The Health and Social Care Data Integration and Intelligence Project (HSCDIIP), now known as Source, is a long-term project that aims to support integration authorities by improving data sharing across health and social care.⁴⁶ From April 2015, the central team has begun sharing local data in the form of an interactive dashboard that contains easy-to-read information summaries. This has required local areas to sign an information governance agreement to enable NHS boards and councils to view each other's data across a local population. Some partnership areas have taken some time to get these agreements in place and therefore gain access to the analysis. As at February 2016, five partnerships had finalised these agreements and undergone training for the software that will allow them to access and analyse the linked data for their local area (Angus, Borders, Dumfries and Galloway, East Renfrewshire, and Midlothian). This is the first time this linked data has been available and this is a valuable resource for partnerships.

86. ISD is also providing data and analytical support through a Local Intelligence Support Team (LIST) initiative. This allows partnerships to have an information specialist from ISD working with them in their local area. The central team can also provide additional support and tailored analysis. This includes forecasting costs, pathway analysis to show how individuals move from one service to another, and the resource associated with the use of different services at a local population level.

87. Some areas have made good use of the support provided by the Source team to better understand their population and also the data that has been made available to them. This includes Perth and Kinross, East Lothian, and West Dunbartonshire ([Case study 12 \[PDF\]](#) )







88. These examples demonstrate how detailed analysis of local data at a local area and individual level is crucial in understanding the needs of a population, how people are currently using services and how costs are incurred. This then provides local areas with the information they need to identify how services can be provided differently and more efficiently to provide better outcomes for people and reduce costs. Using this information to identify the individuals at most risk of their health deteriorating allows preventative measures to be put in place or for care to be provided in a more effective and efficient way. This has the potential to free up resources across the whole system. If local areas do not have this level of information, they will not be able to properly plan or transform services in the future.



89. ISD is in a good position, through the Source and LIST work, to share good practice about data analysis across all partnership areas. ISD held a conference in September 2015 to share early learning from across Scotland. ISD should continue to share good practice. This could include:

- hosting further national events
- publishing good practice examples on its website to illustrate how local areas are making good use of data
- developing toolkits to assist partnership areas to identify appropriate approaches to analysing and understanding local data.

Endnotes



- ◀ 1 *Projected Population of Scotland* (2014-based), National Records of Scotland, October 2015.
- ◀ 2 There is a discontinuity in healthy life expectancy (HLE) data owing to a change in methodology to align with the European Union. This results in estimates of HLE at birth from 2009 onwards being over eight years lower than in 2008 for each sex.
- ◀ 3 *Healthy life expectancy: Scotland*, Scottish Public Health Observatory, December 2015.
- ◀ 4 *Epidemiology of multimorbidity and implications for health care, research, and medical education: a cross-sectional study*, K Barnett, S Mercer, M Norbury, G Watt, S Wyke and B Guthrie, *Lancet*, May 2012.
- ◀ 5 *Patient encounters in very deprived areas*, G Watt, *British Journal of General Practice*, January 2011.
- ◀ 6 *Frailty and the geriatrician*, *Age and Ageing*, vol 33, no 5, pp 429–30, Rockwood K, Hubbard R, 2004.
- ◀ 7 *Think Frailty: Improving the identification and management of frailty*, Health Improvement Scotland, April 2014.
- ◀ 8 *The care of frail older people with complex needs: time for a revolution*, The King's Fund, March 2012.
- ◀ 9 SMR01 activity analysis provided to Audit Scotland by ISD, November 2015.
- ◀ 10 Scottish Government analysis of projected health and social care expenditure. Provided to Audit Scotland in February 2016.
- ◀ 11 [NHS in Scotland 2015 \[PDF\]](#) , Audit Scotland, October 2015.
- ◀ 12 *Scotland's Spending Plans and Draft Budget 2016-17*, Scottish Government, December 2015.
- ◀ 13 [An overview of local government in 2015 \[PDF\]](#) , Audit Scotland, March 2015.
- ◀ 14 *IRF-NHS Scotland and Local Authority Social Care Expenditure-Financial Years 2010/11-2013/14*, ISD Scotland, March 2015.
- ◀ 15 *Stocktake of access to general practice in England*, National Audit Office, November 2015.
- ◀ 16 *2020 Vision: Strategic Narrative*, Scottish Government, September 2011.
- ◀ 17 <http://www.gov.scot/Topics/Health/Policy/Adult-Health-SocialCare-Integration/Outcomes> 
- ◀ 18 *Core Suite of Integration Indicators*, Scottish Government, March 2015.
- ◀ 19 [Health and social care integration: Progress update \[PDF\]](#) , Audit Scotland, December 2015.
- ◀ 20 *A Stronger Scotland: The Government's Programme for Scotland 2015-16*, Scottish Government, September 2015.
- ◀ 21 The ten test sites are in Glasgow, Edinburgh, Fife, Tayside, Forth Valley, Campbeltown, West Lothian, Islay, Mid-Argyll, and Clackmannanshire.
- ◀ 22 *Place-based systems of care*, The King's Fund, November 2015.
- ◀ 23 *The Buurtzorg Nederland (homecare provider) model, Observations for the United Kingdom (UK)*, Royal College of Nursing, 2015.
- ◀ 24 [NHS in Scotland 2013/14 \[PDF\]](#) , Audit Scotland, October 2014; [Reshaping care for older people \[PDF\]](#) , Audit Scotland, February 2014; [Review of Community Health Partnerships \[PDF\]](#) , Audit Scotland, June 2011.

- ◀ 25 [NHS in Scotland 2015 \[PDF\]](#) , Audit Scotland, October 2015.
- ◀ 26 *Route Map to the 2020 Vision for Health and Social Care*, Scottish Government, May 2013.
- ◀ 27 [NHS in Scotland 2015 \[PDF\]](#) , Audit Scotland, October 2015.
- ◀ 28 *Evaluating integrated and community-based care: How do we know what works?*, Nuffield Trust, June 2013.
- ◀ 29 From 2015/16 to 2017/18, the Scottish Government is providing the following funding to local bodies to support improvements in health and social care: £300 million integrated care fund; £100 million to reduce delayed discharges; £30 million for telehealth; £60 million to support improvements in primary care; £51.5 million for a social care fund.
- ◀ 30 *Reshaping Care for Older People: A Programme for Change 2011-2021*, Scottish Government, August 2012.
- ◀ 31 [Reshaping Care for Older People \[PDF\]](#) , Audit Scotland, February 2014.
- ◀ 32 *Making change possible: A Transformation Fund for the NHS*, The Health Foundation and the King's Fund, July 2015.
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Changing models of health and social care

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**Health and Social Care Integration –
Progress to Date and Compliance Assessment with
Legislation/Recommended Best Practice**

Report by Health and Social Care Partnership IJB Chief Financial Officer

AUDIT & RISK COMMITTEE

29 March 2016

1 PURPOSE AND SUMMARY

- 1.1 **The aim of this report is to provide an assessment of the progress made within the Scottish Borders Health and Social Care Integration (H&SCI) programme in advance of 1st April 2016.**
- 1.2 The report outlines the outcome of a compliance assessment of the work undertaken within the Scottish Borders against the legislative provisions within The Public Bodies (Joint Working) Scotland Act 2014 and the subsequent recommended best practice guidance issued by the Scottish Government / Integrated Resources Advisory Group (IRAG).

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Risk Committee:-**
- (a) notes the progress made to date in the development and implementation of the key financial arrangements following recommended best practice and compliance with legislation which require to be in place prior to the 1st April 2016**
 - (b) notes the plan of actions for the remaining work requiring completion and approval before and beyond 1st April 2016**

3 BACKGROUND

- 3.1 During 2015, the Scottish Government issued Regulations, secondary legislation to The Public Bodies (Joint Working) Scotland Act 2014. These Regulations included a number of detailed recommendations in relation to the financial planning, management, reporting and governance arrangements, largely drawing on the work of the Integrated Resources Advisory Group undertaken during 2014 and consistent in full with the guidance and recommendations published by IRAG which comprehensively references the requirements of the Public Bodies Act.
- 3.2 Whilst not all financial matters within the guidance, those both mandatory and recommended, have been addressed in full with work still in progress for some areas, as the end of the IJB shadow year approaches, an assessment of the state of readiness of financial matters, specific to the recommendations issued, has been undertaken in order to both provide assurance over the appropriateness and comprehensiveness of work to date and to identify any areas where further work requires delivery and agreement, prior to the 1st April 2016 or in the first full year of the Integration Joint Board. This report provides a summary therefore of the work completed and identifies those areas where remaining work packages require completion and where necessary, require agreement and approval by the IJB.
- 3.3 Specific to the establishment of an integration model for the Scottish Borders – delegation to a (body corporate) Integration Joint Board – there are 69 key provisions/recommendations within the IRAG guidance that require addressing, from a financial arrangements perspective and against which, progress has been evaluated. These considerations cover a number of key matters relating to sound governance and robust financial management including the model of integration proposed, assurance and governance over it, delegation of functions to it and the use of resources supporting it to deliver its objectives expressed within the Strategic Plan, Financial Planning and Management processes and Statutory and Management Reporting.
- 3.4 Fundamental to the establishment of good financial governance and appropriate financial / performance planning, management and reporting processes is the partnership's medium-term Strategic Plan and in particular, the robustness of the provisions agreed within the partnership's Scheme of Integration approved by the Scottish Government. These form a key part of the review of overall progress made in establishing proper and effective financial management and government arrangements during the shadow year, leading to full integration on 1st April 2016 and the establishment of the Integration Joint Board.

4 SUMMARY

- 4.1 The Scottish Borders Integration Joint Board is a legal entity in its own right, created by Parliamentary Order, following Ministerial approval of its Integration Scheme. It will operate under public sector good practice governance arrangements which are proportionate to its transactions and responsibilities.
- 4.2 The IJB's Scheme of Integration sets out the detail of the integration arrangement, as agreed by NHS Borders and Scottish Borders Council. It covers a number of matters provided for by Regulations supplementing the legislation. For finance-related matters, these include:

- Financial management arrangements including budget variances;
- Reporting arrangements between the Integration Joint Board, Health Board and Local Authority;

- The method for the determination of the resources to be made available by the NHSB and SBC to the Integration Joint Board; and
- The functions which are to be delegated to the Integration Joint Board by NHSB and SBC

- 4.3 In addition to the specific provisions included within the Scheme of Integration, a considerable amount of work has been completed or is in progress to ensure that a full framework of financial governance, planning, management and reporting is in place for the IJB by 1st April 2016 and that all arrangements are both wholly robust and approved by the IJB prior to their implementation. Since the inception of the Finance workstream of the programme, a number of key milestones have been reached and provisions and processes implemented, following approval by the IJB and a summary of the progress made and key deliverables is contained within this report.
- 4.4 A compliance review has been undertaken against the recommended best practice which formed the basis of the Regulations supplementing the legislation. A summary of compliance by the Scottish Borders partnership with the recommended requirements is detailed in *Appendix 1* to this report. Progress made to date has therefore been specifically identified in order to ensure that all required provisions in relation to the financial arrangements required by the Act or desired locally will ensure robust governance over the operations of the IJB, the affordability of the Strategic Plan, the adequacy of levels of delegated resources and controls over how they are managed and assessment of the impact on NHS Borders and Scottish Borders Council that may have arisen as a result, have all been considered.
- 4.5 Following this compliance review, the Finance workstream Action Plan has been subsequently updated and all required arrangements have/will be approved and established, supplemented by an ongoing programme of development during the first year of operation of the IJB. The updated Action Plan is detailed in *Appendix 2* to this report.

5 PROGRESS TO DATE

- 5.1 Since the establishment of the H&SC Integration Programme during 2014, the Finance workstream has progressed the development and implementation of a range of provisions, processes and governance arrangements supporting the establishment of the IJB and its state of readiness for 1st April 2016. This work has been fully incorporated across other workstreams within the programme and in particular, recognition has been made within those leading to the development of the Strategic Plan and the Scheme of Integration for the Scottish Borders partnership.
- 5.2 The Finance workstream in the Scottish Borders programme has also been represented on the IRAG committee which developed the national guidance over the 18 months leading up to its launch in 2015 and the publication of supplementary Regulations to the legislation, in addition to contributing to the development of specific recommendations for inclusion therein. Information and knowledge sharing as part of a wider network of NHS, Local Authority and CIPFA Directors of Finance and H&SCI workstream leads has also informed the development of proposed arrangements for the Scottish Borders partnership
- 5.3 Building on the arrangements in place supporting the Scottish Borders Community Health and Care Partnership, a number of pieces of work were completed as a preliminary stage of the Finance workstream. These work packages included:

- Identification and agreement of budgets for which it is proposed form part of the shadow integrated budget
- Development of a schedule of joint financial management reporting to the shadow IJB and the H&SCI Programme Board / Executive Management Team
- Development of a single joint monitoring report to the IJB and exception report to the H&SCI Programme Board / Executive Management Team
- Defining all integrated budget holders and budget responsibilities

5.4 Further work has been completed since or remains ongoing to ensure that adequate financial governance, planning, management and reporting systems are in place prior to the 1st April 2016, the key elements of which can be summarised within the following 7 headings:

- Governance Structure
- Assurance and Governance
- Financial Reporting
- Financial Planning and Financial Management
- VAT
- Capital and Asset Management
- Accounting Standards

A full analysis of the assessment of progress made to date against the recommended provisions within the professional guidance forms *Appendix 1* to this report and a summary of the progress made and remaining planned actions is detailed below, with the latter forming the basis of an Action Plan for delivery contained in *Appendix 2*.

Governance Structure

5.5 The recommended practice contains a number of provisions relating to the structure of governance within the IJB and partner organisations. These specifically relate to the Scheme of Integration and the Strategic Plan, the appointment and roles and responsibilities of the Chief Officer, the Integration model established and strategic Financial Governance.

5.6 Many of the provisions relating to the structure of governance are covered by the Scottish Borders partnership's Scheme of Integration which received ministerial approval in late 2015 and within which the functions to be delegated, how resources supporting them have been calculated (including the proportion of large hospitals budget set-aside) and financial management and reporting arrangements have been specified. These also explicitly define which budgets are delegated to the IJB and support the delivery of the Strategic Plan and although not currently relevant, provide for the Chief Officer to manage non-integrated budgets should the situation be required in future.

5.7 Work is continuing on a number of elements in this area and the key actions which require to be completed prior to the start of the new financial year and during year 1 of the IJB relate to:

1. The appointment to the role of Chief Financial Officer by the IJB
2. The publication of written Directions from the IJB to NHS Borders and Scottish Borders Council detailing the duties of the IJB and partners and amount of delegated budget/set-aside and how it will be used, a description of services together with any supplementary provisions

3. The development, publication and approval by the IJB of a Financial Statement (1 year + 2 indicative years) outlining the resources delegated to support the Strategic Plan
4. Assurance to the IJB over the 'sufficiency of resources' included within the Financial Statement, relative to the Strategic Plan's projected requirements and any inherent risks and mitigating arrangements put in place

* Action 1 has now been approved by the IJB at its meeting of 7th March 2016.

These actions are included in more detail within the Action Plan in *Appendix 2*.

Assurance and Governance

- 5.8 A significant number of the financial provisions contained within the Scheme of Integration, Financial Regulations and professional guidance relate to the areas of assurance and governance. This is an area of particular importance, since it requires the clear setting out of the arrangements through which confidence over all aspects of the IJB's operations can be demonstrated. This covers a number of areas including financial assurance, risk management and insurance, the arrangements for internal and external audit, including the establishment of an audit committee and the need to demonstrate best value in the use of public resources.
- 5.9 To date, a number of work packages across assurance and governance have been completed, including ensuring a number of provisions are specified within the Scheme of Integration including performance monitoring systems and processes and the provisions for the IJB addressing key risks identified. KPMG, Scottish Borders Council's External Auditors have also been appointed as External Auditors to the IJB.
- 5.10 A number of further pieces of work remain ongoing and requiring completion by the end of this financial year, both in relation to the IJB itself and to NHS Borders and Scottish Borders Council. In summary, these are:
 5. NHS Borders and Scottish Borders Council are in the process of reviewing their respective organisation's own Financial Regulations to ensure they are consistent with and complement the new proposed Financial Regulations of the IJB
 6. Completion of the risk analysis process (for both the IJB and NHSB/SBC – updated risk registers for both the latter organisations) is required and a Risk Register and Risk Management Strategy both require completion
 7. A proposed strategy for Insurance over the activities of the IJB still requires agreement and approval
 8. The Chief Internal Auditor's appointment to the IJB requires formal approval *
 9. The IJB's Internal Audit Plan for 2016/17 still requires developing and approval by the IJB
 10. The arrangements over the establishment and operations of an IJB Audit Committee require to be defined *
 11. A report to the IJB over the approach taken to provide the board with assurance over the sufficiency of resources for 2016/17-18/19 is still required

* Actions 8 and 10 have now been approved by the IJB at its meeting of 1st February 2016.

Financial Reporting

- 5.11 In relation to Financial Reporting, there are no immediate outstanding issues requiring action. For noting however, it is likely that 2015/16 accounts will have to be produced to accompany the 2016/17 accounts for comparative purposes due to the 1st April being the establishment date of the Integration Joint Board and accordingly, no transactions will be formally undertaken in respect of its operations prior to this date.

Financial Planning and Management

- 5.12 Defined processes are in place for the calculation of partners' respective contributions to the Integrated Budget although the calculation of the large hospitals budget set-aside remains a work in progress, although the IJB will be asked to review and approve an initial draft financial statement in late-March 2016:
12. Refinement of and quality assurance over large hospitals budget set-aside remains ongoing following and will be incorporated into any revised financial statement
- 5.13 The key Financial Management work package outstanding is the production of the Financial Statement to support the Strategic Plan. This will be produced and approved in late-March 2016, approaching the conclusion of both NHS Borders and Scottish Borders Council's 2016/17 Financial Planning process and the finalisation of the medium-term Integrated Budget for the IJB 2016/17-2018/19, the duration of the IJB's first Strategic Plan.
13. Production of the Financial Statement for the IJB 2016/17 remains to be completed and reported to the IJB for approval in March, accompanied by a due diligence report providing assurance over the sufficiency of resources made available to the IJB to support the delivery of the Strategic Plan. The allocation of resources within the outcomes of the Strategic Plan requires to be developed further also
- 5.14 There is defined provision within the Scheme of Integration and Financial Regulations for how the Integrated Budget is calculated and the IJB has been operating in a shadow year with a shadow Integrated Budget developed within this prescription since 1st April 2015. Monthly monitoring reports, either in full or by exception have been prepared and approved by the IJB/Integration Programme Board to date respectively and where significant variances have arisen in year, these and their required remedial actions have also been reported in detail with full agreement by the Chief Officer who takes responsibility for all budget areas within the Integrated Budget. Moving forward, a more structured and inclusive approach specific to the development of the IJB's budget is required across all 3 entities. Financial Regulations also include specific provisions for spending limits and the process and limits for budget virement.
14. An integrated Financial Planning process, involving the IJB Chief Officer, within each organisation, which takes account of priorities and results in a negotiated contribution from each partner to the IJB's Integrated Budget, must further be developed for 2017/18.
 15. Further development of an IT single entity reporting solution is required in order to simplify and make the production of monitoring reports to joint-budget holders and the IJB more consistent and streamlined

Written Directions over how the resources should be used must also be issued by the IJB prior to 1st April 2016.

16. Further work is also required in relation to clear identification of the nature, value, source and services supported by current Health Board Resource Transfer which will then require to be accounted for in the method of calculating the Integrated Budget of the IJB. Similarly, further work is also required in relation to hosted services.

5.15 Agreement and clear definition of the treatment of variances within the Integrated Budget in-year has been made both within the SOI and the Financial Regulations. This will be subject to review going forward and where appropriate, these arrangements may change as flexibility within the Integrated Budget evolves and managing risk within it develops.

17. At an operational financial management level, a policy on the application of monthly accrual accounting requires further discussion and agreement

5.16 Work will continue in 2016/17 to further develop robust financial arrangements for the IJB, following the appointment of the Chief Financial Officer.

18. A Financial Strategy will be developed which will cover a number of key areas including forecast funding levels for the Integrated Budget, priority areas for investment and disinvestment and identification of financial risks and an approach to a strategy for building and managing IJB reserve levels

VAT

5.17 It is fully anticipated that there will be no specific impact on the IJB or NHSB/SBC from a VAT perspective as a result of any arrangements put in place. Any VAT risks identified will be addressed through the development of an appropriate solution to ensure that all transactions and the supply of services remain VAT neutral.

Capital and Asset Management

5.18 The Strategic Plan considers all of the resources available to deliver the objectives approved within the Integration Scheme including non-current assets owned by the Health Board and Local Authority. In the short term the Integration Joint Board will not be empowered to own capital assets and the VAT regimes of the Local Authority and Health Board will apply to capital assets used to provide the delegated services.

19. The Integration Joint Board, going forward, will identify the asset requirements to support the Strategic Plan. This will enable the Chief Officer to identify capital investment projects, or business cases to submit to NHSB/SBC for consideration as part of each organisation's capital financial planning processes

20. The Integration Joint Board, NHS Borders and Scottish Borders Council continue to identify all non-current assets which will be used in the delivery of the Strategic Plan

6 IMPLICATIONS

6.1 Financial

There are no costs attached to any of the recommendations contained in this report. The recommendation made within the report is wholly consistent with professional guidance and the partnership's Scheme of Integration and is intended to provide assurance over the deliverability of the Strategic Plan through robust financial governance, planning, management and reporting.

6.2 Risk and Mitigations

A detailed risk log is maintained for the Integration Programme and reported through the Executive Management Team. The approach to risk management is set out in the Scheme of Integration.

6.3 Equalities

It is anticipated that there are no adverse equality implications from any of the factors included within this report, although full EIA analysis of all arrangements for Integration are being managed as an integrated component of the overall programme. The integration of health and social care aims to overcome some of the current barriers between health and social care services, to improve pathways of care and outcomes to the population of the Scottish Borders.

6.4 Acting Sustainably

None

6.5 Carbon Management

None

6.6 Rural Proofing

None

6.7 Changes to Scheme of Administration or Scheme of Delegation

None

7 CONSULTATION

7.1 Consultation on this report is currently being undertaken and any outcomes will be reported to the committee for noting when it is presented.

Approved by

Name Paul McMenamin **Signature**
Title Interim IJB Chief Financial Officer

Author(s)




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Background Papers:

Previous Minute Reference:




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	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	




SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
1. DELEGATION TO AN IJB					
1.1 INTEGRATION SCHEME AND STRATEGIC PLAN					
1	22/1.1.1	The Integration Scheme sets out the detail of the integration arrangement, as agreed by the Local Authority and Health Board and submitted to Scottish Ministers for approval	Detailed in Final Scheme 151215	None	Received ministerial approval mid-2015 s2-6 set out governance and delivery arrangements, functions delegated and accountability / etc
2	22/1.1.1	The SOI will cover a number of matters provided for by the legislation and Regulations and for finance related matters these will include: <ul style="list-style-type: none"> • Functions which are to be delegated to the Integration Joint Board by the Health Board and Local Authority; • The method for the determination of the resources to be made available by the Local Authority and Health Board to the Integration Joint Board for the delegated functions; • Reporting arrangements between the Integration Joint Board, Health Board and Local Authority; and • Financial management arrangements. 	SOI appendix 2 and 3 outlines functions delegated Method for determining resource allocation and treatment of variations is detailed in SOI s8.	None	Also covers arrangements in relation to large hospital budgets set-aside
3	22/1.1.3	Integration Scheme should also define those services which are not delegated to the Integration Joint Board but are managed by the Chief Officer on behalf on the partner Local Authority and Health Board.	There are no services of this nature managed by the Chief Officer	None	This does not preclude such an arrangement taking place in the future
1.2 CHIEF OFFICER					

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
4	22/1.2.1	The Integration Joint Board must make arrangements for the proper administration of its financial affairs and appoint an officer with this responsibility, (the Integration Joint Board financial officer)	Job Description for IJB CFO post has now been finalised and job evaluated with recruitment process pending	CFO post will be filled prior to 31st March 2016	The Chief Financial Officer will be responsible for developing a number of further governance and operational planning, management and reporting arrangements post-appointment
1.3 FINANCIAL MODEL					
5	23/1.3.0.1	The Health Board and Local Authority will delegate functions and make payments to the Integration Joint Board in respect of the delegated functions and the Health Board will also set aside amounts in respect of large hospitals for use by the Integration Joint Board.	This is set out in section 8 of the SOI. Specifically, 8.3/8.4 set out the provisions for making payments to the IJB whilst 8.5 sets out the method for determining the amount set aside for large hospital services.	None	Amount delegated / Set-aside is subject to due dilligence process and assessment of sufficiency of resources when compared to current spend levels and current and future risks
6	23/1.3.0.1	The Integration Joint Board will produce the Strategic Plan for the use of these resources and give direction and make payment where relevant to the Health Board and Local Authority for delivery of the services in line with the Strategic Plan.	Strategic Plan launched November 2015 Formal directions yet to be developed	Directions require to be developed and published prior to 31st March 2016.	Strategic Plan requires finalisation and approval
7	23/1.3.1.1	Resources within the scope will comprise: <ul style="list-style-type: none"> • The payment made to the Integration Joint Board by the Local Authority for delegated adult social care services (A); • The payment made to the Integration Joint Board by the Health Board for delegated primary and community healthcare services and for those delegated hospital services which will be managed by the Chief Officer (B); and • The amount set aside by the Health Board for delegated services provided in large hospitals for the population of the Integration Joint Board (C). 	This is explicitly stated within the SOI 3.3 and sections 8.3-8.5 clearly reflect that this will be the case. Figure 1 P24 of the FOI does graphically reflect this also as does Appendices 2 and 3.	In the report to IJB in March which will agree, subject to an assessment of the sufficiency of resources and any inherent risks therein, resources delegated, this should be preambled with the statement on the left.	3 areas of resource (A+B+C) constitute all available resources supporting the delivery of the Strategic Plan, whilst only A+B form part of the delegated budget

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
8	24/1.3.1.2	The Integrated Budget comprises of parts (A) and (B).	This is explicitly stated within the SOI 3.3 and sections 8.3-8.5 clearly reflect that this will be the case. Figure 1 P24 of the FOI does graphically reflect this also as does Appendices 2 and 3.	In the report to IJB in March which will agree the resources delegated and due dilligence over them, this should be preambled with the statement on the left.	These are the budget heads over which CO has direct management responsibility
9	24/1.3.2.1	In addition to the services within scope of the Strategic Plan and managed by the Chief Officer, the Local Authority and Health Board may request that the Chief Officer manage services that are outside of the scope of the Strategic Plan.	Presently, this is not the case within the Scottish Borders. The Chief Officer is only responsible for functions delegated to the IJB. There is scope for this however, within the SOI 1.3.2.1.	None	Is not precluded from future arrangements
1.4 FINANCIAL GOVERNANCE					
10	25/1.4.1.1	The Integration Joint Board will be required to produce its own statutory accounts as a body under Section 106 of the Local Government (Scotland) Act 1973.	This is not referred to within the SOI, but will apply following the closure of each Financial Year.	None	
11	25/1.4.1.2	The Local Authority and Health Board will be required to include additional disclosures and group accounts as part of their financial statements which reflect their relationship with the Integration Joint Board.	This is not referred to within the SOI, but will apply following the closure of each Financial Year.	None	15/16 may require to be restated for comparative purposes
12	25/1.4.2.1	The Integration Joint Board must appoint an officer to be responsible for the administration of its financial affairs, referred to in this guidance as the Integration Joint Board financial officer.	4.4b of SOI Scheme P9 explicitly refers to the IJB requiring to appoint a CFO.	None	Appointment of CFO pending
13	25/1.4.2.3	The Health Board and Local Authority may make use of non-current assets, owned or otherwise, to deliver the services in scope of the Strategic Plan. Ownership of the assets and the associated liabilities will be unchanged and remain with the partner Local Authority and Health Board.	This will be the case for the Scottish Borders partnership, explicitly defined in 8.7.1.	None	Arrangements for Capital Financial Planning require to be developed post April 2016 and applied during the medium-term planning from 17/18
14	26/1.4.3.1	The Integration Joint Board should establish a system of risk management arrangements for the functions delegated to it.	This is explicitly defined in section 13 of the SOI.	None	

2. ASSURANCE AND GOVERNANCE




2.1 FINANCIAL ASSURANCE

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
15	27/2.1.1	The Health Board accountable officer and the Local Authority Section 95 Officer discharge their responsibility, as it relates to the resources that are delegated to the Integration Joint Board, by setting out in the Integration Scheme - the purpose for which resources are used - and the systems and monitoring arrangements for financial performance management.	Provision within the SOI for the processes through which performance and resources will be managed.	None	Performance Management and Reporting group established in order to deliver rounded financial and performance information and processes to inform integrated decision making from 16/17
16	27/2.1.3	The Chief Officer is: <ul style="list-style-type: none"> • Accountable to the Chief Executive of the Health Board for financial management of the operational budget, and is advised by the Health Board Director of Finance; • Accountable to the Section 95 Officer of the Local Authority for financial management of the operational budget; and • Accountable to the Chief Executive of the Local Authority and Chief Executive of the Health Board for the operational performance of the services managed by the Chief Officer. 	This is the arrangement proposed for the Scottish Borders partnership, supplemented by the CO's accountability to the IJB for all matters on services and budgets integrated and for which she is responsible. SOI 6.4 explicitly defines accountability to Chief Executives. There is less explicit reference to the COs accountability for matters financial.	None	
17	27/2.1.4	The financial regulations should be developed by its financial officer and incorporate a minimum set of controls. It is recommended that the financial regulations are approved by the Integration Joint Board.	Developed, agreed and reported to the IJB for approval on 01/02/16 following IJB members development session 20/01/16.	None	
18	27/2.1.5	The financial regulations of the Health Board and Local Authority should be revised, if necessary, to incorporate changes resulting from the financial integration arrangements including the arrangements for virement associated with the Integrated Budget.	Still to be completed.	A review of both NHSB and SBC Financial Regulations is required to ensure complementary and consistent governance policy and application.	

2.2 RISK MANAGEMENT

19	28/2.2.1	The Chief Officer will be responsible for establishing the Integration Joint Board's risk strategy and profile and developing the risk reporting arrangements.	This is explicitly defined in 13.1 of the SOI Page 286	None	Development of a risk management strategy and risk register remains ongoing
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	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
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ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
20	28/2.2.2	The participating authorities should identify and manage within their own risk management arrangements any risks they consider to have retained under the integration arrangements.	Requires to be further reviewed within both NHSB and SBC following establishment of the IJB.	Requires to be further reviewed within both NHSB and SBC following establishment of the IJB.	Risk registers within SBC and NHSB require updating and reporting in respect of new and retained risks
21	27/2.2.3	The Integration Scheme should consider provisions to address the key risks inherent in integration and include: <ul style="list-style-type: none"> • Governance, management and strategy; • Financial management; • Asset management; • Information management; • Performance management; and • Customer management. 	Arrangements/provisions for control and governance across each of these areas is provided for within the Scheme of Integration, including complaints handling, etc, primarily within sections 10 to 13	None	
22	27/2.2.4	It is also recommended that the provisions for risk management in the Integration Scheme include: <ul style="list-style-type: none"> • Leadership/lines of accountability; • Arrangements for recording, updating, monitoring and reporting of risk management information; and • Arrangements for accessing professional risk management support. 	None of this is explicitly defined in detail within the Scheme of Integration.	A report to the IJB on all Risk Management arrangements, including the Risk Management Strategy, is required prior to the 1st April 2016 - 7th March 2016	Jill Stacey leading

2.3 INSURANCE

23	29/2.3.1	Integration Joint Boards should make appropriate provision for insurance according to the risk management strategy.	Risk Management strategy is still in development and remains unapproved.	Requires inclusion and finalisation.	Interim insurance options are currently being considered
24	29/2.4.1	It is the responsibility of the Integration Joint Board to establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. This will include determining who will provide the internal audit service for the Integration Joint Board and nominating a Chief Internal Auditor.	SBC's CIA will be appointed to the role of CIA to the IJB. Audit committee will be established. Internal Audit plan to be developed. Etc.	Work ongoing.	There are a number of pressing items requiring reporting to both the IJB and NHSB/SBC audit committees with regard to audit arrangements for the IJB

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	




SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
25	30/2.4.6	There should be a risk based internal audit plan developed by the Chief Internal Auditor of the Integration Joint Board and approved by the Integration Joint Board or other committee.	Not complete.	To be completed.	
26	30/2.4.7	Internal audit service should be provided by one of the internal audit teams from the Health Board or Local Authority and the Chief Internal Auditor from either of the partner Health Board or Local Authority fulfil this role in the Integration Joint Board.	SBC's CIA will be appointed to the role of CIA to the IJB. Audit committee will be established.	Approved February 2016	This requires formal approval by the IJB - 01 Feb 2016
27	30/2.4.9	The Integration Joint Board Chief Internal Auditor should report to the Chief Officer and the Integration Joint Board on the annual audit plan, delivery of the plan and recommendations and should provide an annual internal audit report including the audit opinion.	From 2016/17	None	
28	31/2.5.2	The Accounts Commission will appoint the auditors to the Integration Joint Board.	KPMG, Scottish Borders Council's external auditors, have been appointed as auditors to the IJB	None	
29	31/2.6.1	The Integration Joint Board should make appropriate and proportionate arrangements, for consideration of the audit provision and annual financial statements, which are compliant with good practice governance standards in the public sector.	From 2016/17	None	

3. FINANCIAL REPORTING

3.1 STATUTORY ACCOUNTS

30	33/3.1.0.1	Audited annual accounts to be prepared with the reporting requirements specified in the relevant legislation and regulations	With effect from 2016/17	None	15/16 may require to be restated for comparative purposes
31	33/3.1.0.2	The Local Authority and Health Board should include additional disclosures in their statutory accounts which reflect their formal relationship with the Integration Joint Board. .	With effect from 2016/17	None	15/16 may require to be restated for comparative purposes
32	34/3.1.1.4	The Integration Joint Board financial statements must be completed to meet the audit and publication timetable specified in regulations	With effect from 2016/18	None	15/16 may require to be restated for comparative purposes

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
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Further work will be undertaken during 2016/17 to ensure full compliance with IRAG in relation to Financial Reporting




4. FINANCIAL MANAGEMENT

4.1 RESOURCES WITHIN THE SCOPE OF THE STRATEGIC PLAN

33	38/4.1.1	The legislation requires that the Integration Joint Board produce a Strategic Plan, which sets out the services for their population over the medium term (3 years)	Updated Strategic Plan published and launched in November 2015.	Currently being refined		
34	38/4.1.2	The Strategic Plan should incorporate a medium term financial plan (3 years) for the resources within scope of the Strategic Plan which will comprise: <ul style="list-style-type: none"> • the Integrated Budget, i.e. the sum of the payments to the Integration Joint Board (see 4.2); plus • the notional budget, ie the amount set aside by the Health Board, for large hospital services used by the Integration Joint Board population (see 4.4). 	<p>This is not explicitly within the Strategic Plan although the services to be integrated are defined in Appendix A.</p> <p>These resources within scope will be formally defined within the 2016/17 Financial Statement which will be approved by the IJB in March 2016 and which will support the delivery of the Strategic Plan. This will also include large hospital set-aside notional budget.</p> <p>Formal Written Directions, including the value of specific integrated budget, will also be issued prior to the 1st April from the IJB to NHSB and SBC.</p>	Report to IJB in March	Set-aside=hospital capacity that is expected to be used by the population of the IJB area, financial value based on latest IRF	
35	38/4.1.4	The relative proportions of partners' contributions to the resources within scope of the plan will not influence the proportion of services that will be directed by The Integration Joint Board through the Strategic Plan, although it is likely that in the first years they will be similar.	This is not specifically referred to within either the SOI or the Strategic Plan but has been a working principle of the financial planning work to date as proposed at a member development session in 2015.	None	2016/17 initial delegated budget is essentially the sum of the outcomes from 2 component financial planning processes within SBC/NHSB	




4.2 THE INTEGRATED BUDGET

36	39/4.2.1	The legislation requires that Health Boards and Local Authorities make payments to the integration joint board for the delegated functions and that the method for determining the value of the payments is included in the Integration Scheme	8.3.1 of the SOI states that "the baseline payment will be established by reviewing recent past performance and existing plans for NHSB and SBC for the functions delegated adjusted for material items" and 8.1-8.2 provides for the mechanism of value determination.	None		
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	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
37	39/4.2.2	The legislation also requires that where the Integration Joint Board gives direction for the partner Local Authority and Health Board for the operational delivery of services, that the value of the payment or the method of agreeing the value of the payment be included in the direction	Directions not yet developed within the Scottish Borders.	To be issued prior to 1st April 2016	See background document - "Note: minimum contents of Directions" Need to develop clarity of understanding amongst key managers and IJB as to what form and content such directs require
38	39/4.2.3	Integration authorities should undertake a shadow period in 2014-15. The allocations in the shadow period should be based on the existing financial plans of the Local Authority and Health Board including the planned efficiencies and consideration of recent financial outturn and trends in expenditure; this process must be transparent and the assumptions underlying the budgets must be available to all partners.	Shadow period commenced 1st April 2016 - aligned budgets reflected approved 2015/16 Financial Plans for both NHSB and SBC, including planned efficiencies, savings/income proposals and service pressures/growth. Financial Plans between both partners shared and published.	None	
39	39/4.2.4	The financial performance of the Integrated Budget is monitored during the shadow period with full transparency so that all partners have a clear understanding of the cause and type (recurrent/non-recurrent) of variances and the remedial actions taken by the Local Authority and Health Board. They should have a clear understanding of the adequacy of the budgets in the financial plan for the following year and the assumptions on which they are based.	Monthly aligned financial monitoring reports by exception to Programme Implementation Board / Executive Management Team, with a full quarterly report to IJB detailing current and projected position to date and key areas of pressure/savings variances with detailed explanation where required, including proposed remedial action across integrated and non-integrated budget heads. Financial Plan process paper to be developed for IJB.	Financial Statement to IJB 07 March 2016	Financial Planning paper to IJB in addition to Financial Statement Due dilligence paper over sufficiency of resources to deliver Strategic Plan

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
40	39/4.2.5	The initial payments to the Integration Joint Board should be based on analysis of the shadow period in 2014-15 to provide the Local Authority, Health Board and Integration Joint Board with reassurance that the delegated resources are sufficient to deliver the delegated functions. It should also consider the respective financial plans of the Local Authority and Health Board including full transparency on the budget assumptions and planned efficiency savings. These allocations should be tested against the actual performance in the shadow period and adjusted if necessary. Although not included in the payment, the analysis in the shadow period should include the notional budget for hospital services.	This is the planned approach which takes account of both organisations existing financial plans. Assurance over the sufficiency of resources will take place during February and be reported to the IJB in March. Both organisations are experiencing significant pressures presently on functions which will be delegated so on the outcome of the financial planning processes, how these services will be sustained over the medium-term and the assumptions built into plans, will be a particular area where scrutiny and assurance is required.	Assurance over the sufficiency of resources is a key work package, requiring completion and approval prior to 1st April 2016 - 07 March 2016	
41	40/4.2.7	The method for determining the allocations to the Integrated Budget in subsequent years will be contingent on the respective financial planning and budget setting processes of the Local Authority and Health Board. They should aim to be able to give indicative three year allocations to the integration joint board, subject to annual approval through the respective budget setting processes.	Section 8.4 of the SOI clearly lays out the detailed method through which payment in subsequent years to the IJB for delegated functions will be made. Reference is also made to the IJB agreeing and delivering the Strategic Plan/Financial Plan but through a process of joint discussion and planning with partners.	None presently	Integrated Financial Planning process to be developed for 17/18 onwards
42	40/4.2.8	The Chief Officer, and the Integration Joint Board financial officer where such is appointed separately, should develop a case for the Integrated Budget based on the Strategic Plan and present it to the Local Authority and Health Board for consideration and agreement as part of the annual budget setting process.	This hasn't been the case for 2016/17 budget directly. Will require to be the case for 2017/18 however. In the interim, the CO also acts as manager of services within both organisations and is therefore part of the management team and financial planning process within each respective partner's organisation.	None prior to April 2016	2017/18 Financial Planning process

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE




ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
43	40/4.2.9	Local Authority and Health Board will evaluate the case for the Integrated Budget against their other priorities and are expected to negotiate their respective contributions accordingly. The allocations will be a negotiated process based on priority and need and it should not be assumed that they will be the same as the historic or national allocations to the Health Board and Local Authority.	Whilst little reference has been made to specifically 'integrated' services as part of NHSB's/SBC's financial planning process for 2016/17, budgets, pressures and requirement for proposed savings have been recognised as part of a prioritisation process. This has the impact of increasing/decreasing certain budgets supporting integrated services.	None prior to April 2016	A clearer approach to prioritisation of integrated services' budgets as part of a wider approach to financial planning in partner organisations will require development for 2017/18.
44	40/4.2.9	The method for determining the contributions is required to be included in the Integration Scheme.	SOI 8.3-8.5	None	
45	41/4.2.10	The allocations made from the Integration Joint Board to the Local Authority and Health Board for operational delivery of services will be approved by the Integration Joint Board. The value of the payments will be those set out in the Strategic Plan approved by the Integration Joint Board	Report to IJB in March 2016, accompanied by Financial Statement.	07-Mar-16	Not yet complete - a final resource statement requires appending to Strategic Plan and final integrated and notional budget positions require reflecting in the Strategic Plan
46	41/4.2.11	The legislation will require that a direction should be in writing and must include information on (Section 26): <ul style="list-style-type: none"> • The integrated function/(s) that are being directed and how they are to be delivered; and • The amount of and method of determining the payment to carry out the delegated functions. 	Formal Written Directions, including the value of specific integrated budget, will also be issued prior to the 1st April from the IJB to NHSB and SBC.	Pending	
47	41/4.2.12	It anticipated that a direction from the Integration Joint Board will take the form of a letter from the Chief Officer to the Health Board or Local Authority referring to the arrangements for delivery set out in the Strategic Plan and/or other documentation. Once issued they can be amended or varied by a subsequent direction	No progress	Pending	Clarity of understanding of Directions is required and form/content requires agreeing.

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
48	41/4.2.14	Some social work expenditure budgets will be funded by resource transfer payments. It is recommended that partners identify these and adopt a transparent and consistent approach to their inclusion in the payment to the Integration Joint Board. The options for this are: <ul style="list-style-type: none"> • For the Health Board to stop paying resource transfer to the Local Authority and instead to include it in its payment to the Integration Joint Board. The Local Authority would need to make a corresponding reduction in its payment to the Integration Joint Board to cover the loss of resource transfer income from the Health Board; or • For the Health Board to continue paying resource transfer to the Local Authority and to exclude it from its payment to the Integration Joint Board. The Local Authority would include in its 	Work has yet to take place to analyse resource transfer and adjust as necessary.	This work will require to be undertaken prior to the publication of the Financial Statement, within which a grossed-down position will require showing.	
49	41/4.2.15	It is recommended that the local decision on treatment of resource transfer be set out in the Integration Scheme.	Resource transfer is not referred to within the SOI. This will therefore require local agreement and may require reporting to IJB.	Further work and agreement required	
50	42/4.2.17	Resources used by the population of an Integration Joint Board for delegated services that are provided on a hosted arrangement, should be included in the respective Integrated Budget	Further work required	Further work required	
4.3 MANAGING FINANCIAL PERFORMANCE					
51	42/4.3.0.1	The partners should include in the Integration Scheme provisions for managing in-year financial performance of the Integrated Budget. This will require that the Chief Officer receive financial performance information for both her/his operational role in the Health Board and Local Authority and strategic role in the Integration Joint Board.	SOI 8.6 outlines how any in-year variations will be addressed. Within the Shadow Year, the CO receives financial performance information for both her operational role in the Health Board and Local Authority and strategic role in the Integration Joint Board.	None	Single entity reporting still in development




SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
52	42/4.3.0.2	It is recommended that the Health Board and Local Authority Directors of Finance and the Integration Joint Board financial officer establish a process of regular in-year reporting and forecasting to provide the Chief Officer with management accounts for both arms of the operational budget and for the Integration Joint Board as a whole.	A monthly management report is presented to the CO for discussion and approval covering all functions delegated. This is also reported to her management team on a monthly basis where detailed discussion and (if required) remedial actions are planned and approved.	None	Single entity reporting still in development
53	42/4.3.0.2	It is also recommended that a joint appointment from the senior finance teams of the Health Board and Local Authority provide the Chief Officer with financial advice for the respective operational budgets. This would allow for the same person carry out both this role and the role of financial officer for the joint board, but this is a matter for local determination.	Job Description for IJB CFO post has now been finalised and job evaluated with recruitment process pending	CFO post interim appointment March 2016, permanent appointment August 2016	
54	42/4.3.0.3	It is recommended that the Health Board and Local Authority agree a consistent basis for the preparation of management accounts, i.e. accruals vs. cash basis; this is a matter for local decision.	This is a matter for further discussion. Whilst an accruals basis is consistently applied for statutory reporting, there is inconsistency between the partners in terms of monthly accrual accounting for management reporting purposes.	Ongoing work package	
55	43/4.3.0.4	Integration Joint Board will allocate the resources it receives from the partner Health Board and Local Authority in line with the Strategic Plan; in doing this it will be able to use its power to hold reserves	This will be undertaken as part of the work developing the Financial Statement prior to 1st April 2016.	Costed Strategic Plan	
56	43/4.3.0.5	In her/his operational role, the Chief Officer will manage the respective operational budgets so as to deliver the agreed outcomes within the operational budget viewed as a whole. The Chief Officer will be responsible for the management of in-year pressures and will be expected to take remedial action to mitigate any net variances and deliver the planned outturn	This is currently happening to a degree. The CO takes full responsibility for the management of in-year pressures during 2015/16. Whilst in shadow year and budgets only as aligned presently, the operational budget is not viewed as a whole for the purposes of such remedial action however.	None	Shift from aligned to fully integrated budgets, supported by Financial Regulations / Virement rules from 1st April 2016

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
57	43/4.3.0.7	It is recommended that the Integration Joint Board has a reserves policy and reserves strategy, which include the level of reserves required and their purpose. This should be agreed as part of annual budget setting and reflected in the Strategic Plan agreed by the Integration Joint Board.	This has yet to be developed and be approved during 2016/17 in preparation for 2017/18 financial planning process.	CFO will develop and seek agreement from CO/IJB and respective partners	Will form part of IJB Financial Strategy
58	43/4.3.0.9	The Chief Officer will not be able to vire between the operational Integrated Budget and those budgets that are managed by the Chief Officer, but are outside of the scope of the Strategic Plan, unless agreed by the partner Local Authority and Health Board.	The arrangements for this are defined in s8.6 of the SOI	None	Specifically stated in 8.6.4 - 8.6.6 of SOI
59	43/4.3.0.9	The arrangements for the virement of budgets should be specified in the scheme of delegation within the partner authorities.	Outstanding - partners' Financial Regulations require review and if appropriate, updating	Schemes of administration in NHSB and SBC require review and update accordingly.	
60	44/4.3.1.1	The Integration Scheme should include provisions for the treatment of in-year under and overspends.	s8.6 of SOI clearly defines these provisions	None	
61	44/4.3.1.5	In-year underspends on either arm of the operational integrated budget should be returned from the Local Authority and Health Board to the Integration Joint Board and carried forward through the general fund.	8.6.8 of the SOI states "Any unplanned underspend will be returned to Borders Health Board or Scottish Borders Council by the Integration Joint Board either in the proportion that individual pressures have been funded or based on which service the savings are related to." 8.6.7 states "Where there is a planned underspend in operational budgets arising from specific action by the Integration Joint Board it will be retained by the Integration Joint Board. This underspend may be used to fund additional capacity in-year or, with agreement with the partner organisations, carried forward to fund capacity in subsequent years. . The carry forward will be held in an ear-marked balance within Scottish Borders Council's general reserve."	None	Treatment of planned overspends defined in SOI 8.6.7, unplanned overspends in 8.6.8

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
62	46/4.4.0.3	Legislation requires that the method for determining the amount to be set aside by the Health Board should be included in the Integration Scheme	This is defined in s8.5 of the SOI, specifically referencing IRF. The work to calculate this however remains outstanding.	To be completed and reported within Financial Statement to March IJB in draft, subject to further work and analysis	
63	.	Where material; the notional budget should include the resources for the in scope hospital services used by the partnership population in all Health Boards.	Not relevant within Scottish Borders		
64	46/4.4.1.4	It is recommended that partners should establish a process for the Chief Officer and the hospital sector to jointly monitor in year actual demand against plan and provide for virements, if required, based on practical thresholds.	t.b.a.	t.b.a.	

5. VAT




5.1 REVENUE

5.2 CAPITAL

65	50/5.2.1	In the short term the Integration Joint Board will not be empowered to own capital assets and the VAT regimes of the Local Authority and Health Board will apply to capital assets used to provide the delegated services.	<p>8.7.1 of SOI states "The Integration Joint Board will not own any capital assets but will have use of such assets which will continue to be owned by Borders Health Board and Scottish Borders Council who will have access to sources of funding for capital expenditure".</p> <p>The SOI does not refer to VAT regimes, however, following national recommended practice (HSCI Finance Leads recommendations, existing partners' VAT regimes will apply.</p>	None	VAT approach should be simple and pragmatic - watching brief presently to ensure all decisions proposed and implemented are VAT neutral	
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6. CAPITAL AND ASSET MANAGEMENT

6.1 ASSET MANAGEMENT

	Complete	 
	Complete, Minor Remaining Actions Profiled	
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS / STATUS>
66	51/6.1.1	The Integration Joint Board should identify the asset requirements to support the Strategic Plan. This will enable the Chief Officer to identify capital investment projects, or business cases to submit to the Health Board and Local Authority for consideration as part of the capital planning processes, recognising that partnership discussion would be required at an early stage if a project was jointly funded.	<p>SOI 8.7.2 states "The Chief Officer will consult with Borders Health Board and Scottish Borders Council to identify need for asset improvement owned by either party and where investment is identified, will submit a business case to the appropriate party which will be considered as part of each party's existing capital planning and asset management arrangements."</p> <p>Following the IRAG guidance therefore, a formal process will be in place to consider IJB capital requirements as part of both organisations' wider capital planning process".</p>	None	
67	51/6.1.3	The Integration Joint Board, Health Board and Local Authority are recommended to undertake due diligence to identify all non-current assets which will be used in the delivery of the Strategic Plan.	This is not stipulated in SOI, nor has any work been undertaken to identify fixed assets specifically.	An audit of all fixed assets supporting the functions delegated will be require undertaking and a report to the IJB, linking them to the delivery of the Strategic Plan will be made during 2016/17	
6.2 CAPITAL FUNDING					
68	52/6.2.1	The Integration Joint Board will not receive any capital allocations, grants or have the power to borrow to invest in capital expenditure. The Health Board and Local Authority will continue to own any property and assets used by the Integration Joint Board and have access to sources of funding for capital expenditure.	<p>SOI s8.7.1 states that "In line with guidance, the Integration Joint Board will not receive any capital allocations, grants or have the power to borrow to invest in capital expenditure."</p> <p>Asset ownership will be retained by each partner and a formal process for accessing sources of capital funding from either organisation will be developed".</p>	Capital Planning process	
6.3 R&M					
69	53/6.3.1	The Integrated Budget may include payments from the Local Authority and Health Board to cover the revenue costs of assets e.g. rents, repairs and maintenance, rates, cleaning, property insurance etc.	Locally, we have decided not to include property repairs, maintenance and servicing within the Integrated Budget and both partners' will retain the responsibility for this function.	None	

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SCOTTISH BORDERS INTEGRATION OF HEALTH AND SOCIAL CARE
SUMMARY OF OUTSTANDING FINANCE WORKSTREAM 2015/16 AT OCTOBER 2015

Action	Report to IJB	Theme	Report No	Description	Responsibility	Timescale	Notes
1	Mar-16 (a)	Governance Structure	3	Development and Approval of Annual Financial Statement of resources supporting the delivery of the Strategic Plan	NHS DoF / SBC CFO	Feb-16	On outcome of NHSB / SBC respective financial planning processes
2	Mar-16(a)	Financial Reporting	12	Specific calculation of large hospital budgets set-aside requires finalisation	NHS DoF	Feb-16	
3	Mar-16(a)	Financial Planning and Management	13	All resources within the Financial Statement require allocation in line with the Strategic Plan	NHS DoF / SBC CFO	Feb/Mar-16	
4	Mar-16 (b)	Governance Structure	4	Due dilligence analysis of the sufficiency of delegated and notional resources supporting the delivery of the Strategic Plan	NHS DoF / SBC CFO	Mar-16 draft Jun-16 full	Following completion of Financial Statement
5	Mar-16 (a)	Financial Planning and Management	16	Analysis and incorporation into Financial Statement of impact of Resource Transfer is outstanding, including uplift process	NHS DoF / SBC CFO	Mar-16	
6	Mar-16 (a)	Financial Planning and Management	16	Analysis and incorporation into Financial Statement of impact of Hosted Services is outstanding	NHS DoF / SBC CFO	Feb/Mar-16	
7		Assurance	-	Report to NHSB and SBC Audit Committees over progress made to date and remaining Action Plan	NHS DoF / SBC CFO	Feb/Mar-16	
8	Mar-16 (c)	Assurance	8	The Chief Internal Auditor's appointment to the IJB requires formal approval by the IJB	NHS DoF / SBC CFO	Feb-16	Approved



SCOTTISH BORDERS INTEGRATION OF HEALTH AND SOCIAL CARE
SUMMARY OF OUTSTANDING FINANCE WORKSTREAM 2015/16 AT OCTOBER 2015

Action	Report to IJB	Theme	Report No	Description	Responsibility	Timescale	Notes
9	Mar-16 (d)	Assurance	6	A report to the IJB for approval on the arrangements that will be put in place for Risk Management within the IJB	Chief Internal Auditor	Mar-16	
10	Mar-16 (e)	Assurance	9	Risk-based Internal Audit Plan for 2016/17 to be developed and approved by IJB	Chief Internal Auditor	Mar-16	
11	Mar-16 (f)	Assurance	10	Arrangements for the IJB's Audit Committee requires approval	Chief Internal Auditor	Feb-16	Approved
12		Assurance	6	NHS Borders' and Scottish Borders Council's Risk Management Strategies require review and updating in context of Integration	Risk Management	Mar-16	Designated owners of Risk Registers within NHSB and SBC
13	Mar-16 (a)	Assurance	-	Clear statement of financial accountability of Chief Officer to Director of Finance NHSB and Chief Financial Officer (SBC)	NHS DoF / SBC CFO	Mar-16	Will be included as part of Action 1 above
14	N/A	Governance Structure	1	Appointment of Chief Financial Officer	-	Mar-16	
15	Mar-15	Governance Structure	2	Development and Issue of Written Directions by the IJB to NHS Borders and Scottish Borders Council	Chief Officer	Mar-16	
16		Assurance	5	A review of NHS Borders and Scottish Borders Council Financial Regulations to ensure consistency and provide for IJB arrangements	NHS DoF / SBC CFO	Mar-16	

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SCOTTISH BORDERS INTEGRATION OF HEALTH AND SOCIAL CARE
 SUMMARY OF OUTSTANDING FINANCE WORKSTREAM 2015/16 AT OCTOBER 2015

Action	Report to IJB	Theme	Report No	Description	Responsibility	Timescale	Notes
17		Assurance	7	Agreement of Insurance arrangements for the IJB	NHS DoF / SBC CFO	Jun-16	
18	Sep-16	Financial Planning and Management	18	Development of a Financial Strategy for the IJB including risk-based Reserves Strategy	CFO	Jun-16	
19	Jun-16	Assurance	6	Development and Approval of IJB Risk Management Strategy	Chief Officer	Jun-16	Initial draft to IJB Mar-16
20		Financial Planning and Management	17	Policy on the application of monthly accrual accounting requires further discussion and agreement	NHS DoF / SBC CFO	Jun-16	
21		Capital and Asset Management	20	Agree list of all capital fixed assets	NHS DoF / SBC CFO / CFO	Jun-16	
22	Sep-16	Financial Planning and Management	14	An integrated priority-based Financial Planning process must further be developed for 2017/18 (Revenue AND Capital)	NHS DoF / SBC CFO / IJB CFO	Apr-16-Sep 16	
23		Financial Planning and Management	15	Development of a single-entity IT reporting solution for the production of budget monitoring reports	NHS DoF / SBC CFO	Sep-16	

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