

# Public Document Pack



## AUDIT AND RISK MONDAY, 14 NOVEMBER 2016

A MEETING of the AUDIT AND RISK COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 14 NOVEMBER 2016 at 10.15 am.

**As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting.**

J. J. WILKINSON,  
Clerk to the Council,

7 November 2016

<b>BUSINESS</b>		
1.	<b>Apologies for Absence.</b>	
2.	<b>Order of Business.</b>	
3.	<b>Declaration of Interest.</b>	
4.	<b>Minute.</b> (Pages 1 - 6)  Minute of Meeting of the Audit and Risk Committee held on 26 September 2016 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	<b>External Audit - Introduction to Audit Scotland.</b> (Pages 7 - 22)  Consider reports on Local Government Audits for Scottish Borders Council and Scottish Borders Pension Fund and an Introduction to Audit Scotland reflecting the new appointments of external auditors for 2016/17 to 2020/21. (Copies attached.)	15 mins
6.	<b>Risk Management in Services.</b>  Presentation by Chief Officer HR on the strategic risks facing the service and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation.)	30 mins
7.	<b>Scottish Borders Council Roads Expenditure - Report on Maintaining Scotland's Roads.</b> (Pages 23 - 68)  Consider report by Depute Chief Executive Place on the Council's roads expenditure, and a national report published by the Accounts Commission in August 2016 on Maintaining Scotland's Roads. (Copy attached.)	20 mins
8.	<b>Social Work in Scotland.</b> (Pages 69 - 120)	15 mins

	Consider report by the Accounts Commission on Social Work published in September 2016 as part of the series of health and social care reports, and a supplement on Self-assessment Checklist for Council Members. (Copies attached.)	
9.	<b>Progress with Implementation of Internal Audit Recommendations.</b> (Pages 121 - 136)  Consider report by Chief Officer Audit & Risk on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2015/16 and previous years. (Copies attached.)	15 mins
10.	<b>Internal Audit Mid Term Performance Monitoring Report 2016/17.</b> (Pages 137 - 148)  Consider a report by Chief Officer Audit & Risk on progress Internal Audit has made during the first half of the year towards completing the Annual Plan 2016/17 and an outline of performance. (Copies attached.)	20 mins
11.	<b>Mid-Term Treasury Management Report 2016/17.</b> (Pages 149 - 168)  Consider mid-term report by Chief Financial Officer on the Council's Treasury Management activities undertaken during first half of financial year 2016/17 for review and scrutiny prior to Council approval. (Copies attached.)	20 mins
12.	<b>Any Other Items Previously Circulated.</b>	
13.	<b>Any Other Items which the Chairman Decides are Urgent.</b>	

#### 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.**

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

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Please direct any enquiries to Pauline Bolson. Tel: 01835 826503  
Email: [PBolson@scotborders.gov.uk](mailto:PBolson@scotborders.gov.uk)

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**SCOTTISH BORDERS COUNCIL  
AUDIT AND RISK**

MINUTES of Meeting of the AUDIT AND RISK held in Council Chamber, Council Headquarters, Council Headquarters, Newtown St Boswells on Monday, 26 September 2016 at 10.15 am

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Present:- Councillors M. Ballantyne (Chair), B White (Vice-Chairman), J. Campbell, I. Gillespie, A. J. Nicol and M Middlemiss. Mr M. Middlemiss.  
Apologies:- Councillor S. Scott. Mr H. Walpole.S. Scott and H Walpole  
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk (from Item 8), Capital and Investments Manager, Democratic Services Officer (P Bolson); Mr H Harvie – KPMG and Mr M. Swann – KPMG.

**1. WELCOME AND INTRODUCTIONS**

The Chairman welcomed those present to the meeting and introduced Mr Asif Haseeb from Audit Scotland who would now represent the Council's external auditors on the Audit and Risk Committee.

**DECISION  
NOTED.**

**2. 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.

**3. MINUTE.**

3.1 There had been circulated copies of the Minute of 28 June 2016.

**DECISION  
APPROVED for signature by the Chairman.**

3.2 With reference to the decision at paragraph 3(b) of the Minute of 28 June 2016, it was noted that the informal briefing on Management's utilisation of Covalent as a tool in respect of Risk Management had taken place.

**DECISION  
NOTED.**

**4. SCOTTISH BORDERS COUNCIL ANNUAL AUDIT REPORT 2015/16.**

4.1 There had been circulated copies of the Scottish Borders Council Annual Audit report from the Council's External Auditors, KPMG. The report summarised the findings of KPMG in relation to the audit of Scottish Borders Council for the year ended 31 March 2016, highlighting the key issues and financial position. In respect of the financial reporting framework, legislation and reporting requirements, KPMG expected to issue an unqualified audit opinion for 2015/16. KPMG's report also presented information on financial sustainability; governance and transparency; financial management and value for money. Only minor internal control deficiencies had been identified and these were outlined in Appendix 6 to the report. The report concluded that Scottish Borders Council had engaged in the National Fraud Initiative (NFI) 2014/15 and recognised that improvement had been achieved during 2015/16 though no alleged or actual fraud had been identified through the NFI in the current year. Appropriate arrangements were in place for both securing Best Value and monitoring ALEOs and following the public pound.

Governance and transparency were considered to be operating appropriately, with an observation that national guidance on establishing a clear and documented process in respect of compromise agreements would be beneficial.

- 4.2 Mr Harvie of KPMG provided clarification to Members on a number of points within the report and Members noted that details in respect of compromise agreements and financial packages might not be in the public domain due to the commercial sensitivity of information. In response to a question on financial risk, the Chief Financial Officer advised that the Council continued to operate within the lowest quartile of Scottish Local Authorities. Discussion followed in relation to the level and utilisation of the Council's Financial Reserves and in terms of financial planning in general. A Scottish Government-led programme to revalue assets was introduced from 1 April 2016 with a new Accounting Code due for publication in April 2017. Implementation of this programme would present a considerable challenge for Local Authorities and Members would receive further information in due course. The Chairman thanked KPMG and the Council's Finance Service staff involved in presenting this very positive report.

#### **DECISION**

**NOTED the Annual Audit Report from the Council's External Auditors.**

5. **SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL AUDIT REPORT 2015/16; ANNUAL REPORT AND ACCOUNTS 2015/16**
- 5.1 With reference to paragraph 8 of the Minute of 28 June 2016, there had been circulated copies of the above reports in respect of the Scottish Borders Council Pension Fund. The Chairman advised that, as these reports were closely connected, they would be considered as a single item.
- 5.2 With reference to the Annual Audit report, Mr Harvie of KPMG advised that all benchmarks within the remit of the report had been met. Councillor White, Chairman of the Pension Fund Committee, further advised that benchmarking returns had increased, the Pension Fund was currently outperforming and that this was partly as a result of the Fund diversifying over a number of years. In response to a question about the increase of £0.4m in management expenses, the Chief Financial Officer explained the method by which payments to Fund Managers were calculated and advised that these amounts could vary throughout any given year.
- 5.3 With reference to paragraph 8 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Financial Officer presenting the finalised Pension Fund Annual Report and Financial Statements for 2015/16. Members noted that the draft report had been previously presented to the Committee and agreed to endorse the final version.

#### **DECISION**

**NOTED the reports.**

6. **SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2015/16**
- With reference to paragraph 7 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Financial Officer presenting the Council's audited Annual Accounts for 2015/16. The report explained that KPMG, the Council's external auditors, had now completed the audit of the Council's Annual Accounts for 2015/16 and had given an unqualified audit opinion in all cases. In addition, KPMG concluded positively on the high quality of working papers; management's accounting treatment and judgements; and in respect of financial sustainability, financial management, governance, transparency and value for money.

#### **DECISION**

**AGREED to approve the following for signature by the appropriate individuals:-**

- (a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 1 to the report;
- (b) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 2 to the report;
- (c) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 3 to the report;
- (d) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(i) to the report;
- (e) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(ii) to the report;
- (f) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(iii) to the report;
- (g) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(iv) to the report;
- (h) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(v) to the report;
- (i) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 4(vi) to the report;
- (j) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 5 to the report;
- (k) the SB Supports audited Annual Accounts for the year to 31 March 2016 as detailed in Appendix 6 (i) to the report; and
- (l) the SB Cares audited Annual Accounts for the year to the 31 March 2016 as detailed in Appendix 6 (ii) to the report.

**7. SCOTTISH BORDERS HEALTH AND SOCIAL CARE INTEGRATION JOINT BOARD - ANNUAL AUDIT REPORT 2015/16; ANNUAL REPORT AND ACCOUNTS 2015/16; FINANCIAL GOVERNANCE AND MANAGEMENT**

7.1 There had been circulated copies of the above reports in respect of the Health and Social Care Integration Joint Board (IJB). The Chairman advised that, as these reports were closely connected, all three would be considered as a single item.

7.2 Mr Harvie and Mr Swann introduced the first KPMG Annual Audit report since the Board was established and as such were brief but included all required information. The IJB was in a positive position after its first year and all parties continued to work in partnership. The key challenge would be to ensure and maintain effective budget management going forward and this would continue to be monitored. KPMG expected to issue an unqualified audit opinion with recommendations only within the area of financial sustainability, namely that: the IJB should agree funding levels for 2017/18 and 2018/19 to allow for budget setting and planning; plans should be in place as a matter of urgency for efficiency savings; budget provision should also be in place for areas of emerging pressures with a Risk Register established for monitoring of financial risks; and budget

and financial plans should be updated regularly to reflect these risks. Mr McMenamain, Interim Chief Financial Officer IJB, was in attendance and confirmed that the Risk Register was now in the final stages of development.

- 7.3 Mr McMenamain advised that this first Annual Report of the IJB provided an update on the process of production, audit and approval of IJB accounts for the period to 31 March 2016. This laid the foundation for future reports and was compliant with the Code of Practice. Further information would be included in subsequent reports as the Board developed and Mr McMenamain acknowledged that there were substantial financial challenges to be faced going forward. Members were advised that the report which would be presented to the IJB on 17 October 2016 would include detail in respect of the direction and resources available; and services commissioned and the resources in place to meet such commitments. The IJB would also require to develop a new Strategic Plan with clear priorities set for the future. There was discussion around the timetables for the different budget setting processes for the Council and NHS Borders. Mr McMenamain confirmed that pressures and priorities would be reflected within these timetables.
- 7.4 Mr McMenamain advised that the report on the IJB Financial Governance and Management provided an update on the progress within the Health and Social Care Integration Programme (HSCIP) in relation to compliance with 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). The provisions related to the establishment of arrangements for Financial Governance and Management within NHS Borders, Scottish Borders Council and the Scottish Borders Health and Social Care Partnership. Members noted that there were 69 key finance-related provisions/recommendations within the IRAG guidance that required consideration. These were detailed in Appendix 1 to the report. The report also detailed the current "RAG" ratings for all Actions with the timescales for progressing and completion as appropriate. It was noted that 8 provisions did not currently apply, 36 were complete and the remaining provisions were within the red, amber or yellow categories. Members requested clarification on the IJB Audit Committee management arrangements. Ms Stacey advised that governance for the IJB Audit Committee was now in place, with membership comprising two members from each SBC and NHS Borders, none of whom could hold the post of Chair of the IJB. It was noted that membership of the IJB Audit Committee was drawn from the full IJB and there was some concern over potential conflicts of interests. Members were assured that appropriate governance arrangements were in place and that proper evaluation would be undertaken to ensure that there were no conflicts of interests. Discussion in relation to financial planning followed and it was noted that meetings would take place between the Chair of the IJB and the Chairs of SBC and NHS Audit Committees to ensure clarity and understanding.

**DECISION  
NOTED:-**

- (a) **Scottish Borders Health and Social Care Integration Joint Board Annual Audit Report 2015/16 from the Council's external auditors;**
- (b) **the draft Statement of Accounts for the operating activities of the Scottish Borders Health and Social Care Integration Joint Board from the period of its establishment (6 February 2016) to 31 March 2016;**
- (c) **the further progress made to date in the development and implementation of the financial and governance arrangements which require to be in place across NHS Borders, Scottish Borders Council and the Health and Social Care Partnership; and**

- (d) **the Scottish Borders Health and Social Care Integration Joint Board plan of actions for the remaining work to be completed during the remainder of 2016/17.**

#### **MEMBER**

Councillor White left the meeting during consideration of the above item of business.

#### **8. ANNUAL TREASURY MANAGEMENT REPORT 2015/16**

- 8.1 With reference to paragraph 7 of the Minute of 29 September 2015, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during 2015/16 financial year to the Audit and Risk Committee for review as part of their scrutiny role in relation to treasury management activities in the Council. The CIPFA Code of Practice on Treasury Management in the Public Services required an annual report on treasury management to be submitted to Council following the end of the financial year. Appendix 1 to the report comprised the annual treasury management report for 2015/16 and contained an analysis of performance against target set in relation to Prudential and Treasury Management Indicators. All of the performance comparisons reported upon were based on the revised indicators agreed as part of the mid-year report approved on 17 December 2015.
- 8.2 The report advised that the Council's actual capital expenditure for 2015/16 was £45m which was £5.7m less than estimated and further detail was included in the Appendix to the report. The Appendix also showed the Council's borrowing requirement to fund capital investment undertaken during 2015/16, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits. The Council had, whenever possible, deferred borrowing and used surplus cash rather than undertake additional long term borrowing during the year. Treasury management activity had been undertaken in compliance with approved policy and the Code and the Council remained under-borrowed against its Capital Financing Requirement (CFR) as at 31 March 2016.
- 8.3 Members requested further explanation of "spend to save" and officers suggested examples of when this was best demonstrated. The SLEEP programme for the replacement of street lights and the programme of replacement windows were projects where initial spend was required in order to save in the longer term.

#### **DECISION**

- (a) **NOTED that treasury management activity in the year to 31 March 2016 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **AGREED that the Annual Treasury Management Report 2015/16, as detailed in Appendix 1 to the report, be presented to Council.**

#### **9. INTERNAL AUDIT WORK TO AUGUST 2016.**

- 9.1 With reference to paragraph 5 of the Minute of 9 May 2016, 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, the recommended audit actions agreed by management to improve internal controls and governance arrangements and internal audit work currently in progress. The work carried out by Internal Audit during the period 1 April to 31 August 2016 was detailed in the Appendix to the report and it was noted that during the current period, a total of six final internal audit reports had been issued, namely: Performance Management – Statutory Performance Indicators (SPIs) and Local Government Benchmarking Framework (LGBF); Revenues (Council Tax); Selkirk Conservation Area Regeneration (CARs) Scheme; Carbon Management Programme; Public Services Network (PSN) compliance; and ICT Change Programme (previously ICT Review Project). No recommendations had been made. An executive summary of the final internal audit reports issued, including audit objectives, 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 included in the Appendix to the report. Area of work in progress included LEADER Grants Compliance with SLA; European Maritime Fisheries Fund Compliance with SLA; Procure to Pay; Salaries and Expenses; and Schools. The Chief Officer Audit and Risk summarised other consultancy work that Internal Audit had been involved with and Members noted that Internal Audit's restructuring had now taken place.

- 9.2 Reference was made to paragraph 3.5.3 of the report in respect of Covalent and how outstanding and overdue audit recommendations were reviewed. It was noted that Internal Audit was satisfied that progress had been made to implement previous recommendations and that appropriate control mechanisms were in place. A mid-term report by Internal Audit would identify any outstanding recommendations and where progress had been less than anticipated. Discussion followed in respect of management of the contract with CGI. Members were advised that this would transfer to the Chief Financial Officer in due course and that cognisance would be taken of legal, financial and risk requirements.

**DECISION**

**NOTED the recent work carried out by Internal Audit and the work currently in progress.**

10. **THANKS**

As this was the final meeting of the Audit and Risk Committee that Mr Harvie and Mr Swann would attend on behalf of KPMG, signifying the end of their 5-year external auditor appointment, the Chairman thanked them for their attendance at meetings on behalf of the Members.

**DECISION**

**NOTED.**

11. **FUTURE MEETING DATES**

The scheduled dates for future meetings of the Audit and Risk Committee were as follows:-

14 November 2016;  
16 January 2017;  
28 March 2017; and  
27 June 2017.

***The meeting concluded at 12.25 pm***



# Local government audits

Introduction to Audit Scotland

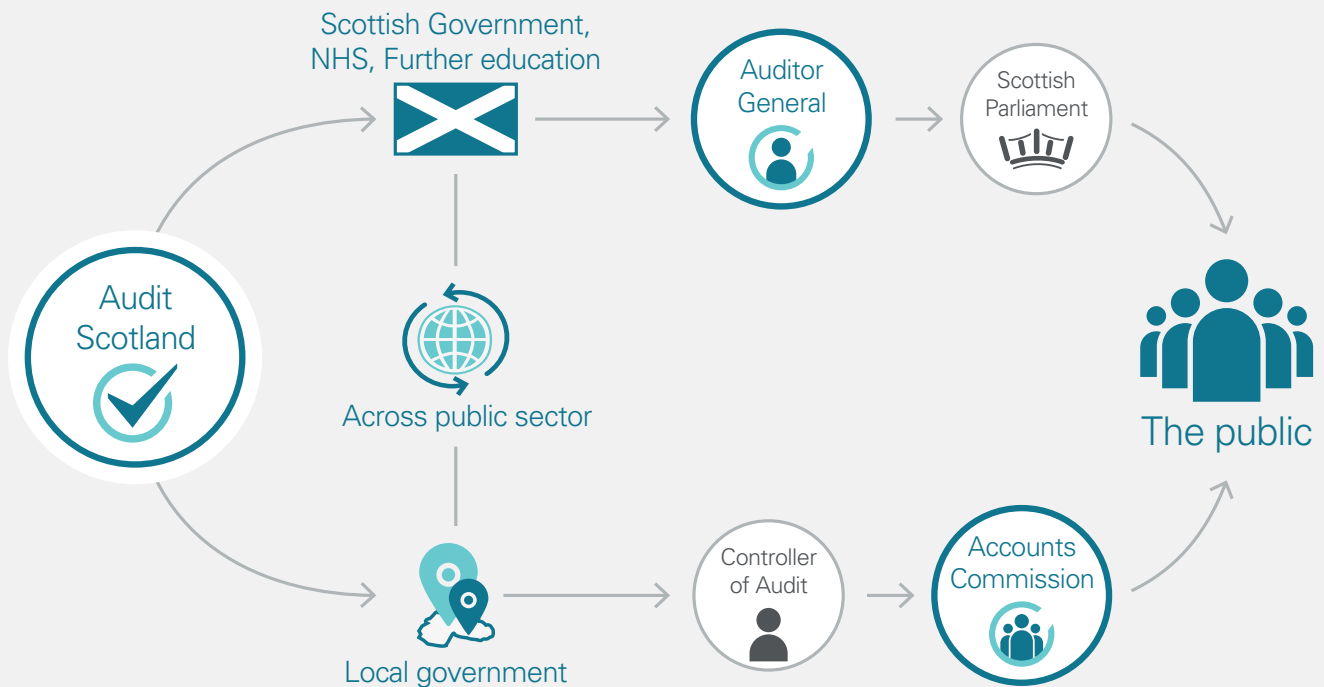


Scottish Borders Council

# Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:


- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

## Who's who


### Accounts Commission

The Accounts Commission is the public spending watchdog for local government. They hold all councils in Scotland to account and help them improve. They operate impartially and independently of councils and of the Scottish Government, with a duty to help ensure public money is spent properly, efficiently and effectively. They meet and report in public. Members are appointed by Scottish Ministers.

The Commission's work includes audits and reports on local councils, reports on Best Value and Community Planning and performance audit reports, which examine value for money issues across public bodies.

[Find out more about their role and legal responsibilities](#) .

### Controller of Audit

Fraser McKinlay is the current Controller of Audit. He has statutory responsibility for reporting to the [Accounts Commission](#)  on matters of public interest in local authorities. This involves oversight of the annual financial audit, reports about specific issues on councils and best value reports of individual councils.



The Controller is appointed by the Accounts Commission following consultation with, and subject to the approval of, Scottish Ministers.

Fraser is also Audit Scotland's Director of Performance Audit and Best Value. In this role he oversees all national performance audits and best value work on behalf of both the Accounts Commission and the Auditor General for Scotland.

## Meet your senior audit team

For every audit there is a comprehensive exercise to ensure the appointed audit team has extensive knowledge, skills and experience to maximise the value of external audit. In addition we consider: staff rotation and continuity, ethical standards and conflicts of interest; statutory obligations; diversity; staff development, travel and carbon footprint. Before their work begins, we will introduce the wider audit team, and provide detailed information about our audit approach, meetings and timescales for reporting.

Gillian Woolman, Assistant Director, is your appointed auditor. The local audit team will be led by Asif A Haseeb who will be responsible for the day to day management of the audit and who will be your primary contact.

### Fiona Kordiak CPFA

#### Director, Audit Services

[fkordiak@audit-scotland.gov.uk](mailto:fkordiak@audit-scotland.gov.uk) 

Fiona leads the Audit Services Group and is a member of Audit Scotland's management team. She is responsible for ensuring that we comply with the highest ethical standards and international standards of auditing. Fiona has worked in public sector audit for nearly 30 years. She is a member of the CIPFA Scotland branch executive committee and is a past chair of the Local Authority (Scotland) Accounts Advisory Committee.



### Gillian Woolman FCA CPFA

#### Assistant Director

[gwoolman@audit-scotland.gov.uk](mailto:gwoolman@audit-scotland.gov.uk) 

Gillian took up post as Assistant Director in 2001. Gillian trained with the private sector and worked overseas for five years before joining the NHS as a Chief Internal Auditor. Gillian has extensive experience of public sector audit in local government, central government and the NHS. Gillian is a member of LASAAC and chair of the regional strategic board of the ICAEW.



### Asif A Haseeb MBA, ACMA

#### Senior Audit Manager

[ahasseb@audit-scotland.gov.uk](mailto:ahasseb@audit-scotland.gov.uk) 

Asif joined Audit Scotland in October 2001. Before working for Audit Scotland, he was the Chief Auditor in a Scottish council. Asif has 22 years of public sector audit experience and substantial financial management and board level experience in the public sector.



## About our work

We give independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.



77



Central government bodies and Scottish Parliament  
(including police, fire, Scottish Water)

23



NHS bodies

32



Councils

74



Joint boards and committees  
(including 30 health integration boards)

21



Further education colleges

# 227 Public bodies audited

## Principles of public audit

The principles of public audit are shared across the UK and are based on:

### Statutory



- Opinions on the financial statements and regularity
- National performance audits and Best Value audits

### Best practice



- Opinions on management commentaries, remuneration reports and governance statements

### Adds value



- Public reporting of audit findings
- Wider scope reporting

In our [Code of audit practice](#), public audit principles include a combination of specific legal requirements, professional requirements, and requirements that ensure public audit adds value for audited bodies, the public and their elected representatives.

## Why we're auditing Scottish Borders Council

Staff from Audit Scotland, along with firms of auditors we appoint, check whether public organisations:

- manage their money to the highest standards
- get the best possible value for public money.

## How we report what we find

We produce a range of local and national reports about the performance and financial management of Scotland's public bodies. All our reports will be published and accessible to the public.

- **Annual audits**

We publish annual audit reports for all the public bodies we're responsible for auditing. We also publish our audit plans and any significant reports to management.

- **Public reports**


We publish a wide range of reports on matters of public interest. These include overview reports on how different sectors perform during each financial year. These reports are considered by the Scottish Parliament and/or the Accounts Commission.

- **Section 102 reports**

Section 102 reports\* empower the Controller of Audit to submit reports to the Accounts Commission on various matters, including any matters arising from the accounts or audit of a local authority and performance against the dates relating to best value.

*\*Section 102(1) of the Local Government (Scotland) Act 1973*


## Our Code of Audit Practice

We published our updated, stronger [Code of Audit Practice](#)  in May 2016, following extensive consultation. This code outlines the responsibilities of our auditors.

With the public audit landscape in Scotland changing, including additional devolved tax raising powers, and public bodies expected to work together more extensively to improve services and increase efficiency, an updated code needs to maximise the value of public audit.

In order to achieve world class public audit and give reassurance that we are all receiving value for money from public spending, the new code aims to assist improvement by audited bodies in the delivery of services. It does this by requiring auditors to use their work to provide explicit conclusions on four key aspects: financial sustainability, financial management, governance and transparency, and value for money.



We achieve the four principles of audit above, as an organisation, by working together: the Auditor General, the Accounts Commission and Audit Scotland. Read our publication [Public audit in Scotland](#) 

Our quality framework is based on our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice. To ensure that we achieve the required standards Audit Scotland conducts peer reviews, as well as internal quality reviews and external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

## Auditing Best Value

In 2016 we are introducing a new approach to auditing Best Value in Local Government. The Accounts Commission wrote to council leaders in November 2015 about this and again recently with an overview of the approach. The new arrangements increase our focus on continuous improvement as well as the outcomes for communities and the quality of service experienced by the public. The approach also includes greater integration of our audit processes for each council (local annual audit and Best Value) so that we are able to deliver more regular assurance and a richer, more rounded picture of how effectively all 32 councils are performing.


The new approach will apply to audit planning and the annual audit reports for each council. We will spread our audit work over the five years of the audit appointment, and this wider scope of work will be evident in your Annual Audit Report. At least once during the five year appointment, a Best Value Assurance Report (BVAR) will be submitted to the Accounts Commission and published for your council. Further details on the new approach will be issued to councils during the autumn.

# Local government audits

## Introduction to Audit Scotland

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

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 



# Local government audits

Introduction to Audit Scotland

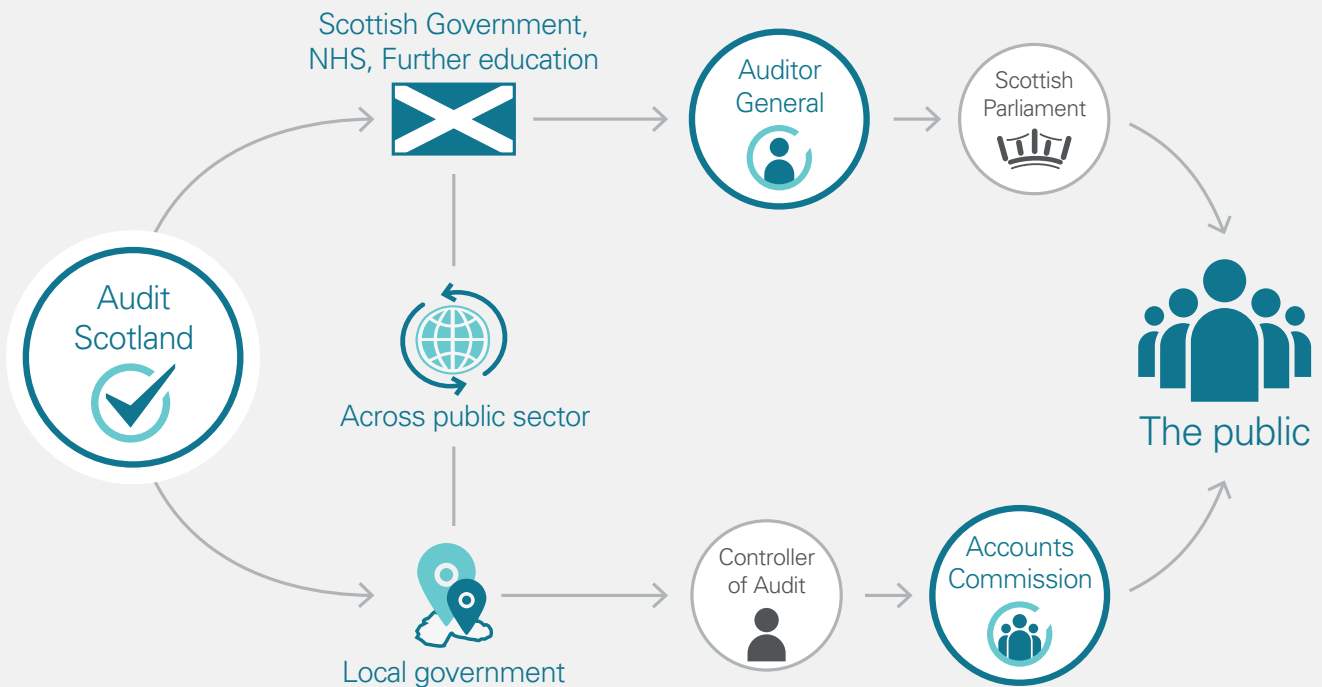


Scottish Borders Pension Fund

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The Commission's work includes audits and reports on local councils, reports on Best Value and Community Planning and performance audit reports, which examine value for money issues across public bodies.

[Find out more about their role and legal responsibilities](#) .

### Controller of Audit

Fraser McKinlay is the current Controller of Audit. He has statutory responsibility for reporting to the [Accounts Commission](#)  on matters of public interest in local authorities. This involves oversight of the annual financial audit, reports about specific issues on councils and best value reports of individual councils.



The Controller is appointed by the Accounts Commission following consultation with, and subject to the approval of, Scottish Ministers.

Fraser is also Audit Scotland's Director of Performance Audit and Best Value. In this role he oversees all national performance audits and best value work on behalf of both the Accounts Commission and the Auditor General for Scotland.

## Meet your senior audit team

For every audit there is a comprehensive exercise to ensure the appointed audit team has extensive knowledge, skills and experience to maximise the value of external audit. In addition we consider: staff rotation and continuity, ethical standards and conflicts of interest; statutory obligations; diversity; staff development, travel and carbon footprint. Before their work begins, we will introduce the wider audit team, and provide detailed information about our audit approach, meetings and timescales for reporting.

Gillian Woolman, Assistant Director, is your appointed auditor. The local audit team will be led by Asif A Haseeb who will be responsible for the day to day management of the audit and who will be your primary contact.

### Fiona Kordiak CPFA

#### Director, Audit Services

[fkordiak@audit-scotland.gov.uk](mailto:fkordiak@audit-scotland.gov.uk) 

Fiona leads the Audit Services Group and is a member of Audit Scotland's management team. She is responsible for ensuring that we comply with the highest ethical standards and international standards of auditing. Fiona has worked in public sector audit for nearly 30 years. She is a member of the CIPFA Scotland branch executive committee and is a past chair of the Local Authority (Scotland) Accounts Advisory Committee.



### Gillian Woolman FCA CPFA

#### Assistant Director

[gwoolman@audit-scotland.gov.uk](mailto:gwoolman@audit-scotland.gov.uk) 

Gillian took up post as Assistant Director in 2001. Gillian trained with the private sector and worked overseas for five years before joining the NHS as a Chief Internal Auditor. Gillian has extensive experience of public sector audit in local government, central government and the NHS. Gillian is a member of LASAAC and chair of the regional strategic board of the ICAEW.



### Asif A Haseeb MBA, ACMA

#### Senior Audit Manager

[ahasseb@audit-scotland.gov.uk](mailto:ahasseb@audit-scotland.gov.uk) 

Asif joined Audit Scotland in October 2001. Before working for Audit Scotland, he was the Chief Auditor in a Scottish council. Asif has 22 years of public sector audit experience and substantial financial management and board level experience in the public sector.



## About our work

We give independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.



77



Central government bodies and Scottish Parliament  
(including police, fire, Scottish Water)

23



NHS bodies

32



Councils

74



Joint boards and committees  
(including 30 health integration boards)

21



Further education colleges

# 227 Public bodies audited

## Principles of public audit

The principles of public audit are shared across the UK and are based on:

### Statutory



- Opinions on the financial statements and regularity
- National performance audits and Best Value audits

### Best practice



- Opinions on management commentaries, remuneration reports and governance statements

### Adds value



- Public reporting of audit findings
- Wider scope reporting

In our [Code of audit practice](#), public audit principles include a combination of specific legal requirements, professional requirements, and requirements that ensure public audit adds value for audited bodies, the public and their elected representatives.

## Why we're auditing Scottish Borders Pension Fund

Staff from Audit Scotland, along with firms of auditors we appoint, check whether public organisations:

- manage their money to the highest standards
- get the best possible value for public money.

## How we report what we find

We produce a range of local and national reports about the performance and financial management of Scotland's public bodies. All our reports will be published and accessible to the public.

- **Annual audits**

We publish annual audit reports for all the public bodies we're responsible for auditing. We also publish our audit plans and any significant reports to management.

- **Public reports**


We publish a wide range of reports on matters of public interest. These include overview reports on how different sectors perform during each financial year. These reports are considered by the Scottish Parliament and/or the Accounts Commission.

- **Section 102 reports**

Section 102 reports\* empower the Controller of Audit to submit reports to the Accounts Commission on various matters, including any matters arising from the accounts or audit of a local authority and performance against the dates relating to best value.

*\*Section 102(1) of the Local Government (Scotland) Act 1973*


## Our Code of Audit Practice

We published our updated, stronger [Code of Audit Practice](#)  in May 2016, following extensive consultation. This code outlines the responsibilities of our auditors.

With the public audit landscape in Scotland changing, including additional devolved tax raising powers, and public bodies expected to work together more extensively to improve services and increase efficiency, an updated code needs to maximise the value of public audit.

In order to achieve world class public audit and give reassurance that we are all receiving value for money from public spending, the new code aims to assist improvement by audited bodies in the delivery of services. It does this by requiring auditors to use their work to provide explicit conclusions on four key aspects: financial sustainability, financial management, governance and transparency, and value for money.



We achieve the four principles of audit above, as an organisation, by working together: the Auditor General, the Accounts Commission and Audit Scotland. Read our publication [Public audit in Scotland](#) 

Our quality framework is based on our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice. To ensure that we achieve the required standards Audit Scotland conducts peer reviews, as well as internal quality reviews and external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

## Auditing Best Value

In 2016 we are introducing a new approach to auditing Best Value in Local Government. The Accounts Commission wrote to council leaders in November 2015 about this and again recently with an overview of the approach. The new arrangements increase our focus on continuous improvement as well as the outcomes for communities and the quality of service experienced by the public. The approach also includes greater integration of our audit processes for each council (local annual audit and Best Value) so that we are able to deliver more regular assurance and a richer, more rounded picture of how effectively all 32 councils are performing.


The new approach will apply to audit planning and the annual audit reports for each council. We will spread our audit work over the five years of the audit appointment, and this wider scope of work will be evident in your Annual Audit Report. At least once during the five year appointment, a Best Value Assurance Report (BVAR) will be submitted to the Accounts Commission and published for your council. Further details on the new approach will be issued to councils during the autumn.

# Local government audits

## Introduction to Audit Scotland

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

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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# Maintaining Scotland's roads

A follow-up report



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland  
August 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](http://www.audit-scotland.gov.uk/about/ac) 


## Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

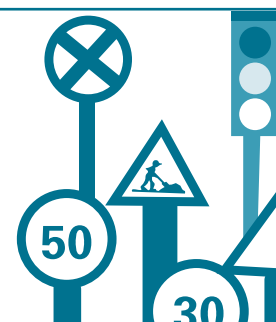
The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: [www.audit-scotland.gov.uk/about/ags](http://www.audit-scotland.gov.uk/about/ags) 

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

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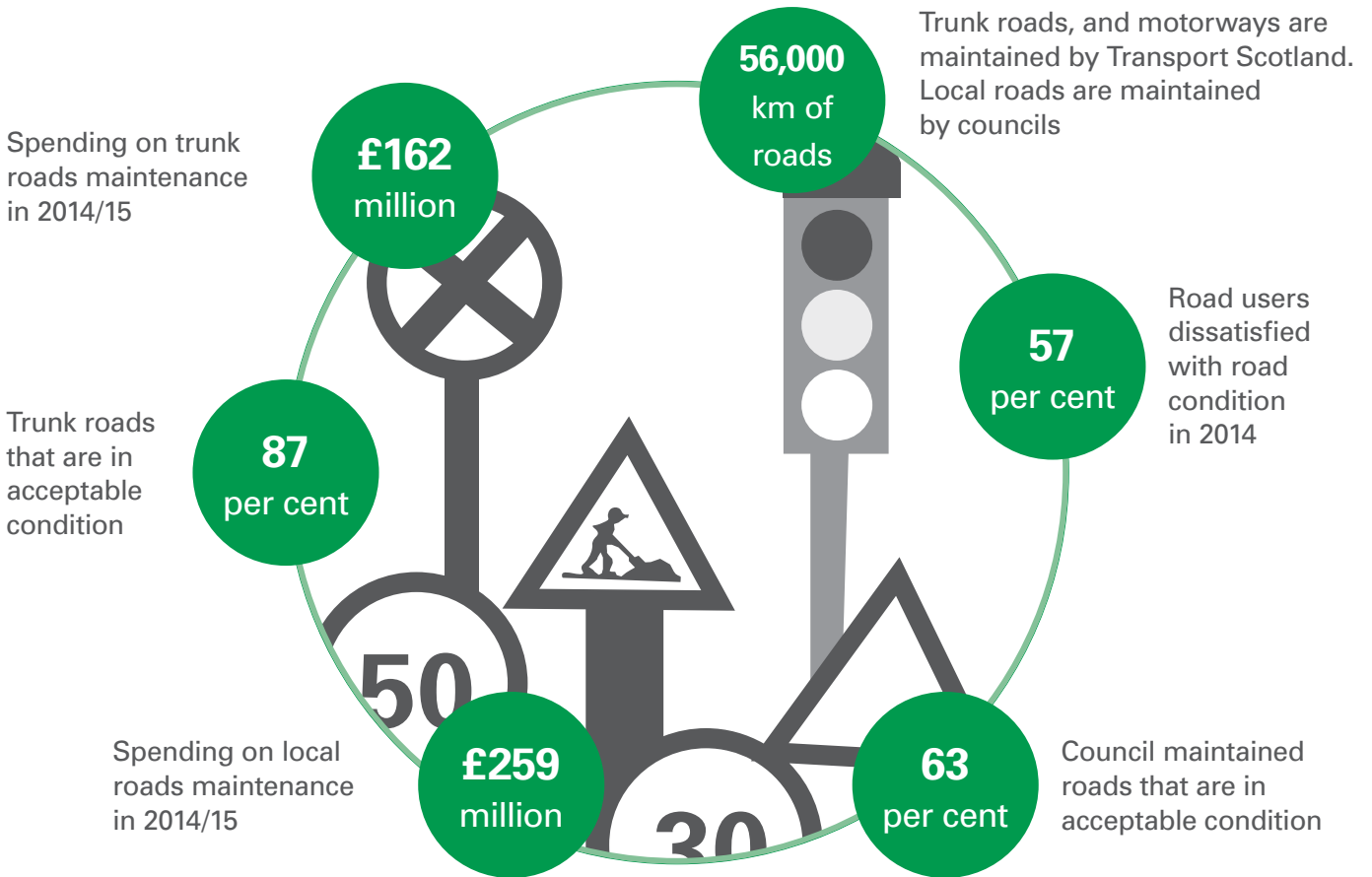
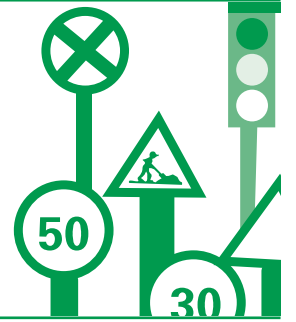


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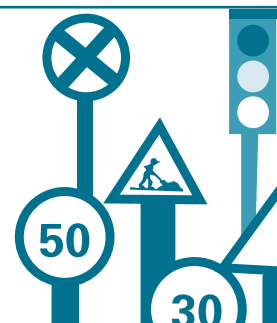
## Links

-  PDF download
-  Web link

# Key facts



# Summary



- 1 The proper maintenance of the road network is vital to Scotland's economic prosperity and for road users to travel safely. Roads authorities, locally and nationally, urgently need to demonstrate a much greater commitment to innovation, comparing relative efficiency and being clearer with the public about the impact on road condition of agreed spending levels. It is clear that the status quo is no longer an option if there is to be any improvement in road condition. A longer-term view is required, one that takes into account both the need for new roads and the maintenance of the existing road network.
- 2 Independent survey results indicate that the condition of council-maintained roads has remained stable at around 63 per cent in acceptable condition over the period 2011/12 to 2014/15. There is significant variation in road condition among councils. There is also concern that the survey approach does not always pick up the full extent of failures in the structural integrity of lower road layers. Fifty-seven per cent of users report that road condition is a major concern. While 13 authorities increased their spending, overall council expenditure on roads maintenance continues to decrease, from £302 million in 2011/12 to £259 million in 2014/15 (14 per cent). Overall, councils spent £33 million (13 per cent) less on planned and routine maintenance in 2014/15 than the Society of Chief Officers of Transportation Scotland considers was necessary to maintain the current condition of local roads.
- 3 The condition of trunk roads declined from 90 per cent in acceptable condition in 2011/12 to 87 per cent in 2014/15. Most of this decline is associated with the condition of motorways. Transport Scotland attributes this to more resurfacing work, instead of more expensive reconstruction which would also improve the condition of the lower road layers. Transport Scotland's expenditure on trunk roads maintenance fell from £168 million in 2011/12 to £162 million in 2014/15 (four per cent). It spent £24 million (38 per cent) less on structural maintenance in 2014/15 than it considers was necessary to maintain trunk road condition at its current levels.
- 4 In the current context of reduced public spending, the competing priorities of some services, such as education, health and social care mean that roads maintenance budgets may be put under further pressure. There is evidence that roads authorities are better prioritising and targeting roads maintenance, and using cheaper treatment options. This has helped available budgets go further but carries risks. Increasing the use of surface dressing might help to maintain the condition of the surface of the road network in the short term, but this may not deliver value for money in the longer term. It is important that

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roads authorities need to demonstrate greater commitment to improving road condition

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proper scrutiny and challenge includes taking account of all options and users' views when considering spending on roads.

- 5** Progress with introducing a shared services approach to roads maintenance, a central theme of the 2012 National Roads Maintenance Review, has been disappointingly slow. Councils are in the process of establishing regional governance bodies for local roads maintenance but there is still no clear plan and timetable for determining the extent of shared services at an operational level. Scottish ministers want to see councils make more progress, and be able to demonstrate the efficiency savings and other benefits arising, before trunk roads could be considered for inclusion in such regional arrangements.

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## Recommendations

### The Strategic Action Group should:<sup>1</sup>

- Ensure that the Roads Collaboration Board works with regional group partners to determine a clear plan and timetable for:
  - supporting the development of regional arrangements for roads services to secure the benefits arising, such as efficiencies, increased service resilience and professional skills, while also preserving local accountability
  - making decisions on the extent of shared services at an operational level
  - learning lessons from existing shared service models such as the Ayrshire Roads Alliance, Tayside Contracts and further afield
  - establishing a baseline position, so that roads authorities can measure the expected benefits from collaboration over time
  - develop outcome measures which demonstrate the contribution of well-maintained roads to Scotland's economy.

### Councils should:

- Ensure that they work closely with the Roads Collaboration Programme and regional group partners to determine the extent of shared service models for roads maintenance operations
- Ensure that they implement the findings of the consultant's review of Roads Asset Management Plans (RAMPs) where relevant
- Implement methods for assessing and comparing councils' roads maintenance efficiency with the aim of identifying and learning from councils delivering services more efficiently
- Use the National Highways & Transport (NHT) Network Survey, or similar, to obtain user views and perceptions of roads services consistently
- Use the results of user surveys to develop more proactive ways of engaging with the public over roads maintenance issues, and to help inform scrutiny and challenge of roads maintenance budgetary proposals.

**Councils and Transport Scotland should:**

- Ensure that they use their RAMPs to inform elected members and Scottish ministers of long-term investment plans for maintaining roads that take into account the whole-life costing of treatment options
- Ensure that the consequences of spending less than that necessary to maintain current road condition adequately features in budget-setting processes to allow elected members and Scottish ministers make informed choices which take account of competing demands and priorities.

**Transport Scotland should:**


- Make road condition information publicly available for the geographical areas of the trunk road network: North West, North East, South East and South West Scotland
- Identify unit cost or other efficiency measures to evaluate the value for money provided by operating companies
- Consider the overall trend in performance of operating companies and ensure it has appropriate mechanisms in place for addressing areas of poorer performance
- Fully take account of the needs of the existing trunk road network when considering the affordability of large-scale transport investments taken forward within the Scottish Government's Infrastructure Investment Plan
- Consider its future strategy for maintaining the trunk road network. The strategy should fully reflect the progress made by council regional groupings in determining the extent of shared service models for roads maintenance operations. If Transport Scotland decides to renew its existing operating contracts, it should seek to maximise opportunities for greater collaboration with councils through contract conditions.

**The Society of Chief Officers of Transportation Scotland (SCOTS) should:**

- Work with councils to implement the findings of the consultant's review of RAMPs, and promote good practice where it is identified
- Continue, as a matter of priority, to work with consultants to develop methods for assessing and comparing how efficient councils are at roads maintenance
- Focus the work of the Scottish Roads Research Board so that it identifies a programme of research projects aimed at maximising innovation and sharing current good practice in delivering roads maintenance services.

This is the third time we have reported on roads maintenance in the last six years. We expect the Strategic Action Group to publicly report on the progress made on implementing the recommendations contained in this report. It should publish this report no later than the end of December 2017.

## Background

1. In February 2011, the Auditor General for Scotland and the Accounts Commission published [Maintaining Scotland's roads: A follow-up report](#) . The audit examined progress on implementing recommendations in *Maintaining Scotland's roads* which the Auditor General for Scotland and the Accounts Commission published in November 2004. The 2011 audit report found the following:

- The condition of Scotland's roads had worsened since 2004.
- Spending on roads maintenance had fallen, after taking account of road construction inflation.<sup>2</sup>
- Roads authorities could improve how they manage roads maintenance, for example by introducing Roads Asset Management Plans and using performance indicators to help them benchmark against other roads authorities.
- The Scottish Government should consider whether a national review of how the road network is managed and maintained is needed to stimulate service redesign and increase the pace of examining the potential for shared services.

2. The Scottish Government and councils initiated a National Review of Road Maintenance (NRM) later in 2011. A Strategic Action Group, jointly chaired by COSLA and the Minister for Transport and Islands, provided overall direction to the NRM. The findings of the NRM, published in July 2012, identified 30 actions under six main themes:

- Better asset management, including prioritising investment in roads maintenance.
- The use of performance information to support benchmarking.
- Using innovation.
- Enabling faster progress in improving road condition.
- Considering different delivery models, including the scope for greater collaboration and the 'optimum arrangements for the management and maintenance of roads in Scotland' (known as Option 30).
- Communicating with industry partners and road users.

[The Supplement](#) provides more details of the NRM actions.

3. In May 2013, the Accounts Commission published *Maintaining Scotland's roads: An audit update on councils' progress*. The audit examined councils' progress in implementing relevant recommendations in the 2011 audit report. It also reviewed progress on implementing the actions set out in NRM. The 2013 audit report found the following:

- The condition of local roads had improved marginally since 2010.



- Some progress had been made with the introduction of RAMPs and performance indicators but further work was needed.
- The NRMR was progressing but significant new ways of working would take time to put in place.

4. Overall, the Accounts Commission recognised that although councils were facing budget constraints, they needed to improve the condition of Scotland's roads more quickly.

### About this audit

5. This audit follows up previous audit reports in 2011 and 2013. It reviews:

- changes in road condition and spending on roads maintenance since the 2011 report
- progress made against previous audit recommendations
- progress in implementing the actions set out in the NRMR, in particular Option 30.

6. During the audit we:

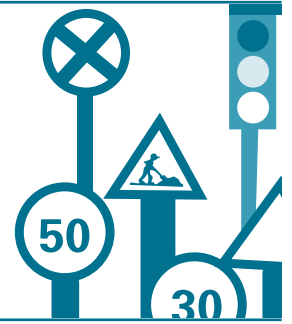
- analysed performance data, in particular road condition and spending on roads maintenance
- reviewed other key information and documents such as:
  - Transport Scotland strategic documents
  - Roads Collaboration Programme updates and reports
  - Scottish Roads Research Board documentation
  - User survey results, such as those generated from the Scottish Household Survey and the National Highways & Transport Network Survey
- conducted fieldwork at a sample of 11 roads authorities, where we:
- reviewed strategic documents such as Roads Investment Strategies, Roads Asset Management Plans and Annual Status and Options Reports
- interviewed senior officers and elected members at a sample of ten councils, and senior officers at Transport Scotland.

7. The report has two parts:

- [Part 1](#) outlines the condition and cost of maintaining Scotland's roads.
- [Part 2](#) reviews progress made in improving the management of roads maintenance.

# Part 1

## The condition and cost of maintaining Scotland's roads



### Key messages

- 1 Independent survey results indicate the overall condition of council-maintained roads has remained stable, at around 63 per cent in acceptable condition over the period 2011/12 to 2014/15. Road condition varies among individual councils from 44 per cent to 79 per cent in acceptable condition. While 13 authorities increased their spending, overall council expenditure continues to decrease, from £302 million in 2011/12 to £259 million in 2014/15 (14 per cent). Overall, councils spent £33 million (13 per cent) less on planned and routine maintenance in 2014/15 than the Society of Chief Officers of Transportation Scotland (SCOTS) considers was necessary to maintain the current condition of local roads. Only a third of councils are presenting options to elected members on what kind of road condition can be expected from different levels of spending.
- 2 The condition of trunk roads declined from 90 per cent in acceptable condition in 2011/12 to 87 per cent in 2014/15. Most of this decline is associated with the condition of motorways. Transport Scotland attributes this to more resurfacing work, instead of more expensive reconstruction which would also improve the condition of the lower road layers. Its expenditure on trunk roads maintenance fell from £168 million in 2011/12 to £162 million in 2014/15 (four per cent). Transport Scotland spent £24 million (38 per cent) less on structural maintenance in 2014/15 than it considers necessary to keep trunk road condition at its current levels.
- 3 Fifty-seven per cent of users report that road condition is a major concern. Councils and Transport Scotland both need to be clearer with the public on the impact that current levels of investment will have on road condition. They also need to take account of users' views consistently to make informed budgetary decisions that take account of competing priorities.

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users  
consider road  
condition  
as a major  
concern

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### Proper maintenance of the road network is vital to Scotland's economic prosperity and for road users to travel safely

8. Scotland's road network connects business with customers, suppliers and the workforce, helps people access places of employment and education, and helps move goods from point of production to local, national and international markets. There is no single indicator of how roads contribute to economic and social outcomes. But the Scottish Government considers that the road network plays a part in delivering nine of the 16 national outcomes in its National Performance Framework.<sup>3</sup>

**9.** Scotland's road network consists of almost 56,000 kilometres of road, as well as footways, bridges, lighting, signs and lines. Councils are responsible for 25,600 kilometres of classified roads and 26,800 kilometres of unclassified roads. Classified roads comprise:

- **A roads** – major roads which deliver the basic road links to certain areas or communities.
- **B roads** – roads that serve a local purpose and connect to strategic routes.
- **C roads** – mainly rural interconnecting roads.

**10.** Transport Scotland is responsible for 3,600 kilometres of motorways and trunk roads. Motorways and trunk roads make up only six per cent of the road network but, based on vehicle mileage, carry over a third of the traffic and nearly two-thirds of heavy goods vehicles (HGVs). In this report, the term trunk roads include motorways, while local roads mean council-maintained roads.

**11.** Councils are changing the way they value local roads with effect from 2016/17. The value of local roads will now be calculated on a similar basis to trunk roads, based on depreciated replacement cost, that is, the cost of replacing all roads to their current condition. The change is likely to lead to a significant increase in the value of Scottish councils' road network. Local roads will be the highest value asset on councils' balance sheets.

**12.** Road maintenance covers all work on roads other than major new-build work. It includes:

- structural maintenance, such as planned schedules of resurfacing or reconstruction works. Resurfacing is aimed at replacing a failed road surface. Reconstruction replaces a failed road structure, including the surface and lower road layers.
- surface dressing, to seal the surface, improve skidding resistance and restore ride quality
- routine maintenance, such as repairing potholes, emptying drains and gullies, and repairs to lighting and signs
- weather and winter services, such as applying salt and grit to remove snow and ice
- reactive maintenance, such as responding to inspections, complaints or emergencies.

Generally, the cost of materials forms the greatest proportion of spending associated with structural maintenance, while staff costs comprise the greatest proportion of spending on routine repairs.

**13.** Police accident records indicate that the biggest cause of road accidents is driver error or reaction, being a factor in 68 per cent of all road traffic accidents. Poor road condition is a small, but still important, contributory factor in the causes of road traffic accidents. Police accident records indicate that poor and defective road conditions are a contributory factor in around 0.7 per cent of fatal road traffic accidents in the UK, 0.8 per cent of serious road traffic accidents and 0.6 per cent of slight road

traffic accidents<sup>4</sup>. Between 2010 and 2014, there were 865 fatal, 8,039 serious and 38,957 slight road traffic accidents on Scottish roads. Extrapolating these figures means that poor and defective road condition may have been a contributory factor in six fatal, 64 serious and 234 slight road traffic accidents on Scottish roads over the five-year period.

**14.** Good road condition is also of vital interest to cyclists. The number of cyclists killed or injured on Scotland's roads increased from 776 in 2004 to 857 in 2014 (10.4 per cent).<sup>5</sup> The number of accidents involving cyclists where road condition was a contributory factor is not recorded. While the increase in casualties is likely to be attributable, at least in part, to the growing popularity of cycling to work and as a leisure activity, the Scottish Household Survey routinely asks those surveyed why they do not cycle to work. On average, five per cent of those surveyed between 2010 and 2014 said that they do not cycle to work because the road surfaces are dangerous.<sup>6</sup>

### **The condition of the Scottish road network has worsened since 2011, mainly as a result of a decline in the condition of motorways**

**15.** The Society of Chief Officers of Transportation Scotland (SCOTS) appoints WDM Ltd, a private firm with UK-wide experience in undertaking roads surveys, to undertake annual surveys of the condition of local roads on behalf of councils. *The Scottish Road Maintenance Condition Survey* uses a traffic speed machine based survey (Surface Condition Assessment for the National Network of Roads – SCANNER) to make a number of measurements that describe the condition of the road surface, including rutting, cracking and ride quality. This allows councils to assess the length of road requiring maintenance. The length of road surveyed annually includes:

- 100 per cent of A class roads with the direction of travel changed in alternate years
- 50 per cent of B and C class roads with the remaining 50 per cent surveyed the following year. The direction of travel is also alternated such that every B and C class road lane is surveyed every four years
- 10 per cent of unclassified roads are surveyed in one direction each year.

**16.** The results of the survey are used to classify local roads into one of three measures:

- **Green** – roads are in acceptable condition.
- **Amber** – some deterioration is apparent on the roads and should be investigated to determine the best time to carry out planned maintenance treatment.
- **Red** – roads are in poor condition and are likely to require repairs within one year.

**17.** A road that is assessed as in an acceptable condition through the survey does not necessarily mean it is free of any defects. Equally, a road that is in a poor condition does not necessarily mean it is unusable. But a road in poor condition:

- may require vehicles to travel at lower speeds
- increases the risk of vehicular suspension and other damage

- could present an increased safety risk, for example owing to the loss of the road's anti-skid properties.

**18.** SCANNER provides an indicator of the condition of the lower road layers but not an absolute measure. Transport Scotland tests the surface of the trunk road network using SCANNER. It also uses a Deflectograph to provide an estimate of the remaining useful life of trunk roads and to identify areas requiring strengthening. The Deflectograph is a lorry-mounted system involving a loaded wheel passing over the road. The size of the deflection is related to the strength of the lower road layers. Each year, Transport Scotland uses the Deflectograph to survey 20 per cent of the trunk road network.

**19.** The different approaches mean that, under normal circumstances, the reported condition of the local road network cannot be compared with that of trunk roads. Transport Scotland publicly reports trunk road condition using the combined results of its SCANNER and Deflectograph surveys. But it is also able to separate its survey results so that trunk road condition can be more directly comparable with that of local roads. This report outlines the condition of the trunk road network using both how Transport Scotland reports it (combined surface and lower road layer surveys) and surface survey only.

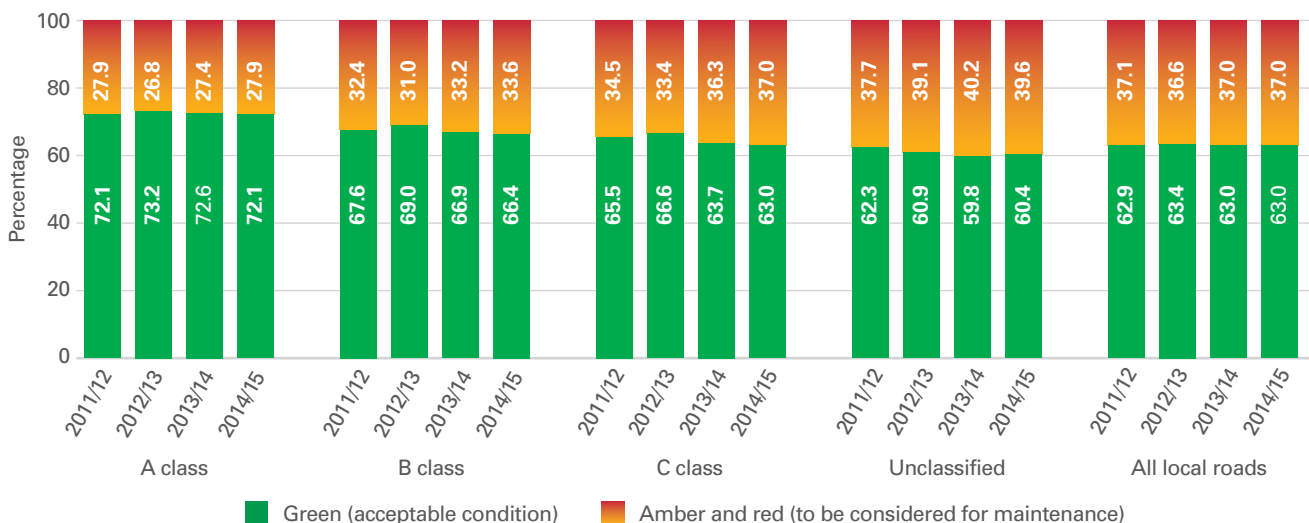
**The condition of council-maintained roads has stabilised overall**

**20.** The 2011 audit report found that the condition of council-maintained classified roads had deteriorated over the last five years. In 2005/06, 70 per cent were in acceptable condition. By 2010/11, the figure had dropped to 66 per cent in acceptable condition. Since then, the road condition survey indicates that the proportion of classified local roads in acceptable condition has remained the same ([Exhibit 1](#)).

**Exhibit 1**

**The condition of council-maintained roads from 2011/12 to 2014/15**

The proportion of local roads in acceptable condition remained the same between 2011/12 and 2014/15.



Source: SCOTS

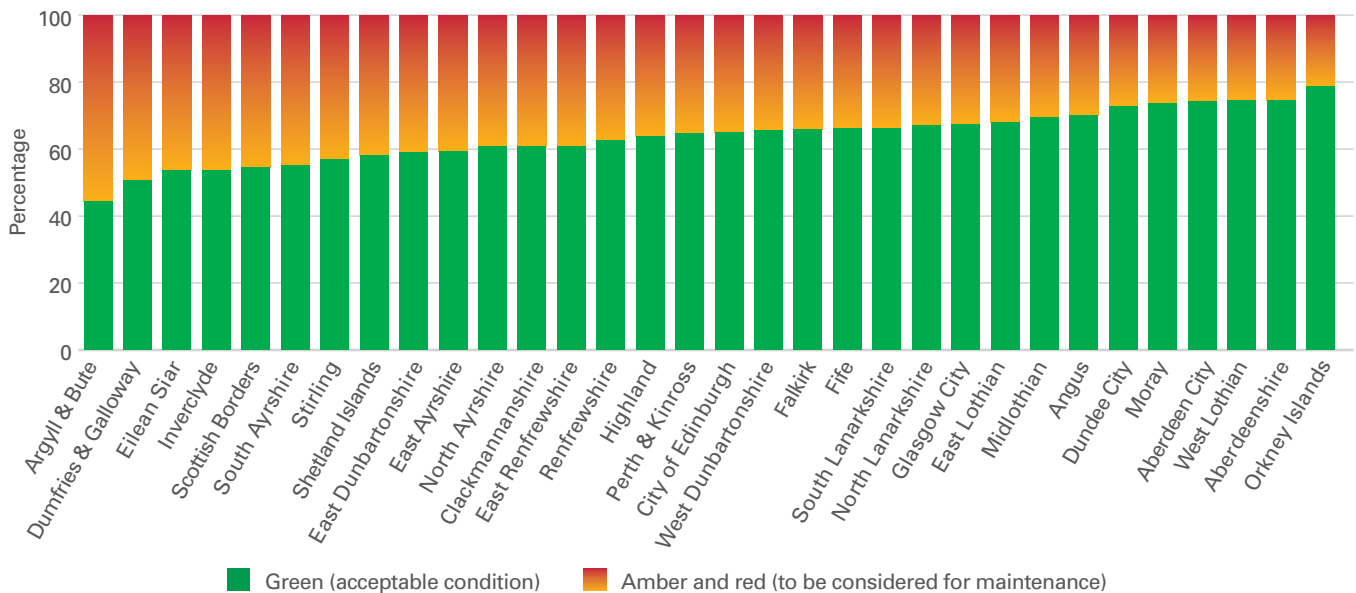
**21.** Unclassified roads make up slightly more than half the local road network. The condition of unclassified roads declined slightly from 62 per cent in acceptable condition in 2011/12 to 60 per cent in acceptable condition in 2014/15. Unclassified roads continue to be in worse condition than classified roads.

**22.** While the overall condition of council-maintained roads has remained stable at around 63 per cent over the period 2011/12 to 2014/15, there is significant variation in the condition of roads among councils. For example, in 2014/15, the proportion of local roads in acceptable condition ranged from 44 per cent in Argyll and Bute Council to 79 per cent in Orkney Islands Council ([Exhibit 2](#)).

## Exhibit 2

### Comparison of the proportion of roads in acceptable condition by council for 2014/15

There is significant variation in road condition among individual councils.



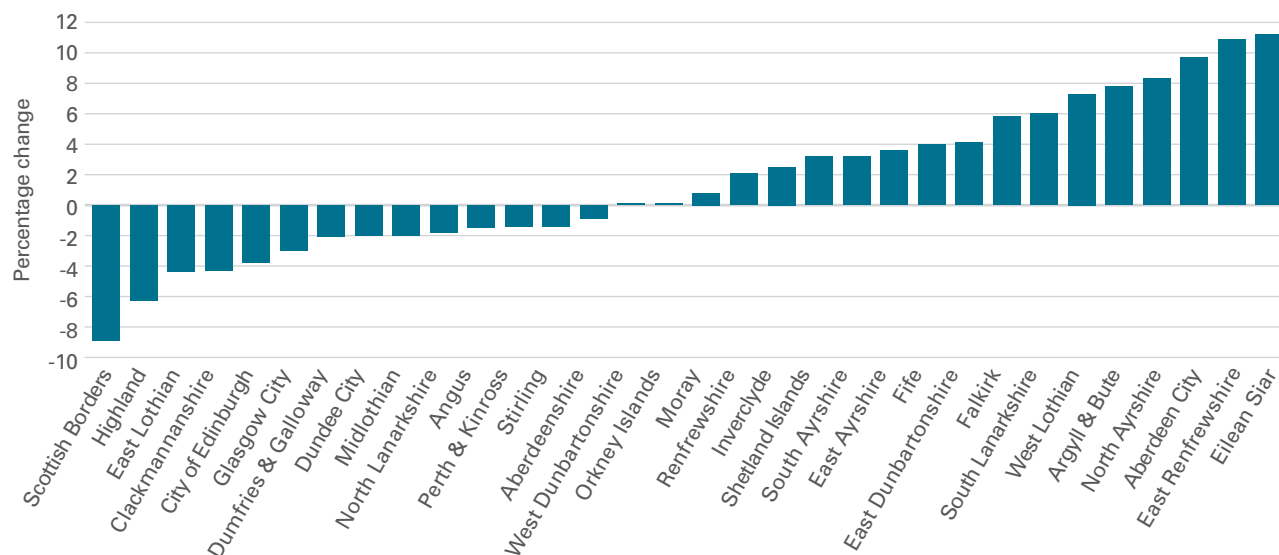
Source: SCOTS

**23.** There is also significant variation among councils in how the condition of local roads has changed over time. Between 2011/12 and 2014/15, survey results indicate that for 18 councils the proportion of their local roads in acceptable condition increased, while for 14 councils the condition of their local roads deteriorated. The extent of variation ranged from an improvement in acceptable condition of 11 per cent in Comhairle nan Eilean Siar to a deterioration of nine per cent in Scottish Borders Council ([Exhibit 3, page 15](#)). There is no obvious correlation between the change in road condition over time and the current level of road condition in individual councils.

### Exhibit 3

#### Change in percentage of council-maintained roads in acceptable condition from 2011/12 to 2014/15

There is significant variation in the change in road condition between councils.



Source: SCOTS

#### The condition of trunk roads has worsened

**24.** Transport Scotland has a higher maintenance standard for the trunk road network. In particular, it considers that motorways need to be maintained to a higher standard owing to the higher proportion of HGVs thus enabling traffic to move safely at higher speeds than normally experienced on local roads.

**25.** Using Transport Scotland's method of assessing road condition, the condition of trunk roads declined from 90 per cent in acceptable condition in 2011/12 to 87 per cent in 2014/15. Dual and single-track A-class roads are in better condition than motorways. Motorways declined from 79 per cent in acceptable condition in 2011/12 to 74 per cent in acceptable condition in 2014/15 ([Exhibit 4, page 16](#)). Transport Scotland attributes much of the decline in motorway condition to doing more resurfacing work instead of reconstruction, which would also improve the condition of lower road layers ([paragraph 72](#)).

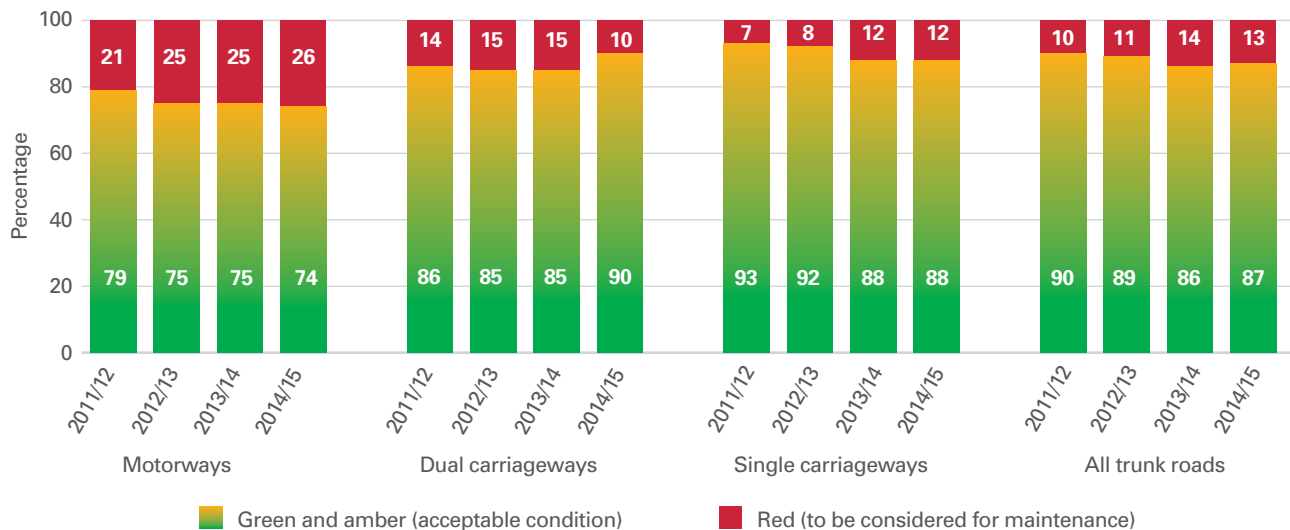
**26.** The 2011 audit report found that 78 per cent of trunk roads were in acceptable condition in 2010/11 based on the methodology used to assess council-maintained roads, that is, based on surface survey only. Since then, the overall condition of trunk roads has increased slightly to 79 per cent in acceptable condition. However, the proportion of motorways in acceptable condition fell from 70 per cent in 2011/12 to 58 per cent in 2014/15 ([Exhibit 4, page 16](#)).

### Exhibit 4

#### The condition of trunk roads from 2011/12 to 2014/15

The condition of trunk roads has worsened since 2011/12.

Condition results using Transport Scotland's approach, that is combined surface and lower road layers surveys.



Condition results using councils' approach, that is surface survey only



Source: Transport Scotland

27. Transport Scotland evaluates the quality of trunk road maintenance through the Performance Audit Group (PAGplus) and the annual reports it produces. These reports assess the performance of the operating companies which carry out trunk roads maintenance on behalf of Transport Scotland. Prior to June 2015, four operating companies provided trunk roads maintenance, organised into four geographical areas. A fifth operating company began operations in June 2015 when responsibility for maintaining the Forth Road Bridge and adjacent trunk road network was transferred from the Forth Estuary Transport Authority to Transport



Scotland. PAGplus assesses the performance of operating companies using a number of criteria, including:

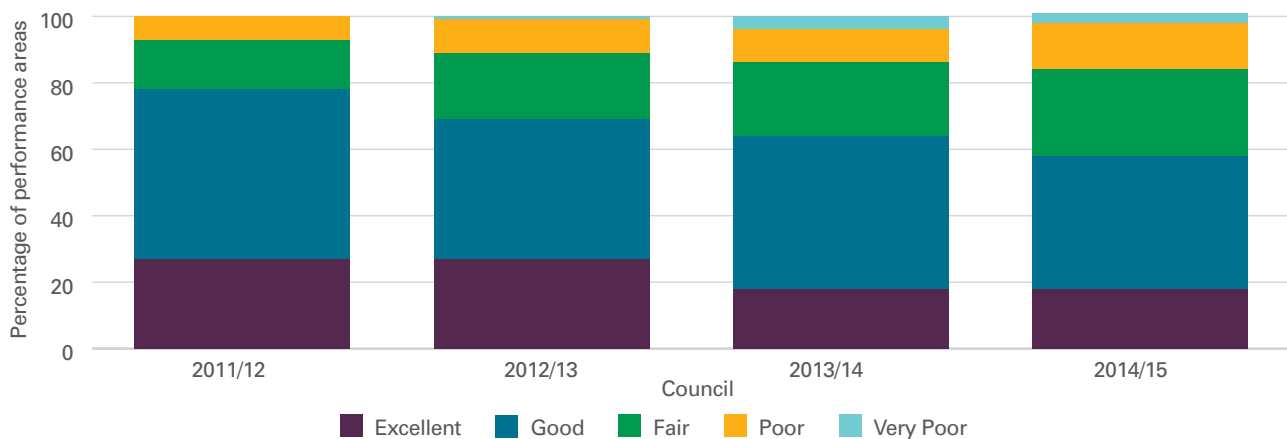
- Repair of major defects
- Planned maintenance of roads and other structures
- Winter service response times
- Safety inspections and patrols.

**28.** PAGplus assesses the performance of operating companies on a scale from 'excellent' through to 'very poor'. In 2011/12, PAGplus assessed 78 per cent of performance areas as 'excellent' or 'good' but this fell to 58 per cent in 2014/15. Conversely, PAGplus assessed seven per cent of performance areas as 'poor' or 'very poor' in 2011/12 but this increased to 16 per cent in 2014/15 ([Exhibit 5](#)). The introduction of new contracts in the North West, South West and South East areas during 2013 and 2014 may have played a part in the decline in performance during this time. It is important that Transport Scotland considers the overall trend in performance of operating companies and ensures it has appropriate mechanisms for addressing areas of poorer performance.

## Exhibit 5

### Trunk road maintenance operating company performance 2011/12 to 2014/15

The overall performance of trunk road operating companies declined between 2011/12 and 2014/15.



Note: The performance of the operating company responsible for the maintenances of the Forth Road Bridge and adjacent trunk road network is excluded from this analysis as it did not begin operations until June 2015, so there is no publicly available report through PAG plus.

Source: Transport Scotland

**29.** Transport Scotland does not report publicly on individual operating companies using road condition as an indicator of performance. This means it is not possible to compare the performance of operating companies in the same way as we have compared councils. Making road condition information publicly available for the geographical areas of the trunk road network – North West, North East, South East and South West Scotland – would help improve openness and transparency to the public.

## Users continue to report that road condition is a major concern

**30.** The 2011 and 2013 audit reports both indicated that road users were increasingly dissatisfied with the condition of Scottish roads, which they believed was getting worse. In particular, the 2013 audit report referred to an AA survey in January 2013, which found that 45 per cent of local road users in Scotland considered road conditions to be poor, very poor or terrible. This was the worst rate in the UK.

**31.** Councils use a range of approaches to gauge customer satisfaction with roads in their area, such as user surveys and feedback from consultation groups. Not all authorities report their results publicly and, of those that do, there are differences in the type of question asked. For example, some councils seek views about road condition, while others ask about satisfaction with roads maintenance overall. There can also be different response options for customers to choose from.

**32.** In response to actions contained in the NRM, a question was included in the 2014 Scottish Household Survey (SHS) to capture levels of user satisfaction with road condition on a more consistent basis than councils had done previously.<sup>7</sup> The results indicated that a third of respondents felt satisfied with road condition while 57 per cent felt dissatisfied. The remaining ten per cent felt neither satisfied nor dissatisfied, or had no opinion.

**33.** The National Highways & Transport (NHT) Network Survey asks the public more detailed questions than those contained in the SHS, including their views on road condition, road safety, traffic pollution and public transport. Since 2013, only seven Scottish councils have taken part in the NHT Network Survey. The 2015 survey results confirmed the importance that the public attach to road condition, and their low levels of satisfaction with it. For example, people living in the five Scottish councils that took part (Aberdeenshire, Dumfries and Galloway, North Ayrshire, Scottish Borders and South Lanarkshire) rated road condition as either the first or second most important aspect of roads services.


**34.** The NHT survey is a useful way to get councils thinking about how they might influence public perception of road condition by engaging more proactively over their roads service. For example, as part of a Roads Service communication strategy and action plan, in 2015 Aberdeenshire Council:

- used social media to inform the public about its winter roads maintenance procedures and how best to report potholes
- placed videos on YouTube to advertise particular events, such as the reopening of the Balmoral Bridge, and to let the public know more about the work of a roads manager
- issued news releases informing the public that its summer programme of surface dressing was about to begin and to be aware of loose chips
- raised the profile of female engineers by including an interview with a female member of staff in the YourJob section of the local press.

While the council acknowledges it is difficult to establish how much these activities have played a part, public levels of satisfaction with road condition in Aberdeenshire improved from 34 per cent in 2013 to 41 per cent in 2015.

**35.** Transport Scotland carries out annual surveys to gauge trunk road users' levels of satisfaction. Following a period of decline, levels of satisfaction have risen in the most recent survey. The 2011 audit report found that the proportion of users who were satisfied with the general condition of trunk road surfaces fell from 52 per cent in 2007 to 37 per cent in 2010. The survey results for 2015 indicate that 45 per cent of users were satisfied with trunk road surfaces.

### Councils spent 14 per cent less on roads maintenance in 2014/15 than in 2011/12, while Transport Scotland spent four per cent less

**36.** Recent reports from the Accounts Commission have highlighted the financial challenges and service pressures that councils are currently facing. For example, [An overview of local government in Scotland 2016](#)  outlined the increasing demand for social care owing to demographic change, and how a third of councils overspent their social care budgets in 2015/16.<sup>8</sup> These service demands and national policy conditions on, for example, maintaining teacher numbers, have meant that councils have tended to prioritise big spending areas such as social care and education. As a result, budget reductions have tended to focus on other areas, such as roads and transport.

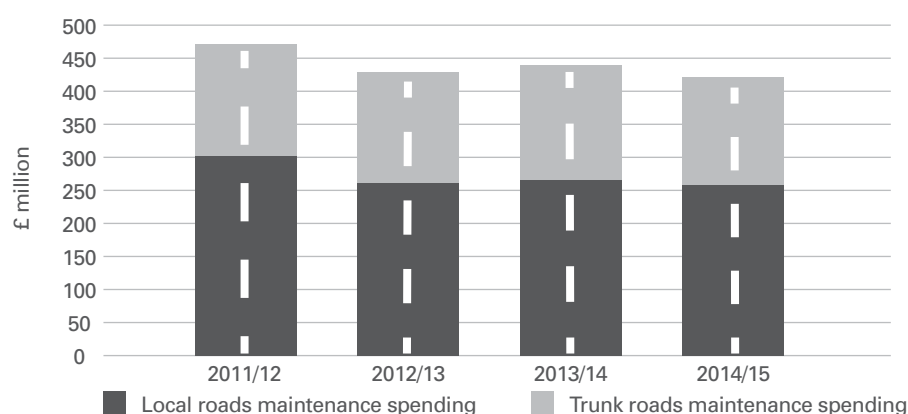
**37.** There is likely to be a five per cent reduction in Scottish Government revenue grant funding for local government in 2016/17, compared to 2014/15. This, and the continued prioritisation given to services such as social work and education, means that roads maintenance budgets may be put under further pressure.<sup>9</sup>

**38.** The 2011 audit report found that councils' roads maintenance spending fell by £76 million (13 per cent) between 2004/05 and 2009/10, after taking account of road construction inflation. Transport Scotland spending on roads maintenance fell by £78 million (32 per cent) in real terms, that is, allowing for inflation, over the same period. Since then, roads maintenance spending has continued to fall ([Exhibit 6](#)). Councils and Transport Scotland spent £421 million on roads maintenance in 2014/15. Taking inflation into account, this was £50 million less (11 per cent) than in 2011/12.

## Exhibit 6

### Roads maintenance spending from 2011/12 to 2014/15

Roads maintenance spending decreased by 11 per cent between 2011/12 and 2014/15 after taking account of inflation.



**39.** Councils' net revenue and capital expenditure on general fund services (that is, the cost of all service provision except some council housing costs), decreased by £0.97 billion (7.5 per cent) between 2011/12 and 2014/15, after taking inflation into account. Councils' revenue and capital spending on roads maintenance fell from £302 million to £259 million over the same period (14 per cent).<sup>10</sup> In percentage terms therefore, the reduction in councils' expenditure on roads maintenance between 2011/12 and 2014/15 was almost double that of their reduction in net spending on general services. Councils spent £4,935 per kilometre on local roads maintenance in 2014/15. Traffic volumes on council-maintained roads increased by two per cent between 2011/12 and 2014/15.

**40.** In 2014/15, Transport Scotland spent £162 million on trunk roads maintenance. This equates to £47,200 per kilometre and is some £6 million (four per cent) less than in 2011/12, after taking inflation into account. During the same period, traffic volumes on trunk roads increased by five per cent.

**41.** In addition to this spending, Transport Scotland funds trunk roads building and maintenance through its Design Build Finance and Operate schemes, such as the M6 and M80 improvements. Private operators are required to maintain these trunk roads, which Transport Scotland funds as part of its annual unitary service charges. Transport Scotland spent £84.7 million on these privately financed roads in 2014/15, an increase of 36.6 per cent from 2011/12. Transport Scotland will need to consider the implications on its budget of further increases in its annual unitary charges as new privately financed roads are built.

### **The amount of money councils spend on roads maintenance varies significantly**

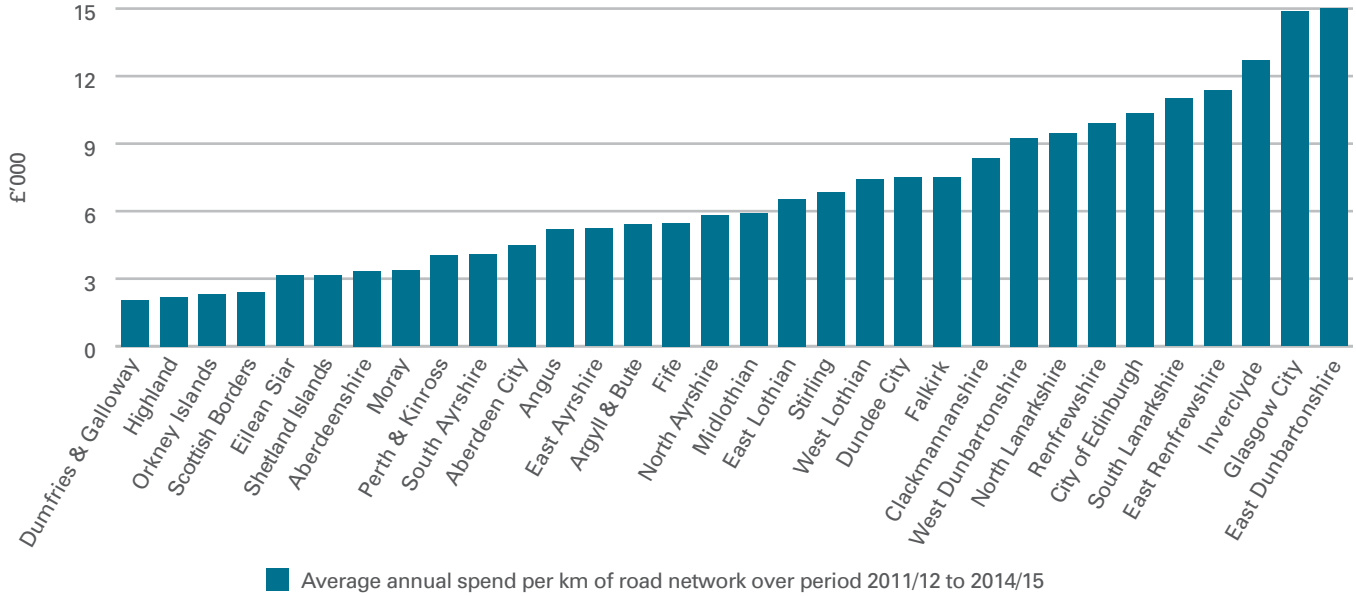
**42.** There is a wide variation in roads maintenance spending among councils ([Exhibit 7, page 21](#)). Between 2011/12 and 2014/15, average annual roads maintenance spending varied from £2,052 per kilometre of roads in Dumfries and Galloway Council to £14,995 per kilometre in East Dunbartonshire Council. Based on spending over the period 2011/12 to 2014/15, urban and city councils spend the most on roads maintenance per kilometre of network. There is likely to be a number of reasons contributing to this variation in expenditure between councils. We outline some of the factors which may influence council's spending patterns at [paragraphs 67–69](#) of the report.

**43.** In total, 19 councils reduced their spending on roads maintenance between 2011/12 and 2014/15, while 13 councils increased their spending ([Exhibit 8, page 21](#)). East Dunbartonshire Council reduced its spending on roads maintenance the most (by 64 per cent), while Dumfries and Galloway Council increased its spending the most (by 188 per cent).

### Exhibit 7

#### Councils' spending on roads maintenance 2011/12 to 2014/15

The amount of money councils spend on roads maintenance varies significantly.

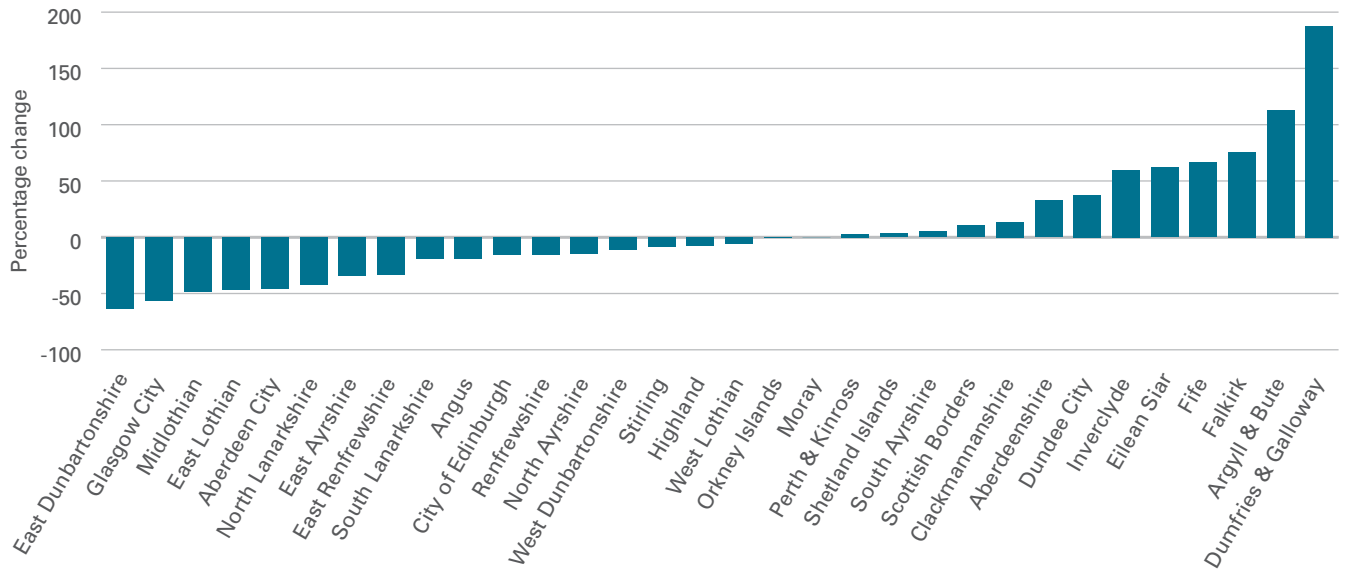


Source: SCOTS

### Exhibit 8

#### Change in councils' roads maintenance spending from 2011/12 to 2014/15

There is significant variation in the change in roads maintenance spending across councils.



Source: SCOTS

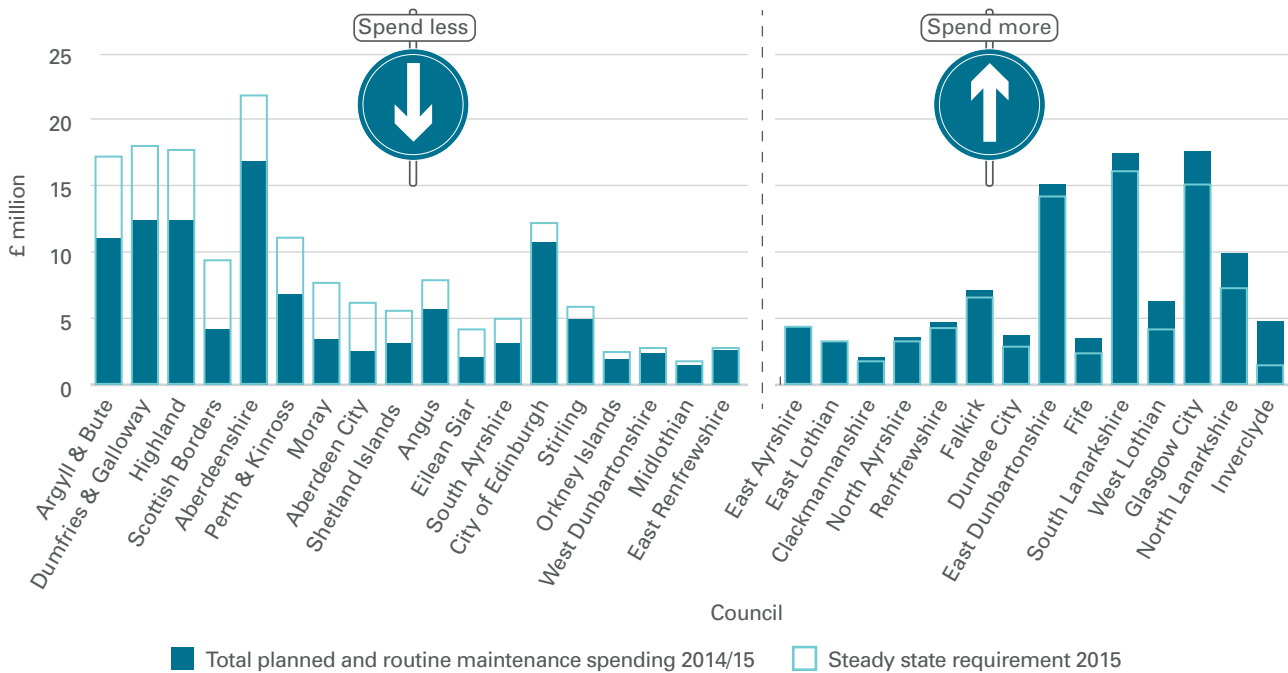
## Levels of spending may not be enough to maintain roads in their current condition

44. Planned and routine maintenance are the types of road maintenance activity which are most likely to lead to improved road condition. SCOTS estimates that councils need to spend £246 million each year, excluding inflation, on planned and routine maintenance to maintain the local road network in its current condition. This is known as steady state and is calculated using a methodology that takes into account existing road condition, and the type and cost of treatments related to that condition. Overall, councils spent £33 million (13 per cent) less on planned and routine maintenance in 2014/15 than SCOTS considers was necessary to maintain the current condition of local roads. According to SCOTS' figures, 14 councils spent more in 2014/15 than that necessary to maintain their current condition, while 18 councils spent less ([Exhibit 9](#)).

### Exhibit 9

#### Councils' roads maintenance spending compared to that necessary to maintain their current road condition in 2014/15

Based on SCOTS' steady state calculations, 18 councils did not spend enough to maintain their current road condition in 2014/15.



Source: SCOTS

**45.** Between 2013 and 2015 Transport Scotland undertook a study, with consultant support, to develop a long-term vision for maintaining the trunk road network. This considered a number of options for future investment, including:

- A baseline position, such that the trunk road network should be maintained in a steady state condition over a 20-year period to 2033. This was based on an overall network condition of 14 per cent in need of investigation for maintenance each year. The cost of this option was calculated at £1.24 billion (excluding inflation) and is equivalent to spending on average £62 million each year on structural maintenance.
- An option to improve the network over the 20-year period such that its condition was comparable to the rest of the UK and to similar countries internationally. This was based on an overall network condition of six per cent in need of investigation for maintenance each year. The cost of this option was calculated at £1.59 billion (excluding inflation), equivalent to spending on average £79 million each year on structural maintenance.

**46.** Transport Scotland spent £38 million on structural maintenance in 2014/15, some 62 per cent of what the study calculated was necessary to achieve steady state condition. Given the annualised nature of public sector budget setting, there is no guarantee that sufficient funds will be available in the future to achieve either of these aspirations.

### **Roads authorities need to be clearer about what road condition can be expected from given levels of spending**

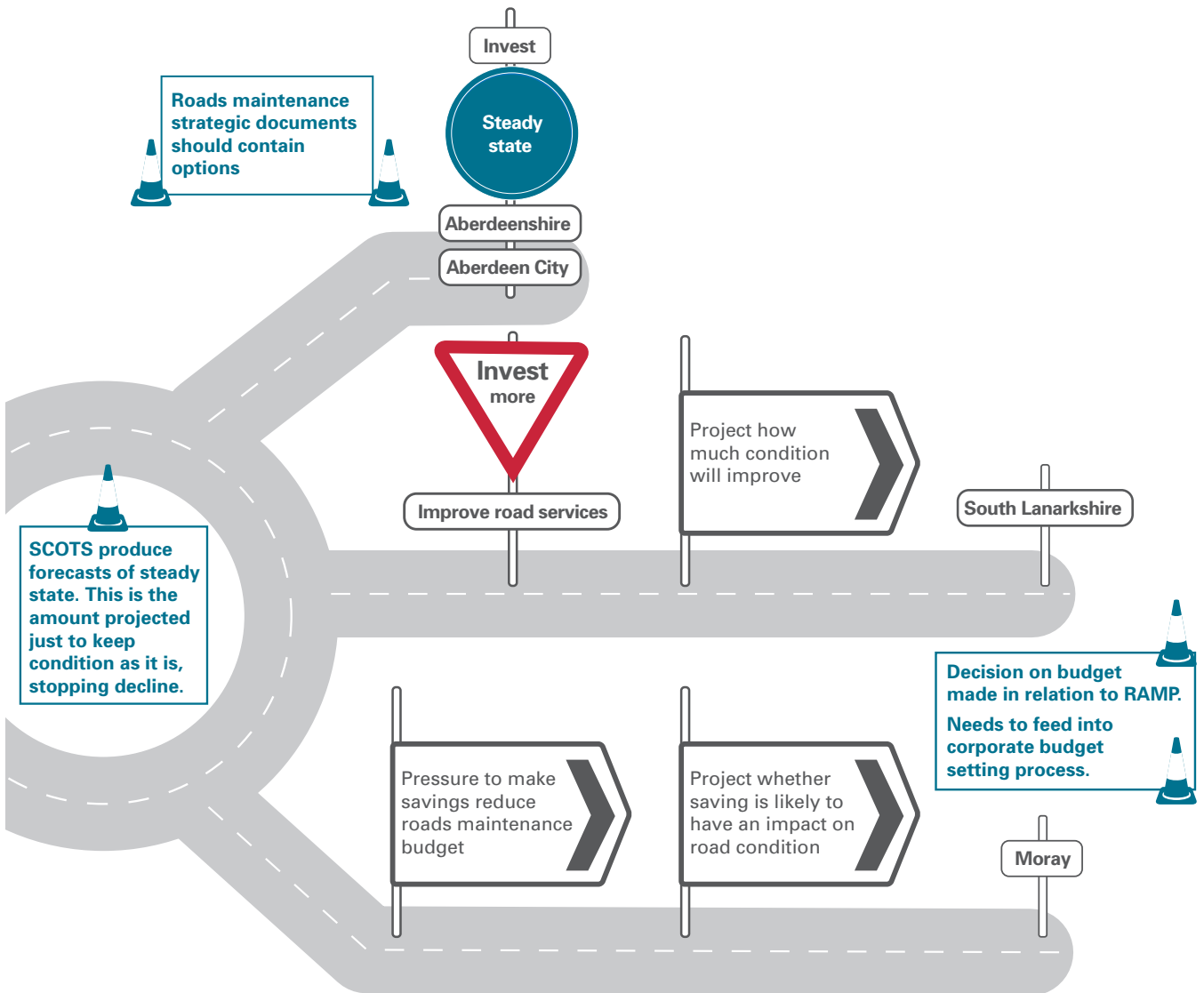
**47.** SCOTS' estimates of the spending needed to maintain steady state can help give an indication of the level of investment required to prevent further deterioration in road condition. Councils are beginning to use financial modelling tools to analyse how different levels of spending on roads maintenance is likely to impact on road condition. SCOTS is also promoting the use of Annual Statement of Options Reports to allow elected members to consider how different budget decisions will affect road condition. These reports can help councils decide whether they want to invest to improve road condition, maintain steady state or identify budget savings that may impact on road condition. However, only a third of councils are presenting options to elected members on the road condition that can be expected from different levels of spending.


**48.** A good quality RAMP should set out the expected standard of service to be provided by the road network. This can be used to help inform the consideration of options based on the level of spending and prioritisation given to roads maintenance. In turn, these can help inform councils' corporate budget decisions. [Exhibit 10 \(page 24\)](#) illustrates how this should work in practice. It also gives examples from our audit fieldwork of the decisions councils have made and whether they were investing to improve road condition, maintaining steady state or releasing budget savings that may impact on road condition.

### Exhibit 10

#### Council budget decisions and their impact on road condition

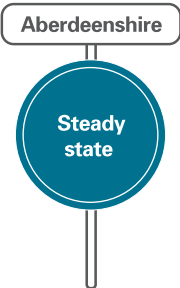
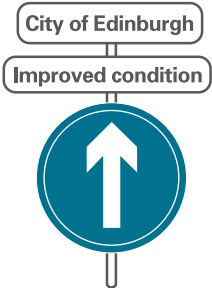



Councils need to be clearer about what they are trying to achieve from their budget decisions and what road condition they can expect from given levels of spend.






Council	Decision taken on roads maintenance
	<p>The council approved the option in 2015 to maintain current road condition. It calculates this would require an increase in the annual roads maintenance budget from £4.5 million to £6.9 million. The council has still to commit these additional funds.</p>



## Exhibit 10 continued

Council	Decision taken on roads maintenance
	<p>Between 2011/12 to 2014/15, the council has spent significantly less on roads maintenance (around £12.3 million per annum) than the amount indicated by SCOTS' steady state calculation (£21.8 million) while still maintaining condition at around 75 per cent of roads in acceptable condition. In 2015, using a tailored modelling tool, the council approved the option to continue to maintain steady state while achieving budget savings of up to £2.2 million a year, by greater use of lower cost treatments and additional works on distressed areas.</p>
	<p>The council approved a new approach to allocating its capital budget for road maintenance in October 2015. This moves away from prioritising roads in the worst condition to a more preventative approach using a range of less expensive treatments. The council did not set a specific improvement target but used a modelling tool to predict an increase from the current position of 65 per cent in acceptable condition to 88 per cent in acceptable condition.</p>
	<p>East Ayrshire Council committed funding in 2013 to improve road condition, with a target to improve the proportion of roads in acceptable condition by one per cent a year. The capital investment programme 2013-23 allocated £24.3 million to roads maintenance over the ten-year period. Options put forward in the RAMP are based on this agreed budget.</p> <p>Before 2014, South Ayrshire Council had not identified capital funding for roads maintenance. The establishment of the Ayrshire Roads Alliance (<a href="#">Appendix</a>) brought capital funding for roads maintenance in South Ayrshire more in line with the Ayrshire area. A target was set in 2016 to improve condition by one per cent per annum.</p>
	<p>Around 54 per cent of roads in Inverclyde are currently in acceptable condition, one of the worst in Scotland. The council approved a Roads Investment Strategy in 2013, which laid out a five-year capital investment programme of £29 million intended to improve road condition. There is no overall target for improving the proportion of roads in acceptable condition but the aim is to reduce the backlog of roads in red condition and maintain the level of amber condition roads. The condition of all classes of local roads in the council area improved in 2014/15.</p>
	<p>The current RAMP identified two options, maintaining the current £8.7 million annual spend on roads maintenance or increasing annual funding to £11 million to achieve steady state. However, the RAMP does not identify the impact of current funding levels on road condition. The council has prioritised A class roads, to improve those to the national average, while allowing other classes of road, already above the average, to deteriorate. The council committed additional funding of £2 million a year for next three years, based on an annual statement and options report approved in November 2015.</p>

## Exhibit 10 continued

Council	Decision taken on roads maintenance
	<p>The council committed funding from 2015 to slow down the rate of decline in the condition of roads. The RAMP identified a series of options and the council selected the option to invest an additional £67.3 million in roads maintenance over 20 years. This is projected to slow down the rate of decline and achieve a target of 55 per cent of roads in acceptable condition. Current condition is 54.5 per cent of roads in acceptable condition.</p>
	<p>The council has committed additional funding since 2008 to improve road condition. The council approved an investment plan with £126 million capital funding. It has a target of 72 per cent of roads in acceptable condition by 2019. The council has been resurfacing around 5-6 per cent of roads a year and achieved improvement from 62.5 per cent of roads in acceptable condition in 2008 to 66.2 per cent in 2015. The improvement was made mainly in category A and B roads.</p>
	<p>The council currently has a significantly higher than average percentage of roads in acceptable condition. As part of a wide-ranging review in 2013, the council considered the impact of a planned reduction in road condition. The report identified that allowing condition to deteriorate to the Scottish average over five years would save approximately £5 million each year. A significant increase in budget would be needed thereafter to maintain that average condition. The council has reduced the annual roads maintenance budget by £1.4 million between 2013 and 2015.</p>

Source: Audit Scotland fieldwork

**49.** Transport Scotland has a number of budget headings for roads maintenance, including structural maintenance, and routine and winter maintenance. For routine and winter maintenance works, the requirement for roads maintenance is set out as service standards in contracts with the operating companies. For example, the requirement for salting and gritting treatment is triggered when temperatures fall below certain levels.

**50.** The structural repair budget is the main funding stream that contributes to improving the condition of the trunk road network. The operating companies submit proposals for structural maintenance schemes, which Transport Scotland prioritises to produce a three-year planned programme of works.

**51.** As noted in [paragraph 46](#), Transport Scotland spent £38 million on structural maintenance in 2014/15, 62 per cent of what the study calculated was necessary to achieve steady state condition. Transport Scotland’s public facing RAMP, does

not outline the consequences that spending less than steady state will have on road condition. In line with councils, there is a need for Transport Scotland to be clearer on what road condition can be expected from given levels of spending.

### **More is spent on roads maintenance in England although only trunk roads are in significantly better condition**

**52.** The Department for Transport publicly reports road condition in England as the proportion of roads that should be considered for maintenance.<sup>11</sup> This equates to category red condition roads in Scotland. In 2014/15 around:

- Four per cent of council A class roads, seven per cent of B and C class roads classified roads and 18 per cent of unclassified roads in England should have been considered for maintenance. The comparative figures for Scotland were five per cent, eight per cent and nine per cent respectively.
- Four per cent of motorways and trunk roads in England should have been considered for maintenance. In comparison, 13 per cent of motorways and trunk roads in Scotland were assessed as being in need for further investigation to determine if maintenance was required.

**53.** Roads maintenance spending is also higher in England. In 2014/15 for example, English councils spent £3.5 billion on roads maintenance, equivalent to around £12,238 per kilometre of local roads. Highways England spent £981 million on roads maintenance, equivalent to around £137,200 per kilometre of motorways and trunk roads.<sup>12</sup> This is two and a half times that spent per kilometre by Scottish councils on local roads maintenance, and nearly three times per kilometre more than Transport Scotland spent on trunk roads maintenance.

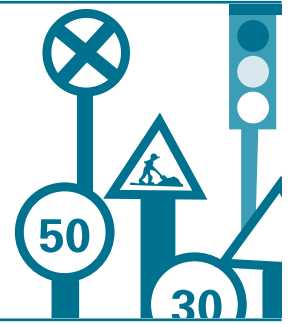
**54.** In December 2014, the Department for Transport published its Roads Investment Strategy, setting out plans to invest £15.2 billion on motorways and major roads in England between 2015/16 and 2019/20.<sup>13</sup> Around £6 billion of this investment will be used to resurface 80 per cent of the strategic road network. In July 2015, the Chancellor of the Exchequer announced the creation of a new national roads fund, using Vehicle Excise Duty, to pay for this maintenance.

**55.** The Department for Transport also announced in December 2014 that £6 billion would be made available to English councils outside London for local roads maintenance between 2015/16 and 2020/21. In addition, it has agreed to provide other funding which are likely to result in increased local roads maintenance expenditure from 2014/15 onwards. In particular:

- The 2012 Autumn Statement included £75 million for Additional Highways Maintenance Funding Allocations after an underspend in 2013/14.
- In March 2014, £184 million was made available through the Weather Repair Fund for roads hit by weather damage in the winter of 2013/14.
- Local authorities were invited to bid for a share of a £250 million Pothole Fund to repair local roads, between 2016/17 and 2020/21.

# Part 2

## Improving the management of road maintenance



### Key messages

- 1 The National Roads Maintenance Review (NRMR) has resulted in a range of actions, including the development of Roads Asset Management Plans and a common suite of performance indicators for roads maintenance activities. While much work has been done, further progress is needed. For example, existing performance indicators do not measure relative efficiencies between councils.
- 2 Roads authorities are changing the way they approach roads maintenance activities through better prioritising and targeting of roads maintenance, and using cheaper treatment options. This has helped available budgets go further but carries risks. Increasing the use of surface dressing might help to maintain the condition of the surface of the road network in the short term. But in the longer term it could lead to additional costs.
- 3 So far, the focus of roads authorities' collaborative working has been largely on specific areas of activity. Progress with introducing a shared services approach to roads maintenance, a central theme of the NRMR's findings, has been disappointingly slow. The Roads Collaboration Programme (RCP) is supporting councils to establish regional governance bodies to consider roads maintenance issues. But as yet, there is no clear plan of how this will translate into shared services at an operational level. Scottish ministers have made it clear that councils need to make more progress before trunk roads maintenance could be considered for inclusion in the regional groupings.

progress with introducing a shared services approach has been disappointingly slow

### Road asset management plans are now in place although some still lack detail

56. Roads authorities need clear RAMPs for managing their roads to ensure they meet service standards and achieve value for money. A good quality roads asset management plan:

- describes the assets forming the road network and their condition
- assesses the future demand likely to be placed on the network

- clearly describes the level of service the council will provide to maintain the network
- provides financial information, including a long-term prediction of the cost of managing and operating the road network.

**57.** The 2011 audit report found that only around a third of councils had draft RAMPs. The 2013 audit report found that about half of councils had approved their RAMP and the remainder were in the process of doing so. The 2013 report also found that half of councils had information gaps in their RAMPs, including incomplete or unreliable asset inventory data, incomplete asset lifecycle plans and a lack of detailed long-term funding requirements.

**58.** To improve the consistency and quality of RAMPs, SCOTS commissioned an independent assessment of the state of councils' development and use of RAMPs as one of the NRMR action points. The consultant's report, in April 2016, found that all councils have RAMPs in place although some still lacked detail. In others, there was a need to update core data. The consultants also noted councils that were making the best use of RAMPs displayed some common characteristics, including:

- elected member recognition of the value of investing in the road network
- a lead official with responsibility for asset management
- an active programme of asset management improvement
- good asset data and capable users of RAMP software
- a high level of staff engagement with the SCOTS project to embed the use of RAMPs.

**59.** Transport Scotland first published a RAMP for the trunk road network in November 2007. It published an updated RAMP in January 2016. The January 2016 RAMP contains most of the good quality features outlined in [paragraph 58](#) above. It also sets out arrangements for monitoring the performance of the operating companies that Transport Scotland appoints to maintain the trunk road network. The RAMP does not provide information on planned roads maintenance spending beyond 2015/16, as the outcome of the 2015 spending review was not known at that time. Instead, it provides an indicative forward work plan, estimating work volumes up to 2024/25, based on the scenario that the budget for structural maintenance will remain at its current level.

### **More use is being made of performance information but further work is needed to allow comparisons of council efficiency**

**60.** The 2011 audit report recommended that councils should adopt the suite of performance indicators that SCOTS was developing. This would allow councils to consistently measure the performance of roads maintenance activities. It also recommended that councils should make greater efforts to benchmark roads maintenance activities to drive out cost inefficiencies. The 2013 audit report found that councils were making more use of performance information but further work was needed to improve the quality and consistency of data to allow meaningful benchmarking to take place.

**61.** All councils have now adopted a common set of performance indicators developed between SCOTS and the Association of Public Service Excellence (APSE). The indicators cover various aspects of roads maintenance, including other asset groups such as lighting and footways. Key roads maintenance indicators within the set include:

- spend per kilometre of network
- overall road condition and by classification
- percentage of budget spent on each of planned, reactive and routine maintenance
- percentage of customer enquiries dealt with in target time
- percentage of major defects dealt with in target time
- percentage of the road network treated each year.

High-level roads maintenance condition and expenditure indicators have also been incorporated into the Local Government Benchmarking Framework, which is published annually.<sup>14</sup>

**62.** Although councils are now meeting as family groups to discuss performance information, the focus to date has mainly been on ensuring data is consistent. This has been useful in developing the indicator set but there is a need to move discussions on to identifying the underlying reasons for variations and sharing learning and good practice. Some examples of sharing good practice exist, for example policies for dealing with insurance claims and the APSE roads and lighting advisory group, but this is not yet established across core roads maintenance activities. At [paragraphs 67–69](#) we outline some of the factors that can influence spending and condition. Between 2011/12 and 2014/15, 11 authorities improved their road condition without increasing spending. It is important roads authorities improve their benchmarking to identify and adopt good practice.

**63.** The NRMR included an action for Transport Scotland to review the suite of SCOTS/APSE performance indicators to determine if it would be appropriate to adopt them, and allow direct benchmarking against councils. Transport Scotland noted that its performance management system included performance indicators that enable comparison and benchmarking between its trunk road maintenance operating companies. It recognised the usefulness of being able to compare performance with councils. But it considered that, owing to the different levels of service between trunk and local roads, many of the aspects of performance it measures were not directly comparable with the SCOTS/APSE set of performance indicators. This means it is still difficult to compare the relative efficiencies between councils and the trunk road operating companies.

**64.** The SCOTS/APSE indicators do not easily allow for a meaningful evaluation of the efficiency of roads maintenance activities. For example, none of the indicators covers the unit cost per metre of structural maintenance carried out. One NRMR action was to develop a consistent unit cost benchmarking methodology across

all roads authorities. In response, councils were asked to participate in a pricing exercise for a typical standard carriageway maintenance scheme. This identified several issues including how councils were handling:

- the apportionment of overheads
- differences between trading and non-trading organisations
- the profit element within costings.

**65.** SCOTS also considers that benchmarking is more difficult because there are now few discrete roads departments across Scotland as a result of council reorganisations over the last five years. It considers from the work done to date that there is a need to understand better the factors which contribute to the wide variation in roads maintenance unit costs of across Scotland. SCOTS is now working with the University of Leeds and Measure2improve to explore an alternative methodology for assessing and comparing councils' road maintenance efficiency and the potential for improvement.

### **Roads authorities are changing how they manage roads maintenance but there are risks attached**

**66.** It is difficult to establish a clear link between changes in councils' spending on maintenance and changes in road condition. [Exhibit 2 \(page 14\)](#) and [Exhibit 7 \(page 21\)](#) noted wide variation among councils in their roads condition and the amount they spend on roads maintenance. [Exhibit 11 \(page 32\)](#) notes the difficulty in establishing a link and shows that between 2011/12 and 2014/15:

- seven councils increased their roads maintenance spending and the proportion of roads in acceptable condition increased
- eight councils reduced their roads maintenance spending and the proportion of roads in acceptable condition declined
- in six councils the roads condition declined, despite spending more on maintenance
- in 11 councils the roads condition improved, despite spending less on maintenance.

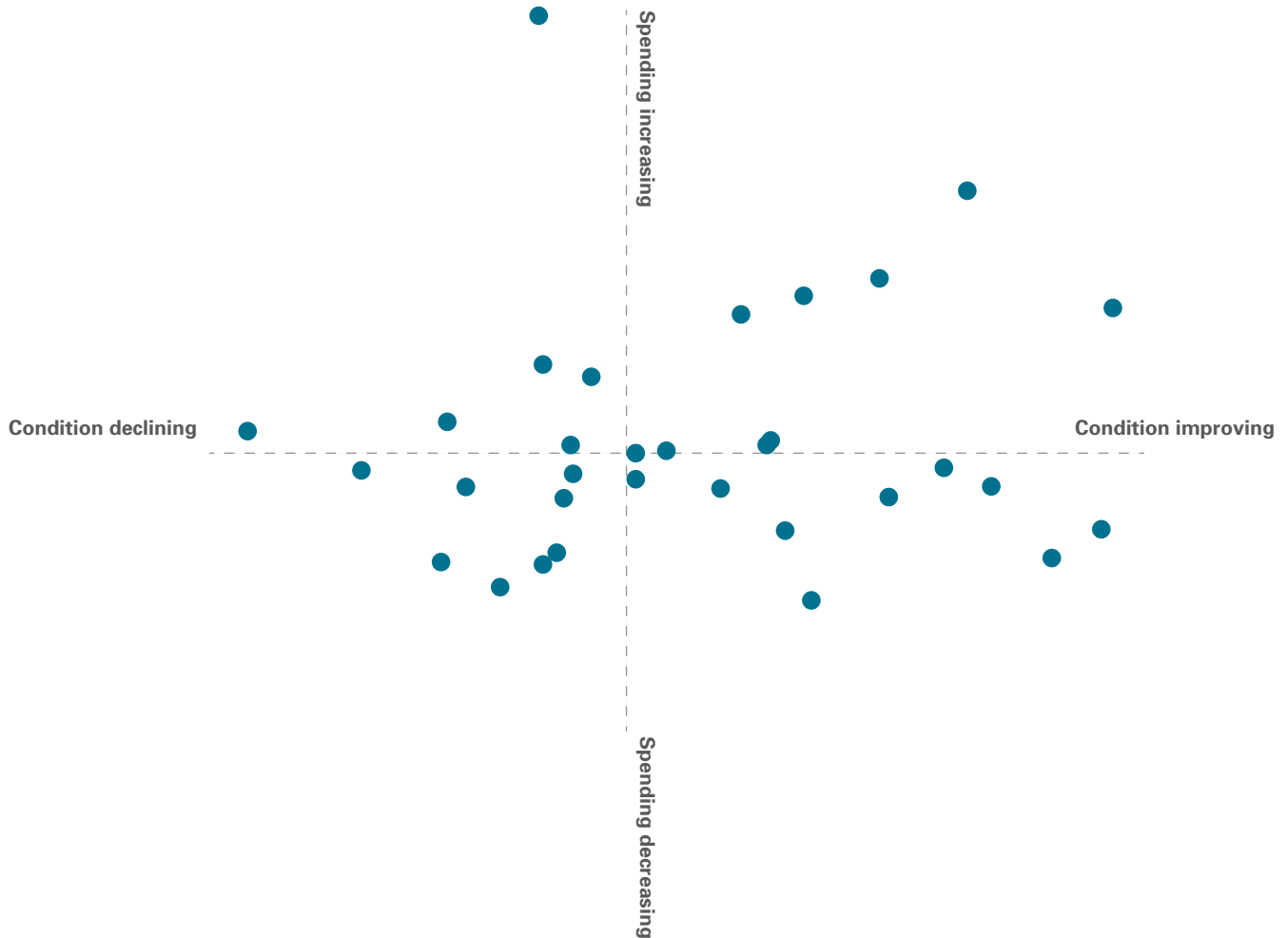
**67.** How road expenditure is incurred, where and on what, may have a greater or lesser effect on road condition. For example, depending on the scale of deterioration, roads engineers might decide that one section of road needed less expensive surface dressing while another section required more expensive reconstruction. Both road sections would be returned to an acceptable condition but at greatly different cost and resulting lifespan. Other factors influencing the relationship between spending and condition include:

- The nature of the road network. For example, depending on the distance from the roads maintenance depot, some road maintenance activities might require extra travel time and costs.
- Greater traffic volumes in some council areas may mean some roads need maintained more often.

## Exhibit 11

### Change in councils' roads maintenance spending from 2011/12 to 2014/15

There is significant variation in the change in roads maintenance spending across councils.



Source: SCOTS

- Compared to 2009/10, recent winters have not been as challenging to roads authorities. However, localised rainfall and the resultant flooding can damage roads and take money from a budget that could otherwise be spent on structural maintenance that would improve the condition of roads.
- Owing to the way councils calculate road condition using a two-year rolling average of survey results, there is likely to be a time lag between a decision to increase or reduce roads maintenance spending and how this affects reported road condition.
- Historic patterns of investment may impact on what level of spending and types of treatment are now required to maintain or improve road condition. For example, a council that has previously invested heavily in roads maintenance is more likely to be able to maintain road condition at lower cost than a council that has not historically invested in its roads.



- Some councils may focus more on maintenance activities that make greatest contribution to improved road condition. For example, unless councils actively use RAMPs to improve road condition, there is a risk that maintenance work is targeted at short-term solutions, such as filling potholes, rather than a planned programme of works.

**68.** There is evidence that councils and Transport Scotland are changing the way they manage roads maintenance. To some extent this has been stimulated by actions resulting from the NRM. Public sector budgetary constraints have also played a part. For example:

- SCOTS is encouraging councils to use asset management hierarchies to prioritise roads of greater strategic importance and intervene earlier when roads begin to deteriorate, rather than treating those in the worst condition. Transport Scotland is also using asset management hierarchies to prioritise trunk roads maintenance where it is of most benefit. These are based on a scoring methodology which evaluates the function of a route based on its economic, social, and integrated transport connections.
- The introduction of RAMPs and greater use of modelling has led several councils to modify how they carry out planned maintenance by paying more attention to long-term costs. For example, Aberdeenshire Council, City of Edinburgh Council, Dumfries and Galloway Council and Glasgow City Council have developed preventative road maintenance strategies aimed at minimising long-term cost by applying lifecycle costing techniques.
- There are moves to adopt lean management techniques as a systematic process for improving efficiency.<sup>15</sup> Dumfries and Galloway Council and Aberdeenshire Council are now carrying out lean management projects, looking at aspects of planning and making repairs. It is too early to say what the results will be but early indications from the Dumfries and Galloway Council pilot suggest that efficiencies of ten per cent may be achievable.
- Roads authorities are focusing savings on activities which contribute least to road condition. For example, Perth and Kinross Council plans to save £280,000 during 2016/17 by reducing the frequency of certain roads maintenance activities such as road sign maintenance and verge and ditch clearing. Councils consider it is more difficult to find savings from structural maintenance work, which have the greatest impact on improving road condition. This is because the main element of cost is the purchase of materials which is largely outside their control.

**69.** These approaches are helping to target roads maintenance activities and make available budgets go further, but carry risks. For example, prioritising roads which are of greatest strategic importance may mean that the condition of less important roads will deteriorate over time. Concentrating maintenance works on roads that are beginning to deteriorate may also mean that roads already in poor condition will get worse.

**70.** Roads authorities are also changing how they treat road deterioration. For example, road condition in the Aberdeen City Council area improved from 68 per cent in acceptable condition in 2011/12 to 74 per cent in 2014/15. The council

reduced its roads maintenance expenditure from £6,287 per kilometre to £3,430 per kilometre (45 per cent) over the same period. It considers this has been achieved through a combination of:

- targeting A class roads which are in the worst condition using surface treatments with limited deeper patching
- making more use of surface dressing as an alternative to reconstruction work in appropriate urban locations
- a more efficient approach to pothole filling, including using dedicated response teams along with a better quality material
- more innovative practices, such as the use of thinner treatments and how cracks are treated
- not undertaking any major full reconstruction work in the last four years.

**71.** While surface dressing can be effective at halting deterioration, it can be more expensive in the long term than reconstruction work. Surface dressing has a life span of between ten to 15 years dependent on traffic volume, compared to 20 to 40 years for reconstruction work. Councils consider that there are times when surface dressing represents better value for money than reconstruction. But they also recognise that making more use of surface dressing could also be hiding the true condition of local roads. This is because their road condition surveys do not always pick up the full extent of failures in the structural integrity of lower road layers.

**72.** As a result of budgetary constraints, Transport Scotland is also focusing on maintaining the condition and safety of trunk roads through resurfacing, as an alternative to more costly strengthening or reconstruction options. It considers this is having an impact on the structural integrity of some motorways built in the 1970s and which are now approaching the end of their useful lives. These roads are not unserviceable but need to be closely monitored to identify the best timing to strengthen or reconstruct them.

**73.** Similarly, Perth and Kinross Council has decided recently to change how it deals with potholes by repairing them only when they reach a depth of 60mm, compared to the previous depth of 40mm. It expects this to generate savings of £120,000 in 2016/17. But it recognises that the changed approach could accelerate the decline in road condition and result in higher repair costs in the long term.

**74.** Perth and Kinross Council's decision to reduce its roads maintenance budget was taken against a backdrop of it identifying the need to save £12 million from its overall annual revenue budget. As part of its 2016/17 budget considerations, the council undertook a web-based consultation exercise between December 2015 and January 2016 to seek the public's and staff's views on which service budgets should be maintained or reduced. The three service areas where respondents were most in favour of maintaining budgets were children and families social work, services for older people and roads maintenance. The council recognised that a reduced roads maintenance budget could result in more customer complaints and give a poor visual impression of the council area. But it felt that budget reductions were necessary in order to achieve the overall savings amount.

**75.** In May 2015, Scottish Ministers announced a review of the office and functions of the Scottish Road Works Commissioner (SRWC). The SRWC's role is to improve the planning, coordination and quality of roads works throughout Scotland. The SRWC also monitors the performance of, and promotes good practice across, both utility companies and roads authorities. One of the issues the review is considering is the guarantee period for road reinstatements after the completion of utility works. Currently, utility companies are required to guarantee the quality of road reinstatements for two years after the completion of utility works, or three years for a deep excavation. Councils have informed the current review that they would prefer a longer guarantee period to fit with a longer-term asset management approach. The review is due to report later in 2016.

### **The Scottish Roads Research Board has been established to promote greater innovation in roads maintenance**

**76.** In response to the NRMR, Transport Scotland, SCOTS and the SRWC set up the Scottish Roads Research Board (SRRB) in 2011. SCOTS and Transport Scotland jointly fund the SRRB which has an annual budget of around £400,000 to fund research projects. Its main objectives are to promote and deliver innovation and share new products, techniques and knowledge across Scotland's road sector.

**77.** To date, research projects coordinated through the SRRB have been completed in a number of areas including:

- the use of new types of materials, such as bitumen as a binder for asphalt and thermoplastic road markings
- photo-luminescent technology
- fabric reinforcement to surface dressing
- tourist signs
- climate change adaptation.

**78.** The SRRB disseminates all project reports and other relevant information to the roads community via its website, in the form of technical reports, advice notes and other guidance. However, it does not provide a coordinated role for research activity. Roads authorities continue to trial materials and techniques on an individual basis which risks duplication of effort and cost. While there are networks for sharing the outputs of these trials, for example through SCOTS working groups and the Transport Scotland Pavement Forum, this is not yet being centrally coordinated to ensure roads authorities share good practice.

**79.** The SRWC and SCOTS are also taking forward research projects under the auspices of the SRRB. For example, the SRWC is leading on research into joint repair techniques, in response to survey findings indicating the poor quality of repairs by utility companies and others. SCOTS is leading on producing guidance on how to achieve best value in selecting materials and techniques for repairing potholes.

## Staff reductions are adding to the challenges for roads maintenance

**80.** Roads authorities are increasingly concerned about the potential effect of staff reductions arising from budgetary constraints on future roads maintenance activities. In particular, they are concerned at the loss of technical and commercial skills and expertise, the presence of an ageing workforce and how they can attract and train new staff. There is no central record of the scale of roads maintenance staff reductions over the last few years. But of the approximately 5,000 council staff currently engaged in roads activities, 40 per cent are aged over 50 years and only 13 per cent are aged under 30 years.

**81.** Councils are responding by training staff through modern apprenticeships and graduate programmes:

- Twelve councils are employing modern apprentices, with 61 apprentices currently in training.
- Fourteen councils have graduate programmes in place, with a total of 47 graduates currently in training.

**82.** The Roads Collaboration Programme (RCP) ([paragraphs 90–93](#)) is also working to address staffing issues. For example, it is:

- Developing a ‘futures leaders programme’ to bring together opportunities for leader exchange, coaching and mentoring and technical training. The RCP expects to be able to roll out the programme from autumn 2016.
- Working with Skills Development Scotland and the Construction Industry Training Board to attract and recruit young people at all levels into the roads sector. This will include improved secondary school career advice to supplement that already provided by professional civil engineering institutions.
- Working with academia to better match industry needs with college and university curricula, and with the roads sector to create more attractive career paths within the public road service.

## Progress in delivering a shared service approach to roads maintenance has been disappointingly slow

**83.** Before finalising its report, the steering group overseeing the NRM identified the need for a more detailed assessment of the ‘optimum arrangements for the management and maintenance of roads in Scotland’ (known as Option 30). A separate Option 30 report, published in June 2012, concluded that current arrangements could be improved on and that all councils should explore sharing services in the short term.<sup>16</sup>

**84.** The report also considered that the benefits from setting up a new roads authority, or authorities, were likely to take longer to achieve. It stated that if the benefits of shared services were not realised as anticipated in the short term, work on exploring structural change should be accelerated. The report did not define 'short term' but we would regard it as normally encompassing a two to three-year period.

### The focus of collaborative working has so far largely been on specific areas of activity

**85.** Roads authorities can demonstrate many examples of collaboration, both between themselves and with other partners ([Exhibit 12, page 38](#)). Particular themes include:

- shared procurement – for example procuring minor works contracts, weather forecasting services, road condition surveys and materials
- the delivery of specific maintenance activities – for example surface dressing, winter gritting and sharing of specialist equipment
- joint staff training – for example health and safety training and using equipment
- joint improvement projects – for example the SCOTS RAMP project.

**86.** So far, the focus of roads authorities' collaborative working has largely been on specific areas of activity rather than wider reform to the way roads maintenance services are designed. There are currently only two shared service arrangements in place between councils – Tayside Contracts and the Ayrshire Roads Alliance.

**87.** Tayside Contracts is a well established multi-council consortium established between Angus, Dundee and Perth and Kinross councils in 1996 through a joint committee. It provides services that include roads maintenance, fleet maintenance and management, winter maintenance, catering and facilities management services. A range of individual collaborative arrangements are in place within the consortium and not all councils are involved in all service areas. Reported benefits include:

- economies of scale enable the delivery of a wide range of services at competitive rates
- delivery of a full range of services from minor potholes repairs to major contracts, possible through the retention of specialist skills and vehicles
- a single management structure which promotes a focus on front-line service delivery
- flexibility to move resources across council areas
- scale of operations has enabled a focus on innovation, such as a cold road paving system (known as TAYSET) and a reed-based system for the treatment of gully waste.

## Exhibit 12

### Examples of roads authorities' collaborative working

Roads authorities collaborate on a wide range of activities and with a wide range of partners.

#### Collaborative working examples



#### Collaboration between councils

There are many examples of councils working together on developing joint procedures, joint procurement, sharing specialist staffing and the delivery of specific road maintenance treatments.



#### Collaboration between roads authorities and industry

Councils, Regional Transport Partnerships and the timber industry are funding joint Timber Transport Officer posts to improve how to transport timber and to minimise its impact on roads.

The Transport Scotland Pavement Forum brings industry representatives and roads officers to work together on approaches and solutions for roads maintenance.



#### Collaboration between councils and trunk road operating companies

Councils often collaborate with trunk road operating companies in rural areas to deliver roads maintenance services. For example, Scottish Borders Council provides winter maintenance services on behalf of AMEY (responsible for delivering the South East trunk roads maintenance contract) on trunk roads in the Scottish Borders.

Similarly, BEAR (responsible for delivering the North West trunk roads maintenance contract) and Stirling, Highland, and Argyll and Bute councils maintain joint depots and share salt stocks. Argyll and Bute Council also delivers emergency response, winter services and Category 1 repairs on behalf of BEAR.

Source: Audit Scotland fieldwork

**88.** East Ayrshire Council and South Ayrshire Council established the Ayrshire Roads Alliance in April 2014. The councils decided to agree a fully shared service on the basis of a detailed business case and options appraisal process that considered a range of service models. The [Appendix](#) provides more details on the shared service, its anticipated benefits and progress to date.

**89.** The experience of establishing the Ayrshire Roads Alliance has highlighted several lessons and challenges for other potential shared service arrangements. Similar to other Audit Scotland reports commenting on what good partnership working looks like, the Ayrshire Roads Alliance has identified that the main lessons for others include the importance of:

- agreeing a lead authority (in this case East Ayrshire Council) early in the process to maintain progress
- the early involvement of elected members to ensure they have influence and are kept informed of developments
- setting out well defined governance arrangements, such as oversight, roles and responsibilities, which maintain clear elected member involvement

- clarifying the split between strategic and operational functions early in the process
- the need to keep affected staff informed and involved throughout
- having a good baseline understanding of the existing services and where the shared arrangements can have most impact.

### **Regional governance bodies are being established but there is no clear plan of how this will translate into shared services at an operational level**

**90.** The Roads Collaboration Programme (RCP) was launched in November 2013 to explore opportunities for further collaboration between roads authorities. A Strategic Action Group, which the Minister for Transport and Islands and COSLA's spokesperson for Development, Economy and Sustainability takes turn to chair, provides political oversight to the RCP. It also includes representatives from SCOTS, Transport Scotland, the Improvement Service and the Society of Local Authority Chief Executives. In addition, a Roads Collaboration Board, with a similar wide-ranging membership, oversees the activities of the RCP. The board replaces the Shared Capacity and Shared Services Improvement Board established as a result of the NRMR to take forward various actions relating to shared services, including Option 30.

**91.** A key part of the RCP's work is the Governance First project. This aims to establish more formal governance arrangements for roads authorities looking to deliver collaborative activity or shared services in clusters or across regions. Within Governance First, creating a formalised governing body is the fundamental first step to developing shared services, and needs to happen before designing how the shared service will operate.

**92.** The constituent members of the Roads Collaboration Board are all strongly behind the core principle of Governance First, that sharing should be the default position to delivering roads services. Through working with councils, the RCP has identified various benefits to shared services, including:

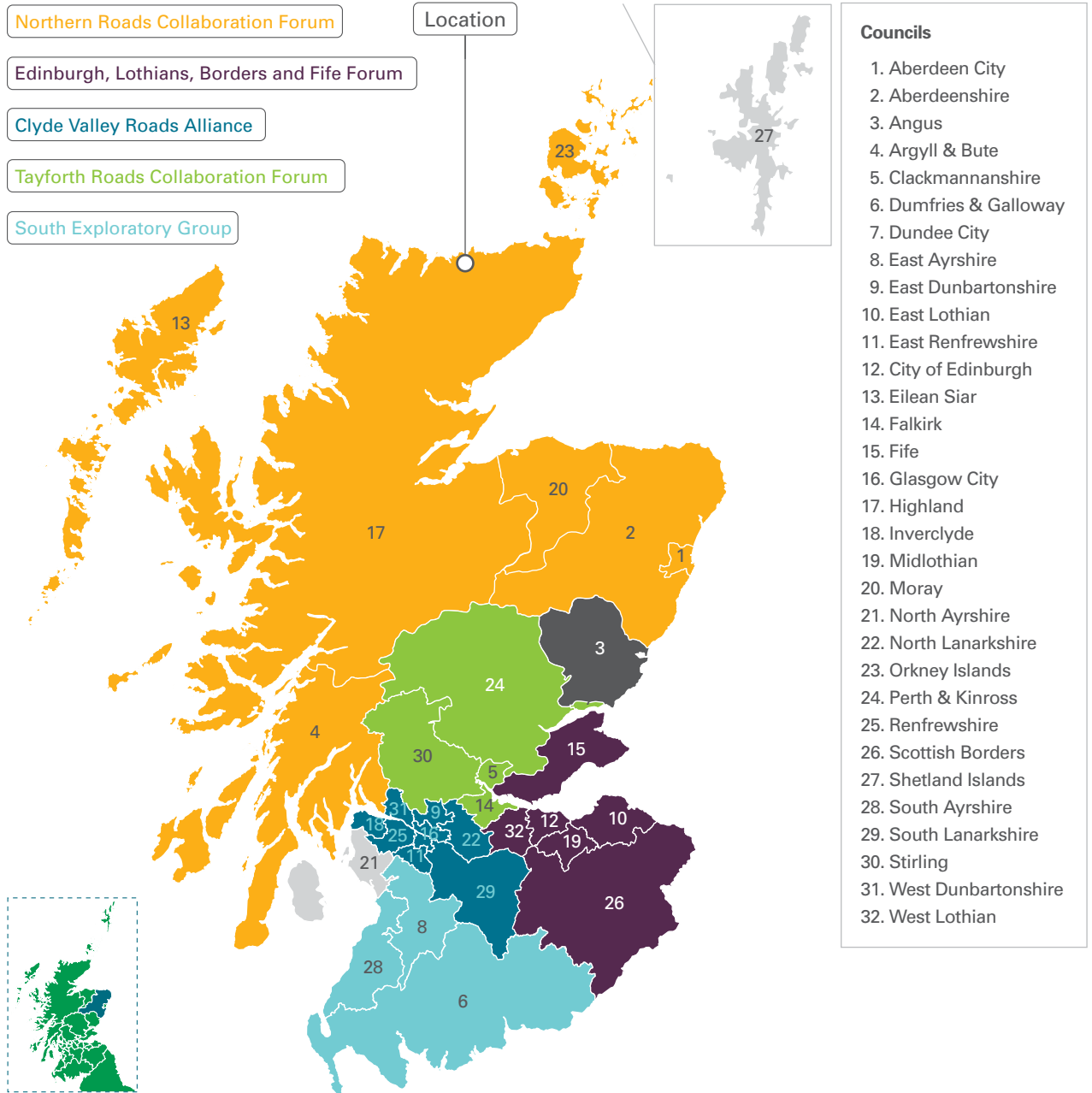
- Efficiency of size through having a larger available budget, greater purchasing power, a stronger strategic function and streamlined back-office functions such as administration.
- Being stronger organisationally through having a larger and more mobile workforce. A shared service would be less dependent on individuals, and a bigger volume of work would enable it to retain skilled staff more readily and offer enhanced training opportunities.

**93.** The RCP has been working with councils to establish five regional groups to explore opportunities for further collaboration (**Exhibit 13, page 40**). The RCP has provided support through leading discussions at meetings, providing guidance on different models for collaboration and commissioning legal advice for councils on the implications of these different models. Regional joint committees are being established in some areas. Regional Transport Partnerships, the statutory bodies responsible for transport planning at a regional level, present another option. Roads authorities need to determine the governance arrangements that best suit their needs, but it is important that any potential for duplication is avoided.

### Exhibit 13

#### Regional collaboration through the Roads Collaboration Programme

Councils are now participating in regional partnerships to consider how they can provide roads maintenance services in new ways.



**Notes:**

1. Angus Council is currently involved in two groupings: the Northern Roads Collaboration Programme and the Tayforth Roads Collaboration Forum.
2. North Ayrshire Council has still to decide whether it wishes to be part of the formal groupings. Shetland Islands Council is monitoring progress of the Northern Forum having decided in 2015 not to be part of a formal group at this time.

Source: Roads Collaboration Programme



**94.** COSLA agreed at its Leaders Group meeting in November 2015 to endorse the proposals for regional working. In particular, Leaders agreed that the optimum model for the future management and maintenance of the Scottish road network is via regional bodies covering the work of all existing roads authorities, that is the 32 councils and Transport Scotland. SCOTS has also endorsed the proposals.

**95.** Councils are responsible for agreeing how best to establish regional bodies. This has led to a variety of different approaches and has contributed to the slow progress being made. Some of the challenges encountered include:

- Uncertainty on whether the trunk road network would be included in the development of collaboration proposals. Scottish ministers did not clarify their position on this until November 2015 ([paragraph 100](#)).
- Concern that the service areas to be included in the shared service arrangement are small scale and unlikely to deliver the service improvement or organisational benefits required.
- Fewer perceived benefits for larger councils, or for those who have previously been investing in their road network.
- Fear of bigger councils dominating.
- Elected members' concerns about the extent of the powers for joint committees and how this impacts on local financial control. So far, proposals for the powers for joint committees do not extend to the control of budgets.

**96.** As at March 2016, the current status of each regional group was:

- **Northern Roads Collaboration Forum** – Elected members have met twice and have appointed a councillor from Highland Council to chair the forum. Aberdeenshire Council is preparing a minute of agreement which, once the other councils approve it, will form the basis of a joint committee. The formal committee's first meeting is expected in autumn 2016.
- **Edinburgh, Lothians, Borders and Fife Forum** – All councils have now approved the setting up of a shadow joint committee. The committee first met at the end of March 2016. City of Edinburgh Council legal officers are preparing a draft Memorandum of Agreement for consideration at the next Forum meeting, prior to it being circulated to constituent councils for approval.
- **Clyde Valley Roads Alliance** – An officer subgroup has been established and is to develop proposals for an integrated service by summer 2016. Elected members have yet to be closely involved in the arrangements and member councils recognise that faster progress is needed.
- **Tayforth Roads Collaboration Forum** – There will be overarching collaboration across the Tayforth area, but operational collaboration will be split. This will be between the three Tayside Contracts councils (Angus, Dundee and Perth and Kinross) and the Forth Valley councils (Falkirk, Stirling, Clackmannanshire) plus potentially West Lothian and East Dunbartonshire. This is to allow for a review of the Tayside Contracts arrangements to be completed.

- **South Exploratory Group** – This is still very much at an exploratory stage. Discussions are continuing between officers but formal arrangements have still to be established and potential shared services to be confirmed. Collaboration with Cumbria County Council is also being explored.

**97.** Based on the progress of establishing regional governance bodies, it is clear that the second phase of Governance First, which covers designing how shared services will operate, is still some way off. A key issue with the rate of progress is the low profile that roads services have with elected members and senior managers due to them being now largely subsumed within larger council departments. As a result, the lead officer for roads maintenance is often at a lower management tier level than before and lacks delegated authority for taking shared services forward. Similarly, the extent of elected member involvement and buy-in to the shared service concept has been mixed.

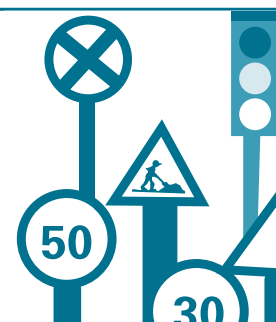
**98.** Councils may also be able to learn from others about how to develop shared services in the future. For example, Transport for London and London borough councils formed the London Highways Alliance in 2013 as a joint initiative to deliver all aspects of roads services, including maintenance. Roads services are provided through four geographic contracts that cover eight years. Transport for London and London borough councils expect to save up to £450 million over the life of these contracts, with annual savings equivalent to around ten per cent of current spending on roads services. They expect to achieve this through measures such as collaborative procurement, sharing expertise and innovative construction techniques.

### **Scottish ministers want to see more progress being made before trunk roads could be considered for inclusion in regional groupings**

**99.** A key question for roads authorities is the extent to which the shared service operational model should include trunk roads. Transport Scotland has yet to decide whether to enter into regional arrangements. It considers that more competitive procurement and pricing through its trunk road operating contracts has generated efficiency savings of around £42 million over the three years 2012/13 to 2014/15.

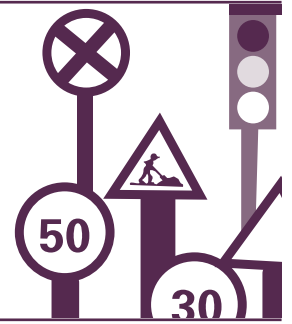
**100.** Two of the trunk road operating contracts are due for renewal in April 2018 (North West and South West). Another two are due for renewal in August 2020 (North East and South East), although all four contain options to extend contract lengths. This provides Transport Scotland with flexibility over its future approach to trunk road maintenance, including its inclusion in regional groupings. Scottish ministers outlined to COSLA in November 2015 that, before trunk roads maintenance could be considered for inclusion in any future regional groupings, councils need to make more progress. In particular, councils need to be able to demonstrate that including trunk roads within any future regional groupings would lead to efficiency savings and other benefits.

# Endnotes



- 1 The Strategic Action Group is jointly chaired by the Minister for Transport and the Islands and COSLA. It is tasked with overseeing the progress of the National Roads Maintenance Review.
- 2 The Office for National Statistics calculates road construction inflation by examining price increases in a variety of materials and activities associated with road construction. It is currently reviewing how it calculates road construction inflation and has stopped publishing updates of it. This report therefore uses GDP price deflators to calculate changes in roads maintenance expenditure in real terms.
- 3 **Scottish Government National Performance Framework** The Scottish Government considers that the road network contributes to the following outcomes: We live in a Scotland that is the most attractive place for doing business in Europe; We realise our full economic potential with more and better employment opportunities for our people; We live longer healthier lives; We have tackled the significant inequalities in Scottish society; We live our lives safe from crime, disorder and danger. We live in well-designed, sustainable places where we are able to access the services and amenities we need; We value and enjoy our built and natural environment and protect it and enhance it for future generations; We reduce the local and global environmental impact of our consumption and production; Our public services are high quality, continually improving, efficient and responsive to local people's needs.
- 4 <http://www.driving-test-success.com/causes-car-crash.htm>
- 5 **Reported Road Casualties Scotland 2014**, Scottish Government, October 2015.
- 6 **Scottish Household Survey 2014**, Scottish Government, October 2015. The survey uses a main sample base of over 10,000 respondents covering all council areas.
- 7 **Scottish Household Survey 2014**, Scottish Government, October 2015.
- 8 **An Overview of Local Government in Scotland 2016**, Accounts Commission, March 2016.
- 9 **An Overview of Local Government in Scotland 2016**, Accounts Commission, March 2016.
- 10 Council spend figures come from the SCOTs/APSE data returns and include both revenue and capital expenditure.
- 11 **Road Conditions in England 2015**, Department for Transport, March 2016.
- 12 **Maintenance expenditure by road type**, Department for Transport, March 2016.
- 13 **Roads Investment Strategy for the 2015/16-2019/20 Roads Period**, Department for Transport, December 2014.
- 14 The Local Government Benchmarking Framework (LGBF) brings together performance information from all 32 councils covering a wide range of services. The Improvement Service maintains the LGBF to support councils to improve their services by working and learning together.
- 15 Lean management is a long-term approach that systematically seeks to achieve small, incremental changes in processes in order to improve an organisation's overall efficiency and quality.
- 16 Option 30 Report, Consideration of optimal delivery structures for roads management and maintenance, June 2012.

# Appendix



## The Ayrshire Roads Alliance

The Ayrshire Roads Alliance (ARA) was established in April 2014 as a shared roads service between East and South Ayrshire councils. All three Ayrshire councils were involved in developing it following the establishment of the Ayrshire Shared Services Joint Committee in March 2012. In June 2013 North Ayrshire Council decided not to join the ARA after the business case was prepared. East and South Ayrshire councils consider that the joint committee arrangement provides an established governance framework, and a good forum for discussing the development of the shared service, and joint decision-making.

The Ayrshire Roads Alliance has been set up as a shared strategic function, including a single head of service. The two participant councils remain the statutory roads authorities. The ARA acts as a single operational service across the area. All South Ayrshire Council roads and transportation staff transferred (under TUPE arrangements) to East Ayrshire Council. The Ayrshire Roads Alliance considers this provides a more flexible and mobile workforce that can be used more effectively across the combined road network.

To maintain responsiveness to each council's priorities, roads maintenance and improvement work is currently planned separately through two separate RAMPs. Each council also retains responsibility for its roads maintenance budget. The Ayrshire Roads Alliance sees this as a key factor in addressing elected member concerns about the potential for loss of local control and accountability in a shared service. With the exception of a small shared strategic budget, spending is ring-fenced for activity within each of the geographic areas. The total budget for 2014/15 was £24.4 million, with £16.7 million coming from East Ayrshire Council and £8.1 million from South Ayrshire Council.

The business case identifies developing a mobile, integrated and responsive workforce as a core aim of the shared service. It sets a savings target of £8.6 million over the first ten years of the service (approximately six per cent of current revenue spending). Savings over the first few years are expected to be generated mainly through a reduction in strategic staff. There are currently no plans to reduce the level of operational staffing, although the Alliance has identified the opportunity to reduce its combined winter maintenance fleet as a result of more efficient gritting routes across the combined area.

Historically, the two councils' spending on roads maintenance has differed significantly. The Ayrshire Roads Alliance considers that joint scrutiny of plans and budgets at the shared services joint committee has allowed elected members to become more aware of these differences and the potential impact of different levels of investment. Since the Alliance was established, South Ayrshire Council has decided to allocate additional capital investment to roads maintenance, investing an additional £10 million over five years.

# Maintaining Scotland's roads

## A follow-up report

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

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Health and social care series

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# Social work in Scotland



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
September 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.

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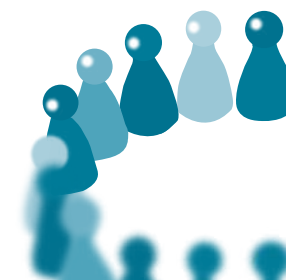
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These quote mark icons appear throughout this report and represent quotes from interested parties.

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## Links



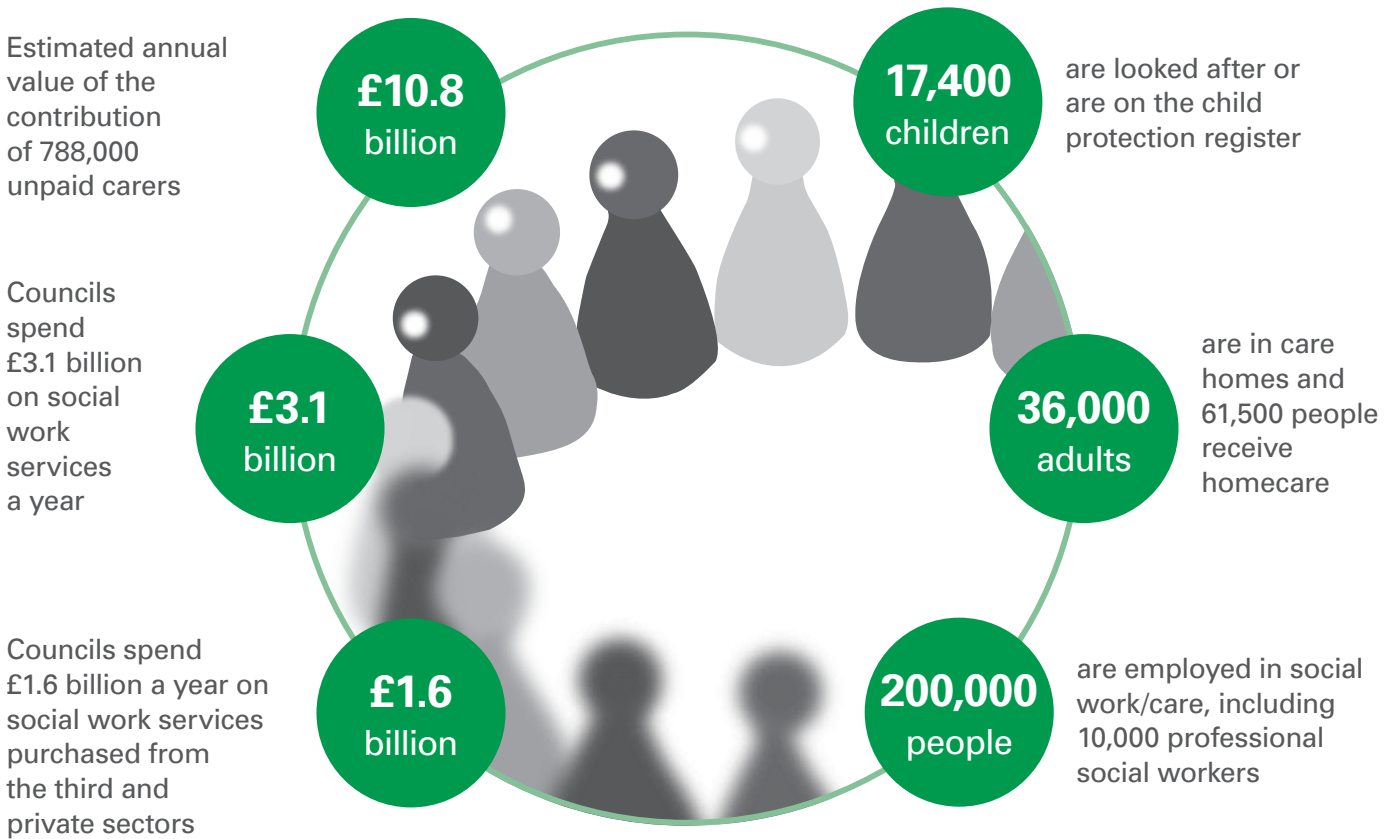
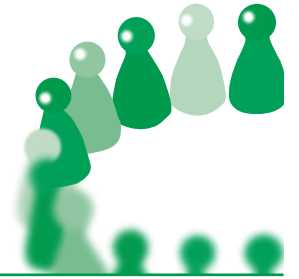
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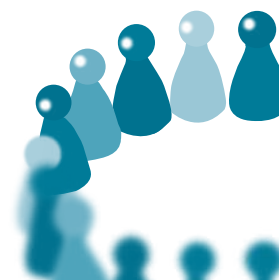
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# Key facts



# Summary



## Key messages

- 1** Current approaches to delivering social work services will not be sustainable in the long term. There are risks that reducing costs further could affect the quality of services. Councils and Integration Joint Boards (IJBs) need to work with the Scottish Government, which sets the overall strategy for social work across Scotland, to make fundamental decisions about how they provide services in the future. They need to work more closely with service providers, people who use social work services and carers to commission services in a way that makes best use of the resources and expertise available locally. They also need to build communities' capacity to better support vulnerable local people to live independently in their own homes and communities.
- 2** Councils' social work departments are facing significant challenges because of a combination of financial pressures caused by a real-terms reduction in overall council spending, demographic change, and the cost of implementing new legislation and policies. If councils and IJBs continue to provide services in the same way, we have estimated that these changes require councils' social work spending to increase by between £510 and £667 million by 2020 (16–21 per cent increase).
- 3** The integration of health and social care has made governance arrangements more complex, but regardless of integration, councils retain statutory responsibilities in relation to social work services. Elected members have important leadership and scrutiny roles in councils. It is essential that elected members assure themselves that service quality is maintained and that risks are managed effectively. Elected members have a key role to play in a wider conversation with the public about service priorities and managing people's expectations of social work and social care services that councils can afford to provide in the future. The Scottish Government also has an important role to play in setting the overall context of the debate.
- 4** With integration and other changes over recent years, the key role of the chief social work officer (CSWO) has become more complex and challenging. Councils need to ensure that CSWOs have the status and capacity to enable them to fulfil their statutory responsibilities effectively.

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**current approaches to delivering social work services will not be sustainable in the long term**

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## Key recommendations

### Social work strategy and service planning

#### Councils and IJBs should:

- instigate a frank and wide-ranging debate with their communities about the long-term future for social work and social care in their area to meet statutory responsibilities, given the funding available and the future challenges ([paragraph 111](#))
- work with the Scottish Government, their representative organisation (COSLA or the Scottish Local Government Partnership (SLGP)), Social Work Scotland and other stakeholders to review how to provide social work services for the future and future funding arrangements ([paragraphs 35–41](#))
- develop long-term strategies for the services funded by social work by:
  - carrying out a detailed analysis of demographic change and the contribution preventative approaches can make to reduce demand for services ([paragraph 52](#))
  - developing long-term financial and workforce plans ([paragraph 81](#))
  - working with people who use services, carers and service providers to design and provide services around the needs of individuals ([paragraphs 69–72](#))
  - working more closely with local communities to build their capacity so they can better support local people who may be at risk of needing to use services ([paragraph 112](#))
  - considering examples of innovative practice from across Scotland and beyond ([paragraphs 54, 67–68](#))
  - working with the NHS and Scottish Government to review how to better synchronise partners' budget-setting arrangements to support these strategies ([paragraph 36](#)).

### Governance and scrutiny arrangements

#### Councils and IJBs should:

- ensure that the governance and scrutiny of social work services are appropriate and comprehensive across the whole of social work services, and review these arrangements regularly as partnerships develop and services change ([paragraphs 87– 93](#))
- improve accountability by having processes in place to:
  - measure the outcomes of services, for example in criminal justice services, and their success rates in supporting individuals' efforts to desist from offending through their social inclusion
  - monitor the efficiency and effectiveness of services

- allow elected members to assure themselves that the quality of social work services is being maintained and that councils are managing risks effectively
- measure people’s satisfaction with those services
- report the findings to elected members and the IJB ([paragraph 90, 108–109](#)).

#### Councils should:

- demonstrate clear access for, and reporting to, the council by the CSWO, in line with guidance ([paragraphs 104–106](#))
- ensure the CSWO has sufficient time and authority to enable them to fulfil the role effectively ([paragraphs 102–107](#))
- ensure that CSWO annual reports provide an annual summary of the performance of the social work service, highlighting achievements and weaker areas of service delivery, setting out the council’s response and plans to improve weaker areas and that these are actively scrutinised by elected members ([paragraphs 108–110](#)).

#### Workforce

##### Councils should:

- work with their representative organisation (COSLA or the SLGP), the Scottish Government and private and third sector employers to put in place a coordinated approach to resolve workforce issues in social care ([paragraphs 21–23](#))
- as part of their contract monitoring arrangements, ensure that providers who use zero hours contracts allow staff to accept or turn down work without being penalised ([paragraph 24](#)).

#### Service efficiency and effectiveness

##### Councils and IJBs should:

- when planning an initiative, include evaluation criteria and extend or halt initiatives depending on the success of new approaches in improving outcomes and value for money ([paragraphs 53–53](#))
- work with COSLA to review the eligibility framework to ensure that it is still fit for purpose in the light of recent policy and legislative changes ([paragraphs 46–47](#))

##### Councils should:

- benchmark their services against those provided by other councils and providers within the UK and overseas to encourage innovation and improve services ([paragraphs 54, 67–68](#)).

## Introduction

**1.** Scottish councils' social work departments provide and fund essential support to some of the most vulnerable people in society. They supported and protected over 300,000 people in 2014/15, around 70 per cent of whom were aged 65 and over.<sup>1</sup> Social work departments also provide and fund social care, for example care at home for older people who require help with dressing and taking medication. People supported by social work and social care in Scotland in 2014/15 included:

- 15,404 looked-after children (LAC), that is children in the care of their local authority
- 2,751 children on the child protection register, a list of children who may be at risk of harm<sup>2</sup>
- 61,500 people who received homecare services<sup>3</sup>
- 36,000 adults in care homes.<sup>4</sup>

**2.** In 2014/15, councils' net expenditure on social work was £3.1 billion.<sup>5</sup> Net spending is total spending less income, for example from charges for services. Just over 200,000 people work in social work and social care, around one in 13 people in employment in Scotland.<sup>6</sup> Many are employed in the private and third sectors that councils commission to provide services.<sup>7</sup> In addition, the Scottish Government estimates that there are 759,000 unpaid carers aged 16 and over in Scotland, 17 per cent of the adult population, and 29,000 young carers under 16.<sup>8</sup>

**3.** Social work services have recently been reorganised. The Public Bodies (Joint Working) (Scotland) Act 2014 requires councils and NHS boards to create an integration authority to be responsible for the strategic planning of adult social care services, some health services and other functions delegated to it. It is also responsible for ensuring the delivery of those functions. The Integration Joint Board (IJB) also has an operational role as described in the locally agreed operational arrangements set out within their integration scheme. The Act also allows councils to integrate children's and families' services and criminal justice social work.

**4.** Councils delegate their responsibility for strategic planning of adult social services, and any other services they have decided to include, to the integration authority. All council areas, apart from Highland, have created an IJB to plan and commission integrated health and social care services in their areas. The voting membership of IJBs comprise equal numbers of council elected members and NHS board non-executive directors. Our recent report *Health and social care integration* includes a description of the integration arrangements in each council area.<sup>9</sup>

**5.** The Scottish Government sets the legislative basis and the overall strategic framework for the delivery of social work. Its overall vision is 'a socially just Scotland with excellent social services delivered by a skilled and valued workforce which works with others to empower, support and protect people, with a focus on prevention, early intervention and enablement'.<sup>10</sup> The Scottish Government also sets the key outcomes that councils' social work services are expected to contribute to achieving, for example 'Our people are able to maintain their independence as they get older and are able to access appropriate support

when they need it.’ This report focuses on councils’ social work services, but recognises the role of the Scottish Government in setting the overall context in which councils operate.<sup>11</sup>

## About the audit

**6.** The overall aim of the audit was to examine how effectively councils are planning to address the financial and demographic pressures facing social work. The objectives were to assess:

- the scale of the financial and demand pressures facing social work
- the strategies councils are adopting to meet these challenges
- the effectiveness of governance arrangements, including how elected members lead and oversee social work services
- the impact of financial and demand pressures on people who use services and on carers, and how councils involve them in planning how services are provided.

**7.** Social work comprises a wide range of services, and we have not covered all of them in this report. We also did not examine health and social care integration arrangements, which will be the subject of separate audit work, but we did consider their impact on councils’ financial, operational and governance arrangements. Our methodology included:





- fieldwork interviews with elected members, senior managers and social workers in six council areas, Midlothian, East Renfrewshire, Comhairle nan Eilean Siar, Glasgow City, Perth and Kinross and West Lothian
- meetings and focus groups with stakeholders, including:
  - 33 focus groups and 12 interviews with service users and carers (165 participants)
  - four focus groups with service providers (over 40 participants)
  - attending the Coalition of Carers in Scotland Annual General Meeting
- desk research, including analysing both the impact of legislation and policy, and financial and demographic data.

**8.** Our audit took into account the findings of previous audits including:

- [\*Commissioning social care\*](#)  (March 2012)
- [\*Reshaping care for older people\*](#)  (February 2014)
- [\*Self-directed support\*](#)  (June 2014)
- [\*Health and social care integration\*](#)  (December 2015)
- [\*Changing models of health and social care\*](#)  (March 2016)

In addition, we are planning further audit work on health and social care integration and following up our report on self-directed support.

**9.** We have produced four supplements to accompany this report:

- **[Supplement 1](#)**  presents the findings of our survey of service users and carers.
- **[Supplement 2](#)**  lists advisory group members, who gave advice and feedback at important stages of the audit. It also describes the detailed audit methodology, the roles and responsibilities of the key social work organisations and social work legislation.
- **[Supplement 3](#)**  describes the governance and scrutiny arrangements in each of our fieldwork councils, providing an illustration of the variety and complexity of arrangements across Scotland.
- **[Supplement 4](#)**  is a self-assessment checklist for elected members.

**10.** This report has three parts:

- **[Part 1](#)** Challenges facing social work services.
- **[Part 2](#)** Strategies to address the challenges.
- **[Part 3](#)** Social work governance and scrutiny arrangements.



# Part 1

## Challenges facing social work services



### Key messages

- 1** Councils' social work departments provide important services to some of the most vulnerable people across Scotland. But they are facing significant challenges. These include financial pressures caused by a real-terms reduction in overall council spending, demographic changes, and the cost of implementing new legislation and policies. We have estimated that these changes require councils' social work spending to increase by between £510 and £667 million by 2020 (16–21 per cent increase), if councils and IJBs continue to provide services in the same way. Additional funding provided to IJBs via the NHS may partially relieve the financial pressures.
- 2** Councils are implementing a wide range of legislation and policy changes aimed at improving services, better supporting carers, improving outcomes for people and increasing the wages paid to adult care workers. This has significant financial implications. Councils are also under pressure due to increasing demand associated with demographic changes, particularly people living longer with health and care needs.
- 3** Since 2010/11, councils' total revenue funding has reduced by 11 per cent in real terms. Social work spending increased by three per cent in real terms over the same period, and now accounts for a third of overall council spending. Further reductions in councils' budgets are an additional pressure on social work services, particularly as their financial commitments continue to increase.
- 4** Social care providers have difficulty recruiting and retaining suitably qualified staff, particularly homecare staff and nursing staff. However, the number of social workers has increased over recent years.

councils' social work departments provide important services to some of the most vulnerable people across Scotland

### Social work is a complex group of services

**11.** Social work departments provide and fund a wide range of specialist services for children, adults and families, and other specific groups. These services aim to improve the quality of their lives and help people to live more independently ([Exhibit 1, page 12](#)). Each of these client groups will include people requiring care, support or protection. For example, through care at home, child protection or helping people overcome addiction. Social workers deal with people with complex problems and with vulnerable people who need support at different

times or sometimes throughout their lives. They often specialise in particular service areas, for example criminal justice, children and families or mental health.




## Social work services are implementing a considerable volume of legislation and policy change

**12.** Since the Scottish Parliament was established, there has been an increase in the volume of legislation related to social work. Councils are currently implementing several important pieces of legislation ([Exhibit 2, page 13](#)). This legislation is designed to improve services and the outcomes for people who use them, for example by bringing about increasingly personalised services to meet individuals' needs. However, implementing legislation can increase financial pressures and staff workload in the medium term.

### Exhibit 1

#### Social work and social care services







Social work provides a variety of services to protect and support people in three client groups.

Children's services 	Adult services 	Criminal Justice services 
Support for families	Residential care	Offender services
Child protection	Care at home	Providing social enquiry reports
Adoption services	Day care	Supervision of community payback and unpaid work
Kinship care	Hospital discharge coordination	Supporting families of prisoners
Fostering	Adult support and protection	Supervision of offenders on licence
Child care agencies	Mental health and addiction services	
Looked-after young people	Dementia and Alzheimer's services	
Day care	Supporting people with disabilities	
Residential care	Services to support carers	
Child and adolescent mental health	Provision of Aids and adaptations	
Supporting child refugees	Re-ablement services	
Supporting trafficked children	Supported living	
Support for young people involved in offending behaviour	Supporting refugee families	
Support for children with disabilities and their families	Supporting victims of people trafficking	
	Intermediate care	







## Exhibit 2

### Social work and social care services

Councils are implementing a great deal of legislation, some with significant cost implications.

<b>Legislation</b> 	<b>Key features of legislation</b> 	<b>Associated costs</b>   <b>(from the financial</b>   <b>memorandum to the Bills)</b>
Social Care (Self-Directed Support) (Scotland) Act 2013	The Act aims to ensure that adults and children (including carers and young carers) have more choice and control over how their social care needs are met. It stipulates the forms of self directed support (SDS) that councils must offer to those assessed as requiring community care services.	<ul style="list-style-type: none"> <li>All local authorities are at different stages in the self-directed support agenda, meaning costs will vary widely.</li> </ul>
The Children and Young People (Scotland) Act 2014	The Act makes provisions over a wide range of children's services policy, including 'Getting it Right for Every Child'. It includes: <ul style="list-style-type: none"> <li>local authorities and NHS boards having to develop joint children's services plans in cooperation with a range of other service providers</li> <li>a 'named person' for every child</li> <li>extending free early learning and childcare from 475 to 600 hours a year for all three and four-year-olds and two-year-olds who have been 'looked after' or have a kinship care residence order</li> <li>a statutory definition of 'corporate parenting'</li> <li>increasing the upper age limit for aftercare support from 21 to 26.</li> </ul>	Additional annual costs estimated to be: <ul style="list-style-type: none"> <li>£78.8 million in 2014/15</li> <li>£121.8 million in 2016/17</li> <li>£98.0 million in 2019/20</li> <li>Cumulative total from 2014-15 to 2019-20 is £595 million.</li> </ul>
The Public Bodies (Joint Working) (Scotland) Act 2014	The aim of the Act is to achieve greater integration between health and social care services to improve outcomes for individuals. It also aims to improve efficiency by 'shifting the balance of care' from the expensive acute sector, such as large hospitals, to less expensive community settings. The Scottish Government estimates partnerships should achieve potential efficiencies of £138-£157 million a year by providing support to keep people out of hospital and enabling them to return home as soon as they are well enough.	Costs to health boards and local authorities: <ul style="list-style-type: none"> <li>2014/15: £5.35 million</li> <li>2015/16: £5.6 million</li> <li>2016/17: £5.6 million.</li> </ul>

Cont.

<b>Legislation</b> 	<b>Key features of legislation</b> 	<b>Associated costs</b>   <b>(from the financial memorandum to the Bills)</b>  
<p>The Carers (Scotland) Act 2016</p>	<p>The Act aims to improve support to carers by:</p> <ul style="list-style-type: none"> <li>• changing the definition of a carer so that it covers more people</li> <li>• placing a duty on local authorities to prepare an adult care and support plan or young carer statement for anyone it identifies as a carer, or for any carer who requests one</li> <li>• introducing a duty for local authorities to provide support to carers who are entitled under local criteria</li> <li>• requiring local authorities and NHS boards to involve carers in carers' services</li> <li>• introducing a duty for local authorities to prepare a carers strategy</li> <li>• requiring local authorities to establish and maintain advice and information services for carers.</li> </ul>	<p>Estimated additional costs for local authorities are:</p> <ul style="list-style-type: none"> <li>• £11.3-£12.5 million in 2017/18, rising to £71.8-£83.5 million by 2021/22.</li> <li>• The total estimated impact on councils between 2017/18 and 2022/23 is £245-£289 million.</li> </ul>
<p>The Community Justice (Scotland) Act 2016</p>	<p>The Community Justice (Scotland) Bill seeks to establish new arrangements for providing and overseeing community justice. Currently eight community justice authorities (CJAs) bring together a range of agencies to coordinate local services for offenders and their families. They will be abolished and replaced by a model involving national leadership, oversight and support for community justice services by a new body called Community Justice Scotland, funded by, and responsible to, Scottish ministers.</p>	<p>The provisions will have few if any financial implications for local authorities other than during the transitional period.</p>
<p>The UN Convention on the Rights of Persons with Disabilities (UNCRPD) (Scottish framework and delivery plan)</p>	<p>The delivery plan provides a framework to allow people with disabilities to have the same equality and human rights as non-disabled people. It includes legislation, such as Self-Directed Support and the Children and Young People (Scotland) Act 2014. The draft delivery plan groups the UNCRPD articles into four outcomes covering equal and inclusive communication and access to:</p> <ul style="list-style-type: none"> <li>• the physical and cultural environment, transport and suitable affordable housing</li> <li>• healthcare and support for independent living, with control over the use of funding</li> <li>• education, paid employment and an appropriate income and support whether in or out of work</li> <li>• the justice system.</li> </ul>	<p>It is difficult to predict the overall impact in terms of cost, but it may have a significant impact on the way councils deliver services.</p>

Note: Cost information is taken from the financial memorandum that accompanies each Bill.

Source: Audit Scotland

**13.** In addition to changes in legislation, there have been a number of significant policy developments, some backed by legislation, that require considerable change to the way that social work services are provided. These include:

- **Increased personalisation of services** – Personalisation of services, for example through self-directed support (SDS), is a major change to the way councils support people with social care needs. The human rights principles of fairness, respect, equality, dignity and autonomy for all form the basis of SDS. Social work professionals need to see people as equal partners in determining their care needs and controlling how they meet their needs. This means they are not limited to choosing from existing services. Social work services may need to move spending away from existing services towards giving people their own budget to spend. This can lead to a reduction in use of some services. However, it can be difficult for councils to withdraw existing underused services because of public and political pressures.
- **An increased focus on prevention** – The report from the Commission on the Future Delivery of Public Services (the Christie Commission) highlighted the need to transform the way public services are planned and delivered.<sup>12</sup> The report identified prevention, early intervention and providing better outcomes for people and communities as key to this transformation.
- **An increased focus on joint working** – A series of initiatives over recent years has aimed to encourage a more joined-up approach to health and social care. These include the creation of Local Health Care Cooperatives (LHCCs) in 1999, and their replacement by Community Health Partnerships (CHPs) in 2004. LHCCs and CHPs lacked the authority to redesign services fundamentally.<sup>13</sup> The Public Bodies (Joint Working) (Scotland) Act 2014 aimed to achieve greater integration between health and social care services to improve outcomes for individuals and improve efficiency by ‘shifting the balance of care’ from the acute sector to community settings.

**14.** New legislation often has financial consequences and, to allow MSPs to consider the full impact of legislation, a financial memorandum to each Bill sets out the estimated cost of implementation. These are the best available estimates at the time, but have sometimes proved inaccurate. The Scottish Government may fund or partially fund these costs but councils sometimes dispute these estimates and the level of funding required.

**15.** New legislation can also affect how councils deliver services by creating entitlements to services based on specific criteria. Councils need to respond to these and manage the expectations of people who use services and carers. These entitlements can be based on needs assessments, or on the expected outcomes, or they can create rights to services for particular groups. Transitions are important as entitlements change depending on age. For example:

- Children have the right to specific support that adults may not have. As a result, councils have to be careful in managing the expectations of parents as children reach adulthood.
- People aged over 65 may be entitled to free personal care, but 64-year-olds with similar needs may have to make a financial contribution to their care.



**I receive 37 hours of support and seven sleepovers. I get personal care, support with the running of my flat, to shop and support to be involved in the community. They also enable me to attend university.**

Service user, physical disabilities



**When [grandchild] turned 16 I was told that this Saturday service was going to stop because he would now be under adult services. I had no forewarning, no-one from adult services contacted me; I contacted them and they couldn't offer any support. It's a funding issue.**

Carer

## Social work services face significant demographic challenges

**16.** The impact of demographic change on health and social care spending has already been well reported.<sup>14</sup> Between 2012 and 2037, Scotland's population is projected to increase by nine per cent. All parts of the population are projected to increase, but by different amounts:

- the number of children by five per cent
- the working age population by four per cent
- the number of people of pensionable age by 27 per cent.<sup>15</sup>

**17.** Overall demand for health and social care will depend significantly on the number of older people and the percentage who require care. Although life expectancy continues to increase, healthy life expectancy (HLE), that is the number of years people can expect to live in good health, has not changed significantly since 2008 ([Exhibit 3](#)). This means that a larger number of older people may require support for longer, unless HLE increases. Councils and the Scottish Government have taken steps to try to increase HLE. This includes measures to reduce smoking, alcohol consumption and environmental pollution and providing information to the public about the benefits of a healthy lifestyle.

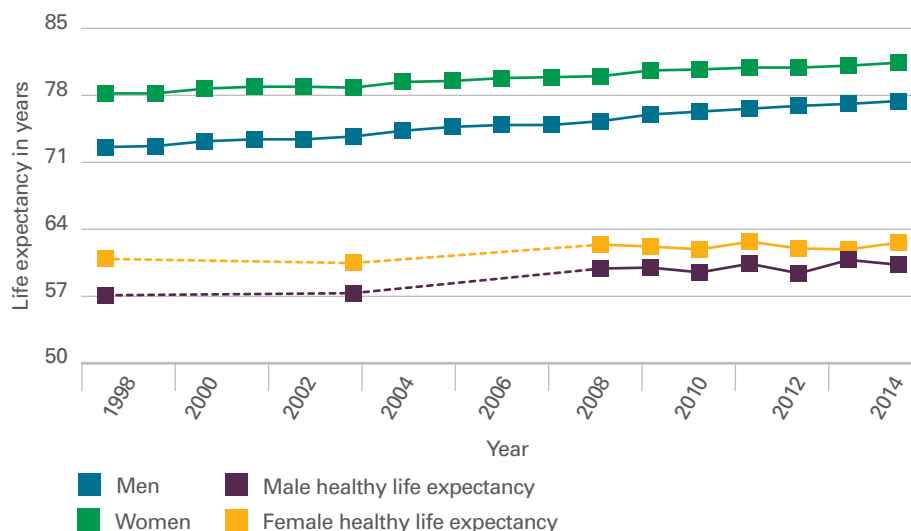
### Supporting looked-after children and child protection has increased demand on social work services

**18.** Looked-after children (LAC) are children in the care of their local authority. They may live in their own home, with foster or kinship carers or in a residential

## Exhibit 3

### Changes in life expectancy and healthy life expectancy

Life expectancy is increasing faster than healthy life expectancy, potentially increasing service pressures.



Note: Data on healthy life expectancy was not collected annually until 2008.

Source: Scottish Health Survey, Scottish Household Survey, National Records of Scotland births, deaths and populations data

home. Most become looked after for care and protection reasons. The term also includes unaccompanied children seeking asylum and young people who have been illegally trafficked. As at July 2015, 17,357 children in Scotland, around 1.8 per cent of the total, were looked after or on the child protection register.<sup>16,17</sup> Of these 15,404 were looked after, 2,751 were on the child protection register and 798 were both looked after and on the register. While there has been a recent reduction, possibly due to improvements in prevention, the number of LAC has increased by 36 per cent since 2000, although the numbers and trends vary among councils. The number of children on the child protection register increased by 34 per cent between 2000 and 2015, with three in every 1,000 children under 16 now on the register. In smaller councils, the number of children on the register (and resultant workload) can fluctuate significantly, particularly when sibling groups in large families are registered.

**19.** The reasons for these increases are likely to be complex. Many of the councils we visited think that increases in drug and alcohol use by parents are important factors. Others have seen an increase in reporting of domestic abuse and alcohol-related incidents in more affluent areas that might have gone unreported in the past. In addition, early intervention policies are likely to have led to an increase in the number of looked after children, but a decrease in the time that councils look after them. Early intervention means identifying people at risk and intervening to prevent the risk. Between 2007 and 2014, the number of children removed from the register who had been on it for less than a year increased from 2,421 (79 per cent of the total) to 3,930 (87 per cent). Over the same period, the number of children who had been on the register for more than a year fell from 663 to 569.

### Councils and service providers face difficulties in recruiting staff

**20.** Just over 200,000 people work in social work and social care services, representing around one in 13 people in employment in Scotland.<sup>18</sup> Almost half work part time and 85 per cent are women. The private sector is the biggest employer (42 per cent of staff), followed by the public sector (31 per cent) and the third sector (28 per cent). This distribution varies considerably among councils, and the public sector is the biggest provider in the three island authorities.

**21.** Many third and private sector providers raised staff recruitment as a significant issue for them. Councils have fewer recruitment problems, the exception being in remote rural areas, where it can be difficult to recruit specialised staff. Third and private sector providers reported that the apparent causes for these difficulties included:

- **Low pay** – providers in both the private and third sectors felt that the rates councils pay under their contracts only allowed them to pay staff at, or near, the minimum wage. In addition, travel time between clients is sometimes unpaid.
- **Antisocial hours** – providing homecare often requires carers to assist people to get out of bed in the morning and into bed at night. This can mean weekend working, split shifts and antisocial hours, with no additional pay. The increased personalisation of care has contributed to this as carers increasingly provide care to suit individuals, rather than fitting individuals into the care system.



**Driving down costs to the extent that staff are recognised as being in a 'low wage sector' increases the problem of recruitment.**

Service provider

- **Difficult working conditions** – staff have to take care of people with a variety of care needs that some find difficult, for example, assisting people with bathing and personal hygiene, or who have dementia or incontinence.

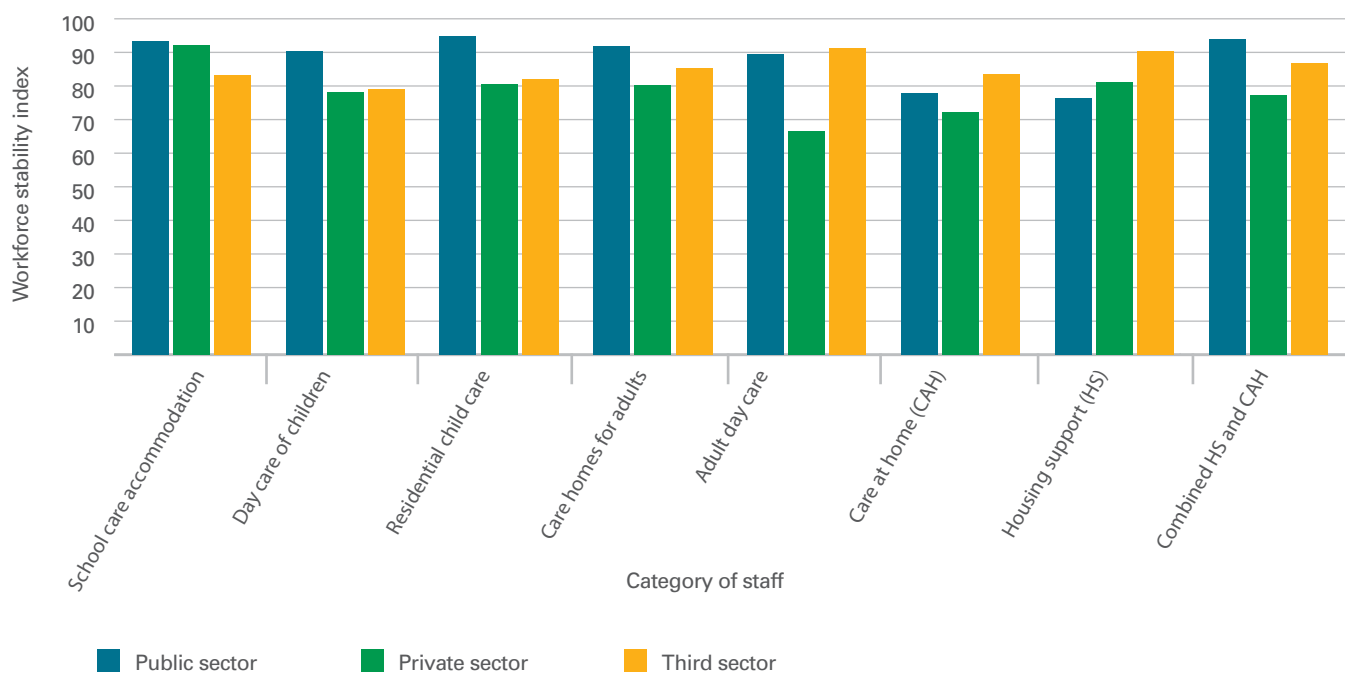
**22.** The cycle of continually recruiting and training staff is costly and could potentially have an impact on the quality of services provided. Service provider focus groups highlighted a need to provide staff with a sustainable career path to improve recruitment and retention. Overall, the public sector has the most stable workforce and the private sector the least, although this does not appear to be the case for all categories of staff ([Exhibit 4](#)).<sup>19</sup>

**23.** Some care providers expressed concerns that leaving the EU and the potential introduction of a points-based immigration system could create problems for staff recruitment. A 2008 workforce survey indicated that 6.1 per cent of the social care workforce in Scottish care homes for older people were EU – non-UK workers, and a further 7.3 per cent were employed under work permits. Most of those employed from within the EU came from Poland and the Czech Republic and those from outside the EU were from the Philippines, India and China.<sup>20</sup>

**24.** Four per cent of the workforce have a no guaranteed hours (NGH) contract.<sup>21</sup> When combined with the other contract types that may be considered a zero hours contract (bank and casual or relief), they comprise roughly ten per cent of the contracts in the workforce. Providers believe zero hours contracts are

### Exhibit 4 Social work workforce stability 2013/14

The public sector workforce is generally the most stable.



Note: Because of data limitations, the SSSC cannot provide an accurate estimate for turnover. However, they are able to calculate a 'stability index' of staff who are still in post after a year. If the index is 90 per cent it means that 10 per cent of staff present at the start of the period are no longer present. It is important to note that this does not mean that turnover is 10 per cent as the measure excludes staff who joined and left within the period under consideration.

Source: Scottish Social Services Council (SSSC)



essential to provide a flexible and personalised service to people, while also providing flexibility for staff. These contracts are suitable as long as they are not exclusive and staff are free to accept or turn down work without being penalised. As part of good contract management, councils should ensure that providers use zero hours contracts properly.

**25.** There are skills and staffing shortages in several areas of social work and social care, including:

- **Homecare staff** – 69,690 people work in housing support or care at home.<sup>22</sup> Both third sector and private sector providers find it difficult to recruit staff. Rapid staff turnover is a significant threat to maintaining service standards, particularly in adult day care.
- **Nursing staff** – 6,620 registered nurses work in the care sector, 4,930 of them in adult care homes. Ninety-one per cent of registered nurses are in the private sector. Care providers in both the private and third sectors are having trouble recruiting qualified nursing staff for care homes. As a result, providers were trying to recruit staff from outside the UK. Although data is not collected on vacancy rates for nursing staff in the care sector, there were 2,207 whole-time equivalent (WTE) vacant nursing and midwifery posts in the NHS in Scotland at 31 March 2016.<sup>23</sup>
- **Mental health officers (MHOs)** – are specialist social workers with a statutory role in the detention and treatment of people with mental illness. They look into the circumstances of individuals where people have concerns about their mental health. They can apply for a court order that would allow an individual to be taken to a ‘place of safety’ for up to seven days.<sup>24</sup> In December 2014, the number of registered MHOs was at its lowest level since 2005. However, in 2015 there was a small increase (two per cent) to create a total of 670 practising MHOs. In 2015 there were 15 unfilled posts for MHOs in Scotland and 17 further post holders who were unavailable, for example through career breaks or secondments, about five per cent of the total.<sup>25</sup>

### The professional social work role is changing

**26.** The workforce includes 11,127 professional social workers registered in Scotland. Almost three-quarters, 8,242, work in councils and 2,040 (18 per cent) are employed by other providers. Most of the rest are self-employed, unemployed or recently retired. Not all qualified social workers work in roles where they are required by law to hold a social work qualification (statutory roles), for example they may work in management roles. The number of WTE social workers employed by councils in statutory roles increased significantly between 2001 and 2015, from 3,873 to an estimated 5,630. Of these, 31 per cent work with adults, 49 per cent with children, 15 per cent in criminal justice; five per cent work generically.<sup>26</sup>

**27.** The majority of social workers in our focus groups were optimistic about their role and their ability to make a positive difference to people’s lives. Changes in structural and partnership arrangements in health and social care have introduced more working in multidisciplinary teams, for example with health visitors or occupational therapists. Social workers sharing offices with other disciplines can be both rewarding and effective. We found that social workers who had worked in multidisciplinary teams for some time were convinced that improved

communication with community NHS staff had improved services. However, some were concerned about erosion of their professional identity. Moreover, adapting to working with colleagues from a different culture, for example in approaches to risk, could be challenging.

## Unpaid carers provide the majority of social care in Scotland

**28.** The Scottish Government estimates that there are 759,000 unpaid carers aged 16 and over in Scotland, around 17 per cent of the adult population. Of these, 171,000 (23 per cent) provide care for 35 hours or more a week. In addition, there are an estimated 29,000 young carers under 16, around four per cent of the under 16 population.<sup>27</sup> There are many more unpaid carers providing support to people than those in the paid social services workforce.

**29.** In 2010, the Scottish Government reported that unpaid carers saved health and social services an estimated £7.68 billion a year.<sup>28</sup> More recently, Carers UK estimated the value of unpaid care in Scotland to be £10.8 billion, more than three times current social work net spending.<sup>29</sup>

**30.** The Carers (Scotland) Act 2016 became law in March 2016. It provides for the planning and provision of support, information and advice for unpaid carers and encourages councils to become involved in carers' services. It also means councils are required to prepare a carer support plan for carers, including young carers, who want one. A carer support plan sets out information about the carer's circumstances, the amount of care they are able and willing to provide, the carer's needs for support and the support available. The Act also requires each council to establish and maintain an information and advice service for carers who live or care for people in its area.

## Social work services are facing considerable financial pressures

**31.** In 2014/15, councils' net spending on social work services was £3.1 billion (**Exhibit 5, page 21**). Services for older people made up around 44 per cent of this spending, and services for children and families around 28 per cent. A range of other services make up the remainder.

**32.** In 2016/17, councils' total revenue funding, that is the funding used for day-to-day spending, will be five per cent lower than in 2015/16. This is a reduction of 11 per cent in real terms since 2010/11.<sup>30</sup> This is a significant pressure on all council services, including social work. The 2016/17 figure does not include £250 million that the Scottish Government allocated to health and social care integration authorities to support social care, because the Scottish Government routed it through the NHS boards' budgets rather than council budgets.

**33.** Against the trend of falling council spending, councils' total social work net spending increased in real terms from £3.2 billion to £3.3 billion between 2010/11 and 2014/15, an average increase of 0.8 per cent a year.<sup>31</sup> As a result, spending on social work increased from 28.9 per cent to 32 per cent of council spending.<sup>32</sup> An analysis of council accounts found that two-thirds of councils reported social work budget overspends totalling £40 million in 2014/15. Most councils identified homecare services for adults and older people as the service under most pressure.



**(Unpaid) Carers do everything! Link everything! Anchor everything!**

Carer



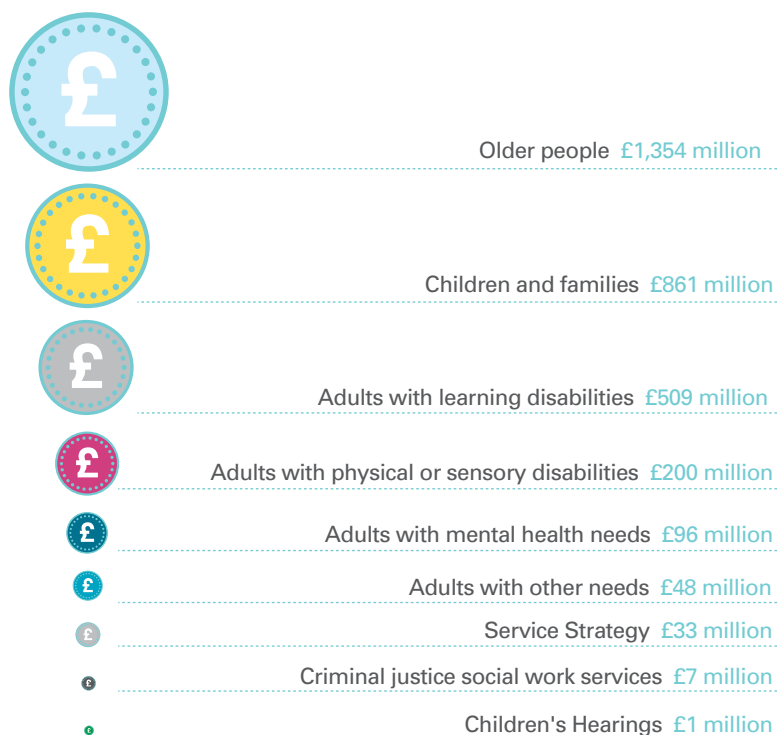
**24/7 carers are there, understanding the person's needs.**

Carer

## Exhibit 5

### Social work spending, 2014/15

Around 44 per cent of the £3.1 billion net social work spending is on services for older people and this percentage is likely to increase with demographic change.



Source: Local Government Financial Statistics 2014-15 (Annex A), February 2016

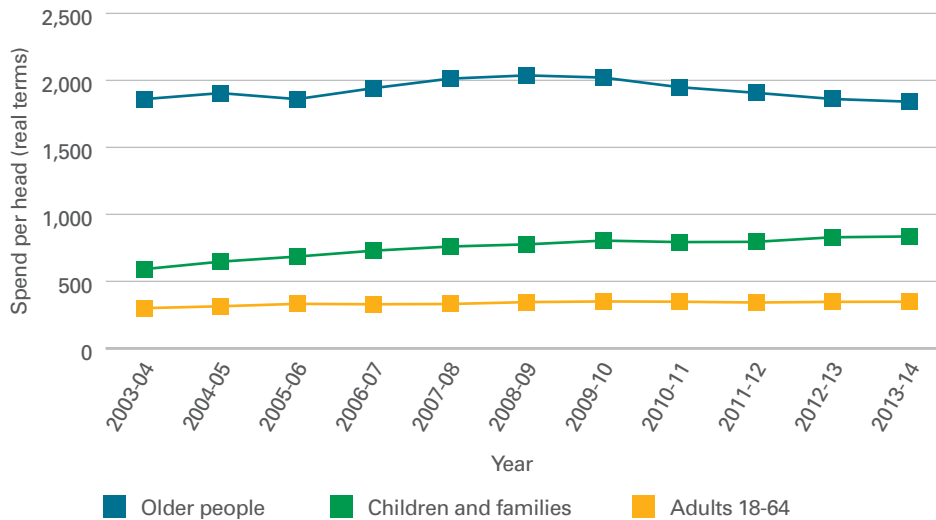
**34.** There have been significant long-term changes in spending per head among different age groups ([Exhibit 6, page 22](#)). The reduction in spending on older people is a combination of a lower percentage of older people receiving services ([paragraph 46](#)) and a reduction in the real-terms cost of care homes ([paragraph 62](#)) and homecare ([paragraph 59](#)). The increase in spending on children and families may be related to an increase in the number of looked after children, an increase in the complexity of children and families' cases and an increased focus on early intervention.

### Few councils and IJBs have long-term spending plans for social work

**35.** We examined council budgets and spending plans for 2015/16, 2016/17 and beyond to assess whether the trends identified above are likely to continue in the medium term. Budget information is more difficult to collect and interpret than historic expenditure information because councils do not present this information consistently. In addition, most IJBs had not finalised their budgets at the time we were conducting our analyses. Budgets for 2016/17 were very similar to 2015/16 in cash terms. We also analysed councils' savings plans. Councils plan to save £54 million from social work budgets in 2016/17, mainly through changing how they provide services, reducing services and making efficiency savings.

## Exhibit 6

Real-terms spending on social work services per head, 2003/4 to 2013/14



Source: Expenditure on Adult Social Care Services, Scotland, 2003/4 to 2013/14, Scottish Government

**36.** Councils and NHS boards work on different financial planning cycles and agree budgets at different times of the year. A survey of IJBs by the Scottish Parliament’s Health and Sport Committee found that over half of IJBs were unable to set a budget for 2016/17 before June 2016, and over a quarter before August 2016.<sup>33</sup> A number of responses mentioned delays in receiving the health allocation for the partnership as a cause of difficulty in setting budgets. If councils and NHS boards continue with different budget cycles, it will make it more difficult for IJBs to agree budgets for services in a timely way.

**37.** In February 2016, as part of the local government settlement, the Scottish Government announced funding of £250 million to support social care for the three years to 2018/19. Some of this funding was to help pay the Living Wage (£8.25 an hour) to all care workers in adult social care, regardless of age from 1 October 2016.





**38.** The Living Wage Foundation sets the Living Wage. It is up-rated annually and they will announce a new rate in November. The local government settlement does not require councils to increase wages to the new Living Wage rate when the Living Wage Foundation announces it in November.

**39.** The Scottish Government has estimated that over the period 2012-32, spending on social care for older people will need to increase by between 1.5 per cent and 3.3 per cent a year, depending on changes to healthy life expectancy (HLE).<sup>34</sup> We have calculated lower and upper limits of the cost of demographic change based on Scottish Government projections. Added to this are cost pressures arising from legislation, based on their financial memorandums, and the cost implications of the commitment to the Living Wage for care workers ([Exhibit 7](#)).<sup>35</sup>

## Exhibit 7

### Potential financial pressures facing Scottish councils by 2019/20

Councils face significant cost pressures.

Reason for cost increase	Lower limit (£ million)	Upper limit (£ million)
 Demographic change (older people only)	£141	£287
 The Children and Young People (Scotland) Act 2014	£98	£98
 The Carers (Scotland) Act 2016	£72	£83
 The Living Wage	£199	£199
<b>Potential cost increase by 2019/20</b>	<b>£510</b>	<b>£667</b>

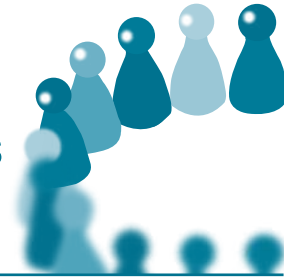
Source: Audit Scotland analysis of financial memorandums and information provided by the Scottish Government

**40.** Together they imply increases in social work spending of between £510 and £667 million (a 16–21 per cent increase) by 2019/20. Additional Scottish Government funding to implement legislation and to IJBs (via the NHS) may partially relieve some of these pressures, as could potential savings from health and social care integration and by providing services differently.

**41.** Councils and IJBs need to develop longer-term financial strategies and plans for social work services, taking into consideration the above financial pressures. For example, they need to assess the affordability of options for changing the way they deliver services, so that elected members can consult the public and make informed decisions. Some of the councils we visited had already done this. For example, West Lothian Council had detailed projections of cost pressures for the client groups in social work and had considered the options available to meet those pressures depending on the level of funding available.

# Part 2

## How councils are addressing the challenges



### Key messages

- 1 Councils have adopted a number of strategies to achieve savings. They have tightened eligibility criteria so that fewer people receive services and targeted funding to people in greatest need. They have also achieved significant savings in the cost of homecare and care homes through competitive tendering and the national care home contract.
- 2 Current approaches will not be sustainable given the scale of the challenge, and there are risks that reducing costs further could affect the quality of services. Fundamental decisions are required on long-term funding and social work service models for the future.
- 3 There has been a limited shift to more prevention and different models of care. Many councils have taken an opportunistic or piecemeal approach to changing how they deliver services, often to meet financial challenges or as the result of initiative funding by the Scottish Government.
- 4 Opportunities for people who use social work services and carers to be involved in planning services are limited. There is scope for councils and IJBs to do more to work with them to design, commission, deliver and evaluate services to achieve better outcomes. Service providers also have an important role to play in commissioning services, and councils are not doing enough to work with them to design services based around user needs.
- 5 People who use services and their carers value the support they get from social work and social care services. Our focus groups had a number of concerns about homecare, such as shorter visits and people using services seeing a number of different carers.
- 6 The Scottish Government's Living Wage commitment provides an opportunity to improve recruitment and retention of social care staff, and to create a more stable skilled workforce. But it adds to the financial pressures on councils and providers.

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**fundamental decisions are required on long-term funding and social work service models for the future**

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### Councils, COSLA and the Scottish Government have agreed approaches intended to address major long-term pressures

42. Social work services operate within a number of national strategies, developed by the Scottish Government and councils that are intended to

respond to the major challenges set out in [Part 1](#), such as demographic change, personalisation and prevention. These include:

- **Social Services in Scotland: a shared vision and strategy for 2015-2020** – this builds on the *21st Century Social Work Review* published in 2005. It covers the whole of social work and its aims include:
  - encouraging a skilled and valued workforce
  - working with providers, people who use services and carers to empower, support and protect people
  - a focus on prevention, early intervention and enablement.<sup>36</sup>
- **The 2020 Vision for Health and Social Care in Scotland** envisages that by 2020 people will live longer healthier lives at home, or in a homely setting and that Scotland will have an integrated health and social care system with a focus on prevention and supported self-management.<sup>37</sup>
- **Reshaping Care for Older People (RCOP)** – a ten-year change programme focused on giving people support to live independently in their own homes and in good health for as long as possible. In 2011/12, the Scottish Government introduced the Change Fund, totalling £300 million to 2014/15, specifically to develop this area of policy.<sup>38</sup>

**43.** Our report, *Reshaping care for older people* commented on slow progress of RCOP and the need to monitor its impact. It also reported that initiatives are not always evidence-based or monitored and that it was not clear how councils would sustain and expand successful projects.<sup>39</sup> Our report *Changing models of health and social care* concluded that 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 not widespread.<sup>40</sup>

## Councils have changed eligibility criteria to reduce the number of people who qualify to receive services to balance their budgets

**44.** Councils have a statutory duty to assess people’s social care needs. If they assess a person as needing support and eligible to receive services, they must provide or pay for services to meet these needs.<sup>41</sup> If people are eligible for support, the Social Care (Self-Directed Support) (Scotland) Act 2013 also requires councils to offer people a choice of four options in how their social care is provided:

- a direct payment – this allows people to choose how their support is provided, and gives them as much control as they want over their individual budget
- direct the available support – the person asks others to arrange support and manage the budget
- the council arranges support – the councils choose, arrange and budget for services
- a mix of all the above options.

**45.** To balance their budgets, councils prioritise funding and staff to those people most in need by setting eligibility criteria and assessing each person’s needs against these criteria. Councils have discretion on the thresholds for care they use locally. The level set in each council will depend on the resources available and



**I have a say about who is on my team. I got to meet them and do interviews. I did the questions in advance.**

Service user, young person with physical disabilities

on the council’s policies and priorities. Councils assess people’s needs using a common framework of four eligibility levels:

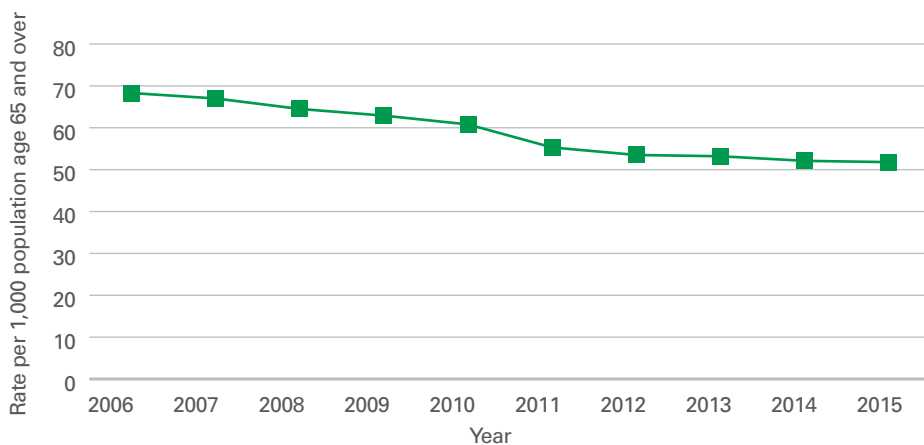
- **Critical Risk (high priority)** – Indicates major risks to an individual’s independent living or health and wellbeing likely to require social care services ‘immediately’ or ‘imminently’.
- **Substantial Risk (high priority)** – Indicates significant risks to an individual’s independence or health and wellbeing likely to require immediate or imminent social care services.
- **Moderate Risk** – Indicates some risks to an individual’s independence or health and wellbeing. These may require some social care services that care providers manage and prioritise on an ongoing basis, or they may simply be manageable over the foreseeable future with ongoing review but without providing services.
- **Low Risk** – Indicates that there may be some quality of life issues, but low risks to an individual’s independence or health and wellbeing with very limited, if any, requirement for social care services. There may be some need for alternative support or advice and appropriate arrangements for review over the foreseeable future or longer term.<sup>42</sup>

46. Because of funding pressures, most councils now only provide services to people assessed as being at critical and substantial risk. Focusing services on people with higher levels of need resulted in a reduction in the percentage of older people receiving homecare between 2006 and 2015, from just under 70 per 1,000 population to 50 per 1,000 (Exhibit 8). Of the councils we visited, only West Lothian still provides services to people assessed as at moderate risk.

### Exhibit 8

#### Proportion of people aged 65+ receiving homecare, 2006 to 2015

The proportion of people aged 65 and over receiving homecare has fallen from just under 70 per 1,000 to just over 50 per 1,000.



Source: Expenditure on Adult Social Care Services, Scotland, 2003-04 to 2013-14, Scottish Government





**47.** Because most councils no longer provide services to people in the two lower risk eligibility criteria, and because of the considerable financial and legislative changes in social work since the current framework was developed, it may be an opportune time for COSLA and councils to review the framework to ensure that it is still fit for purpose.

**48.** Some councils have also limited the level of service they provide in some areas. Examples from our fieldwork include reducing the length of carer worker visits, providing ready meals and frozen meals, with one hot meal per day (leaving snacks for other meals) and restricting showers to once or twice a week for some people.

### **Councils are finding it hard to fund a strategic approach to prevention**

**49.** Developing a strategic approach to prevention is essential for councils to sustain provision of social services. In 2011, the Christie Commission concluded that Scotland needed to 'devise a model of public services that is both financially sustainable and is capable of meeting the significant longer-term challenges'. It also proposed that a radical shift towards preventative public spending was essential. In September 2011, 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.<sup>43</sup> Central to the vision is a focus on prevention, anticipation and supported self-management. The Scottish Government also set up change funds to stimulate prevention work, specifically in the areas of early years, re-offending and re-shaping care for older people.

**50.** Councils, IJBs and other stakeholders all believe that prevention is the key to meeting the growing demands for social work services within finite resources. However, the councils we visited varied in how well they are developing and implementing preventative strategies. Some, including West Lothian and East Renfrewshire, have a strong focus on prevention, for example they maintain prevention budgets and build prevention into how they plan and provide services. Councils cited various challenges to shifting service models towards prevention:

- a lack of funding because resources are locked into current service models to meet existing demands and savings may not materialise for several years after implementation
- a lack of social worker time – a concern that social work has become crisis based
- managing relatives' expectations – for example, some relatives prefer the council to provide a full care package of residential care rather than have their relation go through a re-ablement programme to allow them to live more independently at home
- community resistance – for example, opposition to closing a local hospital or care facility to free up funding for more accessible community-based care
- cultural differences between councils and the NHS – a common perception among a number of social workers in our focus groups is that the NHS is more risk averse and less used to giving staff responsibility to take the initiative on the care of individuals.



**I had an OT (occupational therapy) assessment, and social work and they gave me 15 minutes of care. It's really not enough time. It's the choice between getting washed or getting dressed**

Service user,  
physical disabilities

**51.** Councils have commonly adopted some prevention initiatives, most of which are effective in the short term, but examples of long-term initiatives are more limited. Common prevention activities included:

- **Re-ablement** – involves encouraging people using services (often people leaving hospital) to develop the confidence and ability to live more independently and be less reliant on social care. This is usually a six-week programme of intensive help; it commonly results in people requiring less or even no ongoing support. Glasgow City Council found that 30 per cent of clients had no further need of a service following a period of re-ablement. The change fund initially funded this project but the council now funds it as the savings justify the investment.
- **Using technology** to enable people to continue living in their own homes for longer and to give reassurance to their carers and families. All councils provide a community alarm service. More advanced telecare systems use movement sensors and smoke detectors to alert the service to potential problems or prompt people to take medication. For example, West Lothian Council uses technology to help people with dementia, their families and carers manage issues that may arise in and around the home. Examples include:
  - a GPS device to help relatives or carers to find a vulnerable person if they get lost
  - extreme temperature and flood sensors fitted in kitchens
  - sensors to alert a carer when the person gets out of bed
  - removable sensors, called 'just checking', placed at doorways to monitor movement and assess lifestyle patterns.
- **Early intervention for children and families** is another widely implemented approach. Social work services work with relevant partners to support children and families at risk of needing support that is more intensive in future, or with older children at risk of becoming an offender. Midlothian Council attributed a significant drop in the number of their children on the child protection register from 158 in 2011 to 29 in 2015, at least partially, to early intervention and prevention work.<sup>44</sup>
- **Restricting out of area service for looked-after children** – out of area placements tend to involve young people with troubled histories and challenging behaviour and children with significant learning disabilities. Some out of area placements will be the most suitable for a child, such as where the child has complex treatment needs that the council cannot meet or to ensure they can be effectively safeguarded. However, such placements are very expensive (weekly fees to independent providers range from £800 to £5,500) and can have negative consequences. For example, children may try to run away, putting themselves at risk, and children away for long periods will lose contact with their peers and find it difficult to re-integrate into the local community when they leave care.<sup>45</sup> Our fieldwork councils reported that keeping children local to their communities, for example in supported foster placements, could achieve better outcomes for children and achieve considerable financial savings for the council.



**I have a feature that picks up if I get out of bed for too long, in case I've fallen in the night. I like to get up and wander about if I can't sleep, and then there is this booming voice asking if I am OK! It's a first class service.**

Service user, older person

### Councils need to measure the impact of prevention initiatives more systematically

**52.** Measuring and evaluating the success of prevention work is difficult. By its very nature, it is not easy to quantify what has not happened because of

prevention. It is also hard to attribute outcomes to specific courses of action in an environment where many factors are involved. Even so, councils do not always systematically evaluate initiatives, and there is a risk that opportunities for improvement, making savings or stopping ineffective activity are lost. Councils and IJBs should bring together information on the evaluation of successful prevention initiatives. They can use this to make long-term strategic investment decisions towards prevention as a key part of their long-term budget planning, rather than relying on short-term initiative funding as at present. Prevention needs to be seen as an integral part of councils' and IJBs' overall long-term strategies for services they can continue providing over the long term, rather than an add-on financed by short-term funding.

**53.** In our fieldwork, we found examples of successful evaluation. An evaluation of Glasgow's Recreate service to support ex-offenders found that in 2014/15 it generated a Social Return on Investment of between £6.14 and £9.54 per £1 invested ([Case study 1](#)).<sup>46</sup>

## Case study 1

### Glasgow Recreate



This service gives ex-offenders the chance to volunteer for up to six months in meaningful roles where they gain new skills and experiences to help them to move forward in their life. Volunteers can access various opportunities, including landscaping and gardening, painting and decorating, retail and warehousing, and woodwork.

With the support of skilled tradespeople, they work on projects for organisations such as community groups, charities, housing associations, and Glasgow Land and Environmental Services. Each volunteer has a dedicated mentor who helps them to access additional volunteering opportunities, housing support, employability services, and money advice and make positive changes in their personal life. They also help volunteers to complete CVs, identify training and development needs, and set goals to help them become more work-ready to help them break the cycle of re-offending.

Volunteers benefit from rail, bus and subway travel, lunch, gym membership, training and development, information about other organisations, and employment support. During 2015/16, there were 58 volunteers in the scheme (up from 34 in 2013/2014), 57 per cent of whom moved into employment. Ninety-six per cent of participants did not re-offend and of those who did, the frequency and severity of the offending was reduced.

Source: Glasgow City Council



**Recreate is a good mix of volunteering, learning and mentoring. I worked hard and it paid off.**

Recreate volunteer

**54.** Some councils are learning from experience elsewhere to tackle particular issues. For example, East Renfrewshire Council visited Shropshire County Council to explore how it developed a community-led social work service. It has agreed to be one of three organisations that will pilot the programme in Scotland. There is scope for councils to do more to look at what others are doing, nationally and internationally, and share experience and learning.

## Councils have achieved savings through competitive tendering

### Councils purchased around £1.6 billion of services in 2014/15

**55.** Currently, councils spend around £1.6 billion a year on outsourced social care services, roughly two-thirds to the private sector and a third to the third sector ([Exhibit 9](#)). Spending on private sector services is mainly to provide homecare, residential care and nursing homecare for older people (£800 million). Most third sector spending is to provide services for children with disabilities (£244 million). Larger providers provide services across a large number of councils and are in a good position to identify good practice.




**56.** In procuring services, councils need to take into account the long-term financial viability of care providers. Providers could be put at risk by a combination of several factors, including:

- a fall in the number of care home residents
- increased paybill costs because of knock-on impacts of Living Wage
- increased uncertainty following Brexit may make it difficult for private sector providers to finance capital investment, such as building or refurbishing care homes.

## Exhibit 9

### Breakdown of contracted out social care spending by sector, 2014/15

Most private sector services are for adults while the third mostly sector provides services for children.

		Third sector £'000	Private sector £'000	Total £'000	
<b>Social care adult</b>		Day care	43	1,156	
		Homecare	18,290	279,693	
		Mental health services	14,297	27,272	
		Nursing homes	19,273	337,649	
		Residential care	1,883	219,962	221,845
<b>Social care children</b>		Adoption	23,208	59,079	
		Childcare services	49,481	79,698	
		Domestic violence	3,229	44,740	
		Children with disabilities	243,878	17,831	261,708
<b>Social care other</b>			195,945	112,363	308,308
<b>Total</b>		<b>569,527</b>	<b>1,051,621</b>	<b>1,621,148</b>	

Note: 'Other' includes advice and counselling services, advocacy service providers, alcohol and drug rehabilitation, community centres, community projects, disability and special needs service providers.

Source: Spikes Cavell database

**57.** Councils and Scotland Excel need to monitor the financial health of providers as part of their contract monitoring activity. The failure of a provider could have significant consequences for care services as well as people who use care services because Section 12 of the Social Work (Scotland) Act 1968 places a duty on Scottish local authorities to provide or arrange care for any individual in their area who requires assistance in an emergency.

### Competitive tendering has reduced the cost of homecare

**58.** Councils have achieved significant financial savings through outsourcing services such as homecare to the private and third sectors through competitive tendering and re-tendering contracts. The percentage of homecare provided directly by council staff has fallen steadily, both in terms of the number of clients served and the number of hours provided ([Exhibit 10, page 32](#)).

**59.** Between 2010/11 and 2014/15, the average cost of providing homecare to people aged over 65 fell by 7.2 per cent in real terms, to £20.01 per hour.<sup>47</sup> An unintended consequence of driving down spending is increased staff turnover, as private and third sector providers employ staff on poorer terms and conditions than some other large employers or councils.

**60.** Third sector and private sector providers in our focus groups described some councils' procurement processes as inefficient and wasteful. They highlighted inconsistencies in how councils used framework agreements. These are agreements with suppliers to establish the terms that will govern contracts that councils may award during the life of the agreement.<sup>48</sup> Some private sector providers were concerned that they had invested time and money in signing up to frameworks, only to find that councils did not use their services.

### Councils have made savings in the cost of care home services

**61.** The National Care Home Contract sets out the cost to councils of care home placements into private or third sector care homes. COSLA negotiates the fee structure annually with the representative bodies for private and third-sector providers in Scotland.<sup>49</sup> These bodies are Scottish Care and the Coalition of Care and Support Providers in Scotland. The contract includes an additional payment for care homes doing well in Care Inspectorate assessments, with penalties for poorly performing homes.

**62.** Between 2006 and 2015, the number of residents in older people's care homes decreased by two per cent (from 33,313 to 32,771).<sup>50</sup> The net cost of residential care (gross expenditure on care homes minus income) to councils has been falling. Between 2010/11 and 2014/15, the weekly residential costs to councils for each resident aged 65 or over fell by ten per cent in real terms to £372.<sup>51</sup>

**63.** The pattern of service provision has changed, with an increase in private sector provision and a fall in other sectors. Between 2006 and 2015, the change in the number of older people in residential care in each sector was:

- private sector – increased by five per cent (24,568 to 25,700)
- local authority/NHS – decreased by 23 per cent (4,876 to 3,747)
- third sector – decreased by 14 per cent (3,869 to 3,324).<sup>52</sup>



**Too many (paid) carers – regular new carers needing shown ropes again! Gah!!**

Unpaid carer

**64.** The percentage of adults in care homes who mainly pay for their own care is increasing; the percentage increased from 22 per cent of residents in 2006 to 27 per cent in 2015.<sup>53</sup> In 2015, the average gross weekly charge for people who paid for their own care was £708, compared with the average weekly fee for publicly funded residents of £508.<sup>54</sup>

**Service providers want to be more involved in commissioning services**

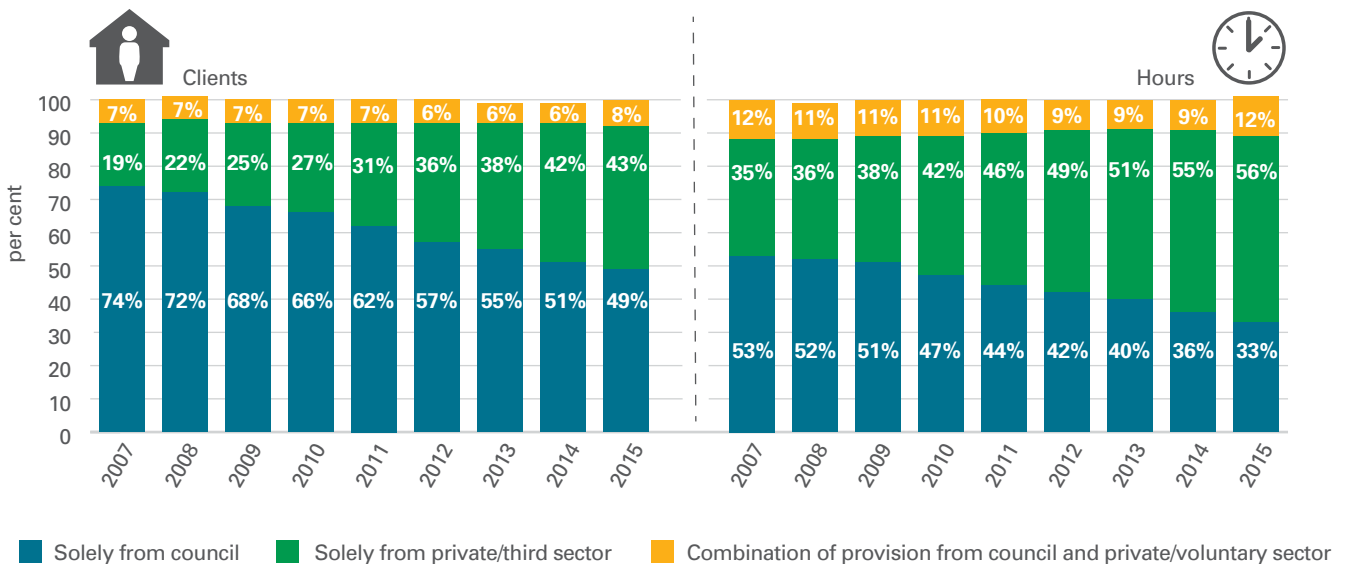
**65.** Commissioning social care is about how councils, NHS boards and others work together to plan and deliver services that will meet future demands and use resources, such as money, skills and equipment effectively. Jointly planned investment in home or community-based social care can save spending on unnecessary, and relatively expensive, hospital or residential care, and encourage innovation. The Christie Commission concluded that it is particularly important to:

- work closely with individuals and communities to understand their needs, maximise talents, resources, and support self-reliance, and build resilience
- recognise that effective services must be designed with and for people and communities – not delivered ‘top-down’ for administrative convenience
- maximise scarce resources by using all available resources from the public, private and third sectors, individuals, groups and communities.

**Exhibit 10**

**The share of homecare provided by councils and the private/third sector, 2007 to 2015 (all ages)**

Homecare provided directly by councils has fallen steadily over the past ten years.



Note: Of data limitations, the SSSC cannot provide an accurate estimate for turnover. However, they are able to calculate a 'stability index' of staff who are still in post after a year. If the index is 90 per cent it means that 10 per cent of staff present at the start of the period are no longer present. It is important to note that this does not mean that turnover is 10 per cent as the measure excludes staff who joined and left within the period under consideration.

Source: Social care services, Scotland, 2015, Scottish Government, December 2015

**66.** Councils have a challenging task to manage the market for providing services in their local area. There are potential tensions around making savings while ensuring high-quality services at a fair cost in an environment of increasing demand and financial pressures. There are risks to the quality of services if councils continue to drive down costs at the rate they have in the past without changing how they provide services.

**67.** Service providers from our focus groups who work across more than one council area found that different councils have different processes, procedures and attitudes to partnership working. They identified commissioning and procurement as common areas for improvement. In particular they felt that councils should:

- ensure they have staff with the appropriate skills for commissioning, such as financial planning and managing contracts, and be open in commissioning and contract decision-making processes. Some participants complained about unnecessary bureaucracy, noting gaps in expertise and risk appraisal and a lack of awareness of the challenges facing providers, for example the cost of employing qualified and experienced staff
- collect evidence about the effectiveness of all services (both in-house and external) and use this evidence in planning and decision-making. Councils face difficult choices, but providers felt councils sometimes protected their in-house services and workforce while cutting externally provided services, without comparing cost-effectiveness
- improve partnership working and relationships with providers. Although there were pockets of good practice, providers suggested that councils needed to work more collaboratively to provide stability to both those who provide and those who use services
- involve providers more in assessing and designing services, taking advantage of the experience and knowledge of good practice that larger providers have gained from working with councils across the UK.

**68.** One innovative example we identified was the Public Social Partnerships (PSP) approach used at East Renfrewshire Council ([Case study 2, page 34](#)). PSPs are strategic partnering arrangements, based on a co-planning approach. In this instance, the council worked with third-sector organisations and people who use services to share responsibility for designing services based around the needs of those who use them. Once designed, the council can then commission the service for the longer term. Several service providers in our focus groups mentioned the inclusive approach taken by East Renfrewshire Council as an example of good practice in commissioning services. It is important that councils have effective means of sharing good commissioning practice and working with practitioner groups within national organisations, such as COSLA and Social Work Scotland.



**Some councils think 'out of the box', others are in a box with a very large padlock!**

Service provider



**We are left out of planning discussions while having to deal with the consequences of decisions made by councils.**

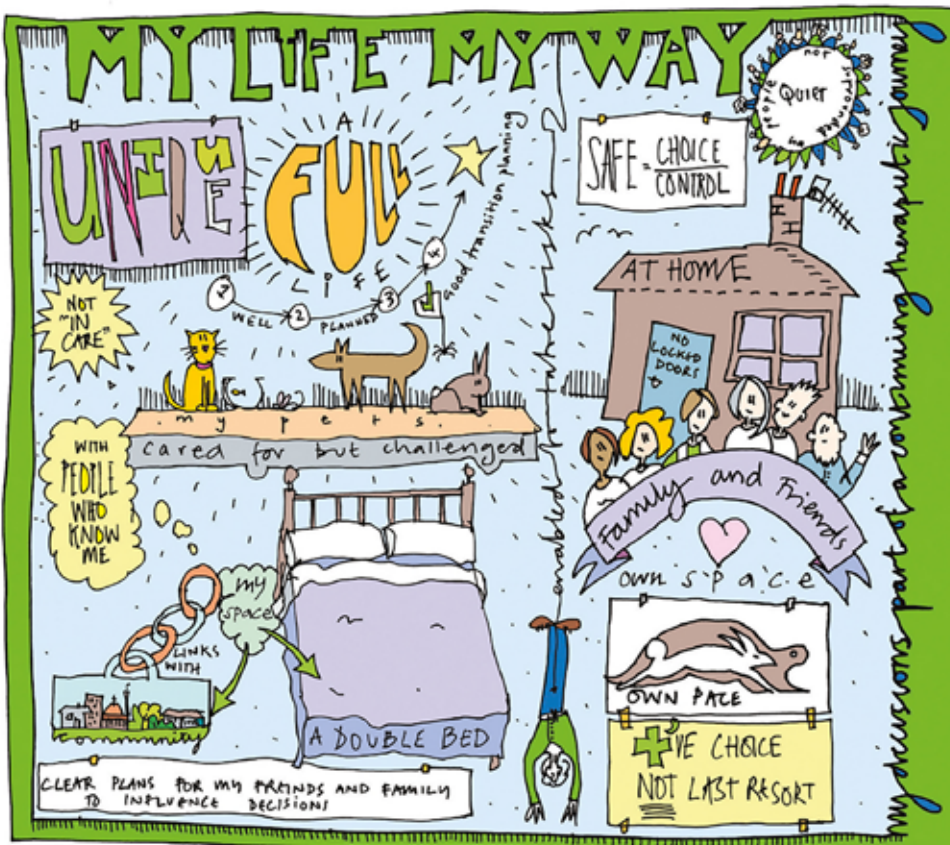
Provider focus group

## Case study 2

### East Renfrewshire Council: innovation in commissioning services



The Public Social Partnerships approach is a two-year funded programme, supported by the Scottish Government and designed to develop creative ideas for meeting the needs of people in, or about to enter, residential care. The partnership is across sectors and between people who use services. It is designed to develop thinking and support innovation. Participation in the project also helps to build resilience in people and communities by focusing on what people want rather than the services they currently receive. The illustration below describes one of the outputs from the process showing a visualisation of residential care from the point of view of someone who uses services.



Source: East Renfrewshire Council

### People who use services, and carers, would value being more involved in planning how services are provided

69. The Christie Commission recognised the importance of people being involved in designing services to meet their needs. This approach is now supported by legislation such as the Community Empowerment (Scotland) Act 2015 and the Carers (Scotland) Act 2016.



**70.** People in our focus groups, both carers and people using services, valued the support they receive from social work services. Several said that without support they would not be able to cope or maintain employment. Feedback from our survey of 165 people indicated that the type of service provided determined whether service users felt able to influence their service delivery. For example, where service users had one-to-one support or had close relationships with staff in sheltered accommodation, they felt confident about influencing the service.

**71.** However, a significant number of service users felt that they had little influence over their social care provision. Some had concerns about speaking up in case the care they received was reduced or changed. Others, particularly older people, didn't want to hurt the feelings of the people providing care. While some had experience of raising issues with care providers and services being adapted accordingly, others found that no steps were taken to rectify issues. Some service users then felt care providers did not listen to them. Carers were more likely than people who use services to speak up if they were concerned about any aspects of the service delivery, but carers felt that care professionals did not treat them as partners.<sup>55</sup>

**72.** People who use social work services, and their carers, are very diverse, with differing needs. Although it is not easy to do, it is important that councils seek views and provide opportunities for involving as wide a range of people as possible in planning services or changing how they are provided. However, we found limited opportunities for people to be involved. Most of the six fieldwork councils involve representatives of both people who use services and carers in planning groups. For example, Perth and Kinross Council includes carer representatives on its multidisciplinary Carers Strategic Group. However, we found less evidence of people who use services and carers being involved more extensively in designing services.

**73.** Midlothian Council is one example where people who use services and carers are represented on joint planning groups, such as the Joint Older People's Planning Group that developed the Midlothian Joint Older People's Strategy 2011-15. A recent tender exercise for Care at Home in Midlothian included volunteer carers assessing all submissions, interviewing and final scoring. However, carers and people who use services generally have little involvement in commissioning or tendering, and there is scope to do more.

**74.** All of our fieldwork councils have a carers' strategy. All provide information for carers on their websites, including how and where to get help, which is usually through a carer assessment in the first instance. They also have partnerships with, or links to, other organisations and carers' centres in their area that provide information and support to carers. About half of the carers' centres are network partners of the national organisation Carers' Trust Scotland. Councils use various methods to collect the views of people using services, and of carers, including annual satisfaction surveys, carers' conferences and carer representatives on panels.

**75.** IJBs' membership must include a representative from people using services and a carer representative.<sup>56</sup> This is intended to ensure that carers have a role in planning and delivering of services delegated to IJBs. However, this alone is not enough to involve and consult the diverse range of people who use services and carers. Glasgow City Council has a carers' champion to represent the views of carers within the council ([Case study 3, page 36](#)).



**I feel very lucky to live in [local authority]. The services for disabled people are the best in Scotland compared to other areas. [Local authority] listened to what people wanted, like supported living and individually tailored support plans.**

Carer



**Mental health services don't always recognise the carer input until they need them!**

Carer



**Everything is subject to funding therefore there is no consistency. Carers' centres need to be funded so that their services are ongoing.**

**Carer centre staff saved my life.**

Carers

## Case study 3

### Glasgow City Council's Carers' Champion



Glasgow City Council's Carers' Champion represents the collective views of the city's unpaid carers within the council and speaks independently on carer issues. His role includes raising the profile of unpaid carers across the council and its wider network of agencies while also helping to develop strategies and policies that will support carers.

Glasgow has also introduced a privilege card for adult carers living in Glasgow who provide care for a Glasgow resident. It entitles them to various savings including:

- savings as part of Glasgow Life's concessionary discount scheme
- 20 per cent discount at a range of cafes in venues, such as art galleries and museums
- 20 per cent off City Parking multi-storey car parks
- discounts at certain cinemas and other commercial outlets.

In July 2015, Glasgow evaluated its Glasgow Carers Partnership, which includes Glasgow City Council, NHS Greater Glasgow and Clyde and voluntary sector organisations supporting carers within Glasgow. The council will use the resulting report and recommendations in planning and investment in carer services.

Source: Glasgow City Council



**I had a procedure in hospital and I was in and out the same day, but the carer came to take me to hospital and came back at midnight to take me home. It was above and beyond.**

Service user, physical disabilities

### Some people we surveyed who use a homecare service were unhappy with the quality of their service

**76.** Between 2010/11 and 2014/15, the percentage of adults satisfied with social care or social work has fallen from 62 per cent to 51 per cent.<sup>57</sup> Our survey of 165 people who use services and of carers found that views on homecare dominated their discussions about the quality of care. Generally, participants with positive experiences of their current service provision highlighted some of the following factors:

- the importance of respectful and flexible carer workers
- good relationships with carer workers
- the ability to influence service delivery through self-directed support
- good timekeeping.

**77.** However, there were many examples of people not happy with their service experience. Common issues identified across all five local authority areas covered included:

- **Length of time a care worker spends with the person** – Most said that the care worker would be in their home for 15–20 minutes at a time. Many reported that this was not enough time to provide good quality care.



**I did have [care company], and I got 15 minutes, so I had a choice between having breakfast and them running a bath for me to have on my own once they'd gone, or a shower with no breakfast.**

Service user, physical disabilities

- **Timekeeping** – People who receive homecare discussed their experiences of homecare staff arriving earlier or later than expected. People we spoke to were frustrated at the homecare staff's timekeeping and poor communication.
- **Flexibility of role (undertaking tasks)** – Most people felt that the quality of care they received was affected by the limited flexibility of homecare staff in undertaking other household tasks.
- **Meals** – A large number of people receiving homecare and carers were not satisfied with the quality of the meals.
- **Trained homecare staff** – Others questioned the skills of some homecare staff. Their experience was that the homecare staff did not know how to handle them, or use equipment safely.

### Paying care staff the Living Wage could help to reduce problems recruiting care staff, but may create other risks for providers

**78.** The Scottish Government's Living Wage commitment provides clear benefits for low-paid workers. However, increases in employee costs and contract costs will put pressure on councils' and service providers' finances. There are a number of risks with the current approach:

- The Scottish Government has no powers to enforce the Living Wage commitment; the UK Government reserves the power to set and enforce the legal minimum wage. The legal minimum wage across the UK is £7.20 for people aged 25 and over. The Living Wage is £8.25.
- There is a risk that providers operating across the UK may choose not to pay the Living Wage in Scotland.
- There is a risk that this could lead to unsustainable paybill increases. As well as increasing wages, National Insurance contributions and pension contributions will also rise, and service providers will need to maintain wage differentials. A recent survey of independent providers found that almost all will struggle to fund increases to £8.25 an hour. Future rises in the Living Wage may increase this pressure.
- Where councils have awarded contracts based on price before the adoption of the Living Wage, there is a risk that contractors who lost contracts, but who already pay wages at or above the living wage (and offering higher quality services) may ask councils to re-tender contracts.

**79.** Applying the Living Wage also provides significant opportunities to better manage the staffing issues we describe in [Part 1](#). Reduced staff turnover could potentially offset increased costs and provide an opportunity to improve staff skills. It could also make it easier to create a career structure for care workers and an opportunity to specialise, for example in providing services for younger people with particular disabilities, or for older people suffering from dementia.

**80.** Comhairle nan Eilean Siar and Perth and Kinross council felt there were particular challenges in recruiting suitably qualified staff to deliver services in isolated rural areas. In Eilean Siar, the council has set up college courses to encourage young people to view care as a worthwhile career option ([Case study 4, page 38](#)).



**Sometimes they're late and sometimes they don't come at all.**

Service user,  
learning disabilities



**Many people felt it was very important to have some continuity of care worker in terms of safety and building a rapport, but this was lacking. Just depressed at so many different (paid) carers coming in at all different times.**

Carer



**She gave me a fish pie and it was cold in the middle. She said she didn't have time to do it again, so I had to ask her to make me an omelette."**

Service user,  
older person

## Case study 4

### Comhairle nan Eilean Siar: developing a stable workforce



Comhairle nan Eilean Siar faces major demographic change over the next 20 years including a projected 19 per cent decline in the working age population and a 19 per cent increase in the over 75 population. There are also a high number of single person households with no family carers available. To help arrest the decline in working age population through migration, the council has developed a project to make being a care worker a viable and attractive career for young people leaving school, as well as adults looking at career options. There are four programmes:

- **Pre-Nursing Scholarship:** developed to encourage people to take up a nursing career locally and part of a national initiative to increase the nursing workforce. A critical aspect of this programme is the facility to provide equitable access to learning across the Western Isles in rural and remote locations.
- **Prepare to Care:** This course aims to qualify and prepare students for employment, further training, or both of these, within health and social care by developing the knowledge, skills and understanding required to work in the care sector.
- **Senior Phase SVQ2 Pilot:** Provides flexibility in terms of work-based assessment across health and social care and equips young people to work in the community. The newly revised Social Care and Health SVQ2 is being piloted with young people in Uist and Barra by Cothrom in partnership with the council and NHS Western Isles.
- **Foundation apprenticeship:** Skills Development Scotland selected the council's Education and Children Services department as a pathfinder authority for the senior phase vocational pathway development in Health and Social Care.

Source: Comhairle nan Eilean Siar

**81.** As explained in [Part 1](#), the recruitment and retention of suitable staff is a significant problem across the care sector. Councils and providers need to work together and with the Scottish Government on long-term planning to ensure there is an effective, well-trained sustainable workforce to meet future demand. The Scottish Government has commissioned work to identify the recruitment and retention challenges facing the sector and assess whether there is a case for a national workforce-planning tool. In addition, the Scottish Social Services Council (SSSC) is working with partners to develop career pathways within social care. The first is to develop foundation apprenticeships, a vocational pathway to enable young people to experience work in the care sector and encourage care as a positive career choice.



**The girls that came in didn't know how to use a stand aid, and they couldn't do manual lifting.**

Service user,  
physical disabilities

# Part 3

## Governance and scrutiny arrangements



### Key messages

- 1 The integration of health and social care has resulted in complex and varied governance arrangements for social work services. Elected members have important leadership and scrutiny roles, but there are risks that increased complexity could lead to members not having an overall view of social work. At a time of great change, it is essential that elected members assure themselves that the quality of social work services is being maintained and that councils are managing risks effectively. It is important that elected members receive training and guidance on the operation of the new governance arrangements and that elected members not involved in the IJB are fully informed about its operation.
- 2 The key role of the chief social work officer (CSWO) has changed significantly in recent years and there are risks that CSWOs may have too many roles and have insufficient status to enable them to fulfil their statutory responsibilities effectively.
- 3 There is scope for councils and their community planning partners to do more to promote and empower communities. This includes working with them to design, commission, deliver and evaluate services to achieve better outcomes, and to build capacity to allow communities to do more to support themselves. Elected members need to play a key role engaging with communities in a wider dialogue about council priorities.

elected members need to play a key role engaging with communities in a wider dialogue about council priorities

### Social work governance and scrutiny arrangements are more complex because of health and social care integration

**82.** Councils' responsibilities in relation to social work are set out in the Social Work (Scotland) 1968 Act. The Act's provisions include promoting social welfare, caring for and protecting children, supervising and caring for people put on probation or released from prison and the children's hearings system.


**83.** Under the Public Bodies (Joint Working) (Scotland) Act 2014, councils and NHS boards are required to create integration authorities. These are responsible for the governance, planning and resourcing of adult social care services, adult primary care and community health services and some hospital services. Governance describes the structures, systems, processes, controls and behaviours by which an organisation manages its activities and performance. The Act also allows councils and NHS boards to integrate other areas of activity, such as children's health and social care services and criminal justice social work.

**84.** This means that councils delegate to the integration authority (IA) their responsibility for strategic planning for adult social services and for any other services they decide to include. Councils still carry the ultimate responsibility for the delivery of social work services in their area and elected members need to assure themselves that the council is meeting its statutory responsibilities.

**85.** IAs are responsible for planning and commissioning functions delegated from the local council and NHS board. IAs can adopt one of two main structures. All areas except the Highland Council area are following the body corporate model. Under this, they have created an Integration Joint Board (IJB) to plan and commission integrated health and social care services in their areas. Highland is following the lead agency model, 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. IJBs are local government bodies, as defined by Section 106 of the Local Government (Scotland) Act 1973. Councils and NHS boards delegate budgets to the IJB. The IJB decides how to use these resources to achieve the objectives of its strategic plan. The IJB then directs the council and NHS board to deliver services in line with this plan.

**86.** Councils have adopted various arrangements for integration. Nine councils integrated children's social work services within the IJB and 16 councils integrated social work criminal justice services.<sup>58</sup> The following arrangements were adopted by our fieldwork councils:

- Midlothian Council and Comhairle nan Eilean Siar include criminal justice but not children's social work services.
- East Renfrewshire Council and Glasgow City Council include both children's social work and criminal justice social work services.
- West Lothian Council and Perth and Kinross Council only include adult services.


**87.** The governance and scrutiny arrangements in four of our fieldwork councils (Comhairle nan Eilean Siar, Glasgow, Perth and Kinross and West Lothian) are included in [Supplement 3](#) . These illustrate the variety and complexity of arrangements now in place within councils.

**88.** At the time of our fieldwork, governance arrangements were still under discussion. Council chief executives were clear that accountability lies with the council for services delegated to the IJB because, under legislation, the council retains statutory responsibility for delivering social work services. But we have previously highlighted the risk that ultimate responsibility might lie with IJBs, which plan and direct councils and NHS boards in how services are to be delivered.<sup>59</sup> 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 of the IJB is clear about how this joint accountability will work in practice.

**89.** Accountability arrangements for the IJB chief officer are complex. 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 council and NHS board for any operational responsibility for integrated services, as set out in the integration scheme.

**90.** Governance and scrutiny arrangements for IJB and non-IJB services within our fieldwork councils varied, even where the same services are included within


the IJB's remit. For example, in East Renfrewshire, scrutiny of performance happens within the IJB Audit and Performance Committee and an annual report is presented to the Council. While Comhairle nan Eilean Siar concluded that appropriate scrutiny could be provided within its existing council committee structure and that a separate mechanism for IJB functions was not required.

**Supplement 3**  shows the variation in integration arrangements in four of our fieldwork councils. Whatever model councils choose, elected members need to assure themselves that the scrutiny arrangements are working effectively.

**91.** As governance and scrutiny arrangements for social work were still in transition at the time of our fieldwork visits (some changes were implemented in March 2016), it is too early to make judgements as to whether there are duplications or gaps in scrutiny. Councils indicated that they would review arrangements if they did not appear to be working effectively. Our fieldwork highlighted a number of potential risks. These include:

- the potential for an overall view of governance being lost when social work services (and budgets) are split, for example between education and children's services and the IJB
- a focus on health and adult services could restrict discussion of children's services and, in particular, criminal justice services on IJB scrutiny committees.

**92.** Council representation on the IJB is generally four or five senior elected members (around ten per cent of elected members), usually including the leader of the council and a senior opposition member. This means that a small subset of elected members of the council and members of the NHS board will be responsible for social work governance and scrutiny within the IJB and its committees. There is a risk that the majority of elected members could feel excluded from social work decision-making and scrutiny. There is also a risk that this arrangement leaves responsibility for governance and scrutiny with a small number of very busy elected members. Councils have set up a variety of mechanisms to ensure they keep all elected members informed. For example, Comhairle nan Eilean Siar and the IJB will hold at least two meetings a year with the wider membership of the council and NHS Western Isles.

**93.** It is important that elected members receive training and guidance on the operation of the new governance arrangements. The Scottish Government has produced guidance on the roles, responsibilities and membership of the Integration Joint Board.<sup>60</sup> COSLA is working with the Improvement Service and the Scottish Government to support elected members who do not sit on IJB boards to help them fulfil their role, including councils' ongoing statutory duties. COSLA intends to produce an elected member briefing note focusing on councils' role and interests to ensure they are kept informed of the changes. It is also hosting workshops for elected members to share their experiences. We have included an elected member's checklist as **Supplement 4** . Elected members may wish to use the checklist to help them consider the effectiveness of the arrangements in their council.

### Health and social care integration may make strategic planning of services more difficult

**94.** Each IJB is required to produce a strategic plan that includes strategies for all the services delegated to it. We examined strategies for social work services in our fieldwork councils. Strategies are set out in various ways depending on the health and social care arrangements in each council. While the plans for integrated services were well developed, they are new and untested.

**95.** Where councils have chosen not to include services for children within their IJB, they usually continue to follow existing arrangements. For example, some align children's social work services with education, in education and children's services. In others, these services are part of an existing Health and Social Care Partnership Directorate. Strategies for services that are not within the IJB are set out in council plans such as the education and children's services plan.

**96.** Where criminal justice services are included within the IJB, strategies were not always as clearly set out. IJB plans generally included few references to criminal justice and some services did not have a specific criminal justice plan. Whether as part of the IJB or not, councils have, until now, worked in partnership with their Community Justice Authority (CJA) and contributed to its area and action plans. However, under The Community Justice (Scotland) Act 2016, CJAs will be abolished from 2017. Responsibility for community justice will transfer to community planning partnerships. It is important that under the new approach, strategies for criminal justice services are clearly set out as part of the IJB or community planning arrangements.

**97.** All the social work plans we examined demonstrate links to community planning. As members of the community planning partnerships, both IJBs and councils have signed up to local single outcome agreements (SOA) with the Scottish Government, and share the vision and priorities within these.

**98.** It is important that there are clear linkages between the planning of those services that are integrated and those that are not, for example the transition from children's services to adult services or between children's services and criminal justice. Planning for these transitions needs to be well coordinated to ensure a seamless service without overlaps or gaps in services, particularly where responsibility is split between the IJB and the council.

**99.** It is important that the scrutiny arrangements reflect the risks associated with managing transitions. Councils and elected members will need to ensure they have a strategic overview of the whole of social work service and ensure that strategy, budget arrangements, commissioning, procurement and workforce planning are coordinated at a council-wide level.

### **There is a risk that chief social work officers may become over-stretched**

**100.** The Social Work (Scotland) Act 1968 requires local authorities to appoint a single chief social work officer (CSWO) who must be a qualified social worker and registered with the Scottish Social Services Council. The CSWO should demonstrate professional leadership. They have a responsibility to highlight where a council policy may endanger lives or welfare and ensure that they provide councillors and officers with professional advice in relation to social work and social care services. The CSWO should have access to the chief executive and other senior managers, councillors and social work officers. The CSWO is one of five statutory officers in councils: that is, officers that each council is required to appoint by law.<sup>61</sup>

**101.** Scottish ministers issued revised guidance on the role of the CSWO in July 2016 to reflect the introduction of health and social care integration. This summarises the minimum scope of the CSWO role, recognising the diversity of the structures and partnerships that deliver social work services. The CSWO's responsibilities apply to social work functions whether delivered by the council or



**I'm happy with the services for my daughter but it was a hard fight over many years. As she moves to adult services, am I going to have to start fighting again? It worries me.**

Carer



by other bodies under integration or partnership arrangements.<sup>62</sup> The guidance states that management and reporting structures are a matter for councils. But if the CSWO is not a full member of the corporate management team, elected members must be satisfied that the officer has appropriate access, influence and support at the most senior level. We found consensus among elected members and chief executives that it is important that the CSWOs are senior enough to carry out their responsibilities effectively. However, the CSWO's position in the hierarchy, and the arrangements to allow them to contribute to decision-making, varied between councils.

**102.** When the CSWO role was combined with that of Director of Social Work, the ability to influence was clear. But councils have developed executive team structures and most no longer have a Director of Social Work. At present six CSWOs are at director level and 24 are heads of service, the tier below this, with one tier-three manager in a temporary acting up role. In addition, a large proportion of CSWOs are new to the role. A survey by Glasgow Caledonian University, in November 2015, found that over half had been in post less than three years, and nine for less than a year.

**103.** CSWOs have strategic and professional responsibility for social work, including monitoring service quality and professional standards. Good practice indicates this should be across the full range of a council's social work functions. Scottish ministers' guidance says the CSWO must have the power and authority to provide professional advice and contribute to decision-making in the council and health and social care partnership arrangements. However, the structure of social work provision has changed over time and CSWOs do not always have operational responsibility across all functions. For example, in Midlothian, the CSWO has operational responsibility for adult services but not for services for children or older people.

**104.** Integration does not change the CSWO's responsibility to provide professional leadership. However, some CSWOs expressed concerns that, where children's services and/or criminal justice sit within the IJB, health issues and adult care will dominate the IJB both in terms of the agenda and in terms of personnel. They were concerned that representation of these services on the agenda would be small in comparison to adult services.

**105.** Reporting lines for CSWOs always lie within the council and the establishment of IJBs does not change this. However, CSWOs now have an additional statutory, non-voting place as adviser to the IJB (or the Integration Joint Monitoring Committee in Highland's lead agency model). CSWOs need to establish good, effective working relationships with their IJB chief officer. CSWOs' roles vary across all thirty-one IJBs in terms of what they are accountable for. Integration means that those CSWOs who were previously responsible for adult social care services will lose direct responsibility for their management and budget.

**106.** Scottish ministers' guidance indicates that the CSWO must be visible and available to any social services worker, and ensure well-grounded professional advice and guidance on practice is available. Social workers in our focus groups generally felt that their CSWO was both visible and accessible, and felt confident about consulting them.

**107.** The ability of CSWOs to carry out their role effectively and not become too 'stretched' across multiple functions is a potential concern. CSWOs may have

to report to one or more council committees, sit on the IJB, and attend the council corporate management team or senior management team and the IJB management team, as well as undertake day-to-day service management roles. It is important for CSWOs to achieve the trust and confidence of councils' NHS partners in order to have an influence in decision-making. CSWOs had mixed views on whether their role within the IJB would have a negative impact on their visibility or accessibility to elected members and social workers. It is too early to see how effective new arrangements will be.

**108.** The statutory guidance requires all CSWOs to report annually to the council and IJB on all of the statutory, governance and leadership functions of the role and delivery of the council's social work functions. This applies however they are organised or delivered. A review of CSWO annual reports in 2013 found a lack of consistency in the content and format. After consultation with relevant individuals and groups, the chief social work adviser published guidance on the content and a template for the report. The CSWO annual report gives an opportunity for the CSWO to draw together all the important strands of their work and report on them to elected members. It should provide an opportunity for the CSWO to raise their profile with elected members and, more importantly, draw their attention to any potential concerns about social work or governance issues.

**109.** The CSWO reports we examined from our fieldwork sites generally followed the template, but varied in the amount and level of information included. For example, Glasgow's report for 2014/15 is more concise (nine pages long with links to relevant reports and strategies), with less detail included compared with Perth and Kinross (71 pages), which contains a lot of activity information and good practice examples. CSWO reports may be considered at various meetings including full council, relevant council committees or panels or the IJB. Social work performance is regularly scrutinised through council or IJB monitoring systems and scrutiny happens through monthly, quarterly or six-monthly performance reports at appropriate committees. CSWO reports are also important in providing a high-level summary of the performance of social work functions during a particular year. It is essential that they are subject to effective scrutiny by elected members. However, we did not find evidence of detailed scrutiny of the report or challenge at these meetings.

**110.** The Scottish Social Services Council (SSSC) working with universities and others, has recently developed a qualification for CSWOs. The postgraduate diploma is aimed specifically at those currently in the CSWO role or who aspire to the role. There is also an option to proceed to a Masters qualification. CSWOs and social worker managers who we interviewed who are studying for this qualification all found it helpful and useful in practice, as well as helping the council in succession planning.

### **Elected members are key decision-makers for local social work services**

**111.** During the era of steadily increasing council spending that ended in 2010, people's expectations were raised as to the level of service that social work services could provide. Councils are now in an era of reducing spending. Councils need to play a leading role in a wider conversation with the public about the level of social work services they can realistically provide and how they can best provide it. Current arrangements for providing care are not sustainable in the long term, given the demographic and financial pressures. As we reported in *Changing models of health and social care*: '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'.<sup>63</sup> Elected members need to play a key role in this change, engaging with communities in a wider dialogue about council priorities.

**112.** The Christie Commission suggested that councils should work closely with individuals and communities to understand their needs, maximise talents and resources, support self-reliance, and build resilience. Communities have a significant role to play, and councils and their community planning partners should do more to encourage and help them to assume more responsibility for supporting themselves. North Lanarkshire's *Making Life Easier* service is a website that helps people to identify problems and develop their own solutions through information, professional advice and direct access to services and support ([Case study 5](#)).

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## Case study 5

### Making Life Easier



North Lanarkshire Council worked with ADL Smartcare to develop a website to help those who wish to live independently at home. *Making Life Easier* provides professional advice and guidance on health issues and on managing daily living tasks. It includes hints and tips and signposts to organisations such as social and support groups, lunch clubs and drop-in cafes.

People and their carers can do an online self-assessment to identify safe and suitable equipment and minor adaptation choices that will help them manage their lives. People can choose to get the equipment and minor adaptations they need without charge through a link to the council's integrated equipment and adaptation service, or there is information on how to buy it for themselves.

East Lothian Council is developing a similar service, which they will call HILDA – Health and Independent Living with Daily Activities.

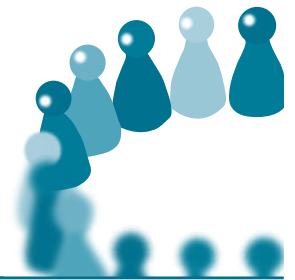
Source: North Lanarkshire Council

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**113.** Although health and social care integration will change the way social work services are commissioned and funded, councils remain responsible for promoting social welfare.<sup>64</sup> This includes improving outcomes for people who use services. Councils and IJBs need to ensure they are scrutinising budgets, plans and outcomes, including the effectiveness of services and the impact on individuals.

**114.** Elected members may find that their role changes, but they remain the key decision-makers for social work services on behalf of their constituents and they ensure effective scrutiny, governance and strategic oversight of the new arrangements. It is essential that elected members assure themselves of the quality of social work services and ensure councils manage risks effectively at a time of great change. With increasing financial pressures, councillors may face a difficult challenge in managing people's expectations, but they have a crucial role in doing so and providing leadership for their communities.

# Endnotes




- ◀ 1 Social Care Services 2015, Scottish Government, December 2015.
- ◀ 2 Children's Social Work Statistics Scotland, 2014/15, Scottish Government, April 2016.
- ◀ 3 Social Care Services 2015, Scottish Government, December 2015.
- ◀ 4 Social Work and Social Care Statistics for Scotland: A Summary, Scottish Government, January 2016.
- ◀ 5 Scottish Local Government Financial Statistics, Scottish Government, February 2016.
- ◀ 6 Scottish Social Service Sector: Report on 2015 Workforce Data, August 2016.
- ◀ 7 We use the term 'third sector organisation' to describe organisations that are neither public sector nor private sector, including voluntary and community organisations (both registered charities and other organisations such as community groups), social enterprises, mutuals and co-operatives.
- ◀ 8 In this report, we use the word carer to mean someone who provides unpaid care. Staff who are employed to provide care are referred to as care workers.
- ◀ 9 [Health and social care integration](#) , Audit Scotland, December 2015.
- ◀ 10 Social Services in Scotland: a shared vision and strategy 2015 - 2020, Scottish Government,
- ◀ 11 National Performance Framework, Scottish Government, March 2016.
- ◀ 12 The Scottish Government established the independent Commission, chaired by Dr Campbell Christie CBE, in November 2010 to develop recommendations for the future delivery of public services. The Commission published its report in June 2011.
- ◀ 13 [Health and social care integration](#) , Audit Scotland, December 2015.
- ◀ 14 [Changing models of health and social care](#) , Audit Scotland, March 2016, included Scottish Government analysis of projected health and social care expenditure, provided to Audit Scotland in February 2016.
- ◀ 15 *Scotland's Population, The Registrar General's Annual Review of Demographic Trends 2014*, published August 2015.
- ◀ 16 All local authorities are responsible for maintaining a central register of all children who are the subject of an inter-agency Child Protection Plan. The register provides a system for alerting practitioners that there is professional concern about a child. Social work departments are responsible for maintaining a register of all children in their area who are subject to a Child Protection Plan.
- ◀ 17 Children's Social Work Statistics Scotland, 2014/15, Scottish Government, April 2016.
- ◀ 18 Scottish Social Service Sector: Report on 2015 Workforce Data, August 2016.
- ◀ 19 Experimental Statistics: Staff Retention in the Scottish Social Service Sector, SSSC, March 2016.
- ◀ 20 Workforce Survey of Independent Care Homes for Older People in Scotland, Scottish Care, March 2008.
- ◀ 21 Scottish Social Service Sector: Report on 2015 Workforce Data, August 2016.
- ◀ 22 Scottish Social Service Sector: Report on 2015 Workforce Data, August 2016.
- ◀ 23 NHSScotland Workforce Information, quarterly update of staff in post, vacancies, ISD, March 2016.
- ◀ 24 Mental Health (Care and Treatment) (Scotland) Act, 2003.
- ◀ 25 Scottish Social Services Workforce Data, Mental Health Officers (Scotland) Report 2015, August 2016.
- ◀ 26 Scottish Social Service Sector: Report on 2015 Workforce Data, August 2016 and unpublished data from Scottish Social Services Council.
- ◀ 27 Scotland's Carers, Scottish Government, March 2015.
- ◀ 28 *Caring Together: The Carers Strategy for Scotland 2010 - 2015*, Scottish Government, July 2010.
- ◀ 29 *Valuing Carers; The rising value of carers' support*, Carers UK, 2015.
- ◀ 30 [An overview of local government in Scotland 2016](#) , Audit Scotland, March 2016.
- ◀ 31 The net expenditure breakdown in Exhibit 5 is taken from Scottish Local Government Financial Statistics 20014-15. The total net expenditure figure of £3.3 billion is from the audited accounts and includes pension costs and capital accounting costs that the £3.1 billion in the local financial return on a funding basis, will exclude.

- ◀ 32 [An overview of local government in Scotland 2016](#) , Audit Scotland, March 2016.
- ◀ 33 Scottish Parliament, Health and Sport Committee, Integrated Joint Board survey responses, August 2016.
- ◀ 34 Information supplied by Scottish Government.
- ◀ 35 Scottish Government unpublished analysis, March 2016.
- ◀ 36 *Social Services in Scotland: a shared vision and strategy 2015-2020*, Scottish Government, March 2015.
- ◀ 37 *Route Map to the 2020 Vision for Health and Social Care*, Scottish Government, May 2013.
- ◀ 38 *Reshaping Care for Older People – A Programme for Change 2011–21*, Scottish Government, COSLA and NHS Scotland, 2010.
- ◀ 39 [Reshaping care for older people](#) , Audit Scotland, February 2014.
- ◀ 40 [Changing models of health and social care](#) , Audit Scotland, March 2016.
- ◀ 41 The NHS and Community Care Act 1990 provides a statutory framework for community care, which forms the cornerstone of community care law. It places a duty on local authorities to assess an individual's need for 'community care services'.
- ◀ 42 Scottish Government and COSLA guidance on a national framework for eligibility criteria, 2009.
- ◀ 43 *Route Map to the 2020 Vision for Health and Social Care*, Scottish Government, May 2013.
- ◀ 44 Data from Children's Social Work Statistics Scotland, 2011/12, Scottish Government, March 2013 and Children's Social Work Statistics Scotland, 2014-15, Scottish Government, June 2016.
- ◀ 45 *Getting it right for children in residential care*, Audit Scotland, September 2010.
- ◀ 46 Recreate Volunteer Programme: A social return on investment (SROI) analysis, Margaret Smith and Vikki Binnie, 2014. An SROI considers the length of time changes last to assess future value. Because this user group is often associated with a chaotic lifestyle, the study shows a range in value to reflect a conservative estimate and an estimate reflecting the sustained changes possible.
- ◀ 47 Local Government Benchmarking Framework, Improvement Service (website).
- ◀ 48 A framework agreement does not have to be a contract. However, where it is a contract it is treated like any other contract, and the EU procurement rules apply.
- ◀ 49 The 2016/17 fees paid to providers for local authority placements are set at £624.54 a week for nursing care and £537.79 for residential care until 30 September. After that, fees will increase to £648.92 a week for nursing care, and £558.77 for residential care until April 2017 (the £372 figure in paragraph 62 has income from contributions deducted). Fees for self-funders tend to be substantially higher.
- ◀ 50 Scottish Statistics on Adults Resident in Care Homes, 2006-2015, ISD Scotland, October 2015.
- ◀ 51 Local Government Benchmarking Framework, Improvement Service (website).
- ◀ 52 The Care Home Census: Scottish Statistics on Adults Resident in Care Homes 2006-2015. The census includes data on adults living in care homes in Scotland that are registered with the Care Inspectorate.
- ◀ 53 NHS National Services Scotland, Public Health and Intelligence, 2016.
- ◀ 54 These figures are for residents who do not require nursing care. The equivalent figures for residents who do require nursing care are £775 and £590.
- ◀ 55 The Scottish Government is holding a 'national conversation' on health and social care services. Some of the carer's quotes are taken from the Coalition of Carers in Scotland event to support carers to contribute their views, held on 25 November 2015.
- ◀ 56 The Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014.
- ◀ 57 Local Government Benchmarking Framework, the improvement service.
- ◀ 58 A full list of the arrangements in all councils is included in Exhibit 8, page 22 of *Health and social care integration*, Audit Scotland, December 2015.
- ◀ 59 [Health and social care integration](#) , Audit Scotland, December 2015.
- ◀ 60 Roles, Responsibilities and Membership of the Integration Joint Board, Scottish Government, September 2015.
- ◀ 61 The others are: The Head of Paid Service (chief executive) responsible to councillors for the staffing and ensuring the work of the council is co-ordinated; the Monitoring Officer prepares governance documents and advises councillors about legal issues; the Chief Financial Officer; the Chief Education Officer.
- ◀ 62 The Role of Chief Social Work Officer, Guidance Issued by Scottish ministers, pursuant to Section 5(1) of the Social Work (Scotland) Act 1968, Revised Version, July 2016.
- ◀ 63 [Changing models of health and social care](#) , Audit Scotland, March 2016.
- ◀ 64 Social Work (Scotland) 1968 Act.

# Social work in Scotland



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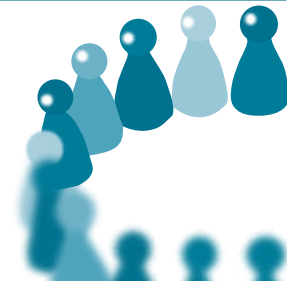


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# Social work in Scotland



## ACCOUNTS COMMISSION

### Self-assessment checklist for council members

This checklist sets out some issues that elected members may wish to consider in relation to social work in their own council. Members may also wish to consider the elected members checklist included in [Supplement 2](#) of our self-directed support report.

Questions for elected council members to consider	Assessment	Required actions
<b>Councillors' role in social work governance</b>		
When the council is making budget decisions about social work, do we have good information about how this may affect services, the number of people affected, and how the decision-making process will take account of the budget decision?		
Is there a committee(s) with specific responsibility for social work in the council or Integration Joint Board (IJB)? If not has the council identified which committees have a role in monitoring social work?		
If there is more than one committee within the council or IJB with responsibility for social work services, how do we ensure: <ul style="list-style-type: none"> <li>• that there is consistency in social work decision-making?</li> <li>• there is no duplication or gaps in the scrutiny of social work services?</li> <li>• that risks are being effectively managed?</li> </ul>		
Are the roles and responsibilities of committees clear and set out in terms of reference, and are links to statutory decision-making responsibilities clear?		
Do the committees of which I am a member have any specific responsibilities for social work processes?		
Am I clear about the principles of good decision-making and social work and my role in monitoring the council's performance in this area?		
Do I have a good understanding of the main social work services in the council, including the key decision-making processes involved?		

Cont.

Questions for elected council members to consider	Assessment	Required actions
Does my council have service charters setting out what service users and carers can expect in relation to decision-making, outcomes, complaints and appeals?		
Do social work staff work to clear and published policies and guidelines so that users can understand the criteria against which decisions are made?		
Do I understand the statutory role of the Chief Social Work Officer (CSWO) and have I good access to the CSWO if I require advice on any aspect of social work?		
Do I have access to, and take-up, training and development opportunities about social work policies and processes?		
<b>Councillor's role in health and social care integration</b>		
Do I understand how health and social care integration is working in my council and my role in achieving the objectives of integration, including developing a shared culture?		
Has the IJB agreed a strategy to move to improved models of health and social care and are IJB leaders fully committed to this strategy?		
Is there a commitment with IJB partners to align management arrangements for services in the community and share resources, such as aligning budget setting, rationalising the public sector estate, co-location of services, and aligning technology such as IT systems to facilitate information sharing?		
Are there adequate arrangements for communicating decisions made by the IJB to council members who are not members of the IJB?		
Are you confident that the governance arrangements covering health and social care are working well (are there any gaps or overlaps)?		
Do the council and IJB have adequate workforce plans to ensure social work and social care services have sufficient numbers of properly trained staff?		
<b>Councillors' role in consulting local people</b>		
How does your council consult stakeholders (local people, service users and carers and service providers) about their priorities for social work and social care work services, the funding available and the way in which services are provided? How does it manage the expectations of service users?		
Are services designed around the needs of service users and the outcomes important to them and do IJB partners share data to enable this to happen effectively?		
<b>Performance management</b>		
Am I clear about the principles of good decision-making and social work and my role in monitoring the council's performance in this area?		
<b>Cont.</b>		



Questions for elected council members to consider	Assessment	Required actions
Are effective and regular monitoring arrangements in place within the council and/or the IJB to ensure that decisions comply with council quality and timeliness standards?		
Does the council or IJB publish clear customer service and operational standards and performance data by which I expect residents to judge social work service performance?		
Are effective and regular monitoring arrangements in place within the council and/or the IJB to ensure that decisions comply with council quality and timeliness standards?		
<p>Do committees with a social work remit receive regular reports about:</p> <p>(a) the performance of systems where decisions affect service users and carers, including the management of risk?</p> <p>(b) social work outcomes including progress against:</p> <ul style="list-style-type: none"> <li>• the council's own key performance measures?</li> <li>• the time taken to make decisions and the number of avoidable errors made in each social work decision-making system?</li> <li>• the number of appeals made against decisions, including the percentage upheld and the time to take decisions?</li> </ul> <p>(c) comparative performance against similar councils?</p>		
Do I challenge officers on the performance information presented to me where it is unclear or where it indicates poor performance?		
<b>Promoting and sharing best practice</b>		
Is there a shared understanding of the objectives of prevention within health and social care and a commitment to fund the changes needed to make prevention work?		
Are prevention initiatives based on good evidence that they are likely to be successful and are outcomes measured?		
Does my council play an active role in relevant social work networks and national working groups to gather and promote best practice?		

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## **PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

**Report by Chief Officer Audit & Risk**

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### **AUDIT and RISK COMMITTEE**

**14 November 2016**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **The purpose of the report is to provide an update to Members of the Audit and Risk Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2015/16 and previous years.**
- 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 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit and Risk Committee indicates that it should consider all matters relating to the implementation of recommendations contained within audit reports, as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

#### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Risk Committee:-**
  - (a) **Acknowledges the progress made by Management in implementing audit recommendations; and**
  - (b) **Considers whether it is satisfied with the progress or whether any further action is required.**

### 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 Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Final Internal Audit Report stage the Audit Recommendations are input to Covalent, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, to link with relevant risks and to evidence improvement.
- 3.4 The Remit of the Audit and Risk Committee indicates that it should consider all matters relating to the implementation of recommendations contained within audit reports, as part of its high level oversight of the framework of internal control, risk management and governance within the Council. A summary of the status of recommendations was presented within the Internal Audit Annual Report 2015/16 presented to the Audit and Risk Committee on 11 May 2016. During the discussion that followed, Members were advised that audit recommendations in respect of target dates were adhered to whenever possible and were followed up by Internal Audit, especially if they became overdue. There were occasions when recommendations were superseded and therefore no longer relevant when alternative solutions were required to manage the identified risks or when it was necessary to grant extra time to complete recommendations, e.g. delays in the implementation of a new IT system or lead in times for the implementation of new legislation.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity and works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Risk Committee. The follow-up activity takes into consideration their priority status, what target timescales are in place for full implementation, the explanation of the reason for any delay in implementation, and a review of their status to ensure the recommendations are still relevant or whether alternative solutions are required to manage the identified risks.
- 3.6 The following table highlights the current status (as at 26 October 2016) with regards to Internal Audit recommendations arising from current and previous years:

<b>Year identified</b>	<b>Total</b>	<b>Implemented</b>	<b>Not Yet Due</b>	<b>Overdue</b>
2015/16	21	17	3	1
2014/15	34	27	7	0
2013/14	51	51	0	0

Further details on those Internal Audit recommendations that are not yet fully implemented by Management (either Not Yet Due or Overdue) are shown in Appendix 1.

## 4 IMPLICATIONS

### 4.1 Financial

It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit through improved internal controls and governance arrangements.

### 4.2 Risk and Mitigations

- (a) Internal Audit provides assurance to Management and the Audit and Risk Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.
- (b) It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls 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

There are no direct carbon emissions impacts 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 to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

## 5 CONSULTATION

- 5.1 The Corporate Management Team has been consulted on the report and any comments received have been incorporated.
- 5.2 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 the report and any comments received have been incorporated.

**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
Sue Holmes	Senior Internal Auditor Tel. 01835 825556
David Clark	Senior Internal Auditor Tel. 01835 825464

**Background Papers:** Appropriate Internal Audit files, and Covalent system

**Previous Minute Reference:** Audit and Risk Committee 9 May 2016

**Note** – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

Completed Audit Actions from 30 April to 26 October 2016

Internal Audit Report (2013/14)	Recommendation	Completed Date
173/555/001 Social Care Charging Review (Consultancy) (Final Report Issued 20 December 2013)	5.2 Monthly reports should be provided to Corporate Management Team and Social Work management regarding the number of clients not billed / outstanding, together with revenue monitoring. (P1)	20 October 2016
086/008 Income Charging, Billing and Collection (Final Report Issued 28 February 2014)	5.1 Management should assess and identify staff who require training regarding the income policy framework in order that they may take any appropriate action concerning raising invoices, income collection and debt recovery. (P2)	7 June 2016
	5.2 The tools necessary to distributing a range of performance reports to management should be made available in order that the Council's processes can be strengthened to maximise income collection. These should be subject to regular senior management and elected member scrutiny. (P2)	7 June 2016
035/005 Financial Planning & Reporting (Final Report Issued 28 February 2014)	4.1 Review and update the Financial Regulations and the Budgetary Control Codes of Practice to incorporate these newer methodologies and tools as standard practice. (P3)	29 June 2016
152/003 Paths Asset Management (Final Report Issued 14 April 2014)	5.1 Management should address the backlogs in CAMs of: Priority ratings not yet applied; Outstanding 2013 /2014 survey; Outstanding Issues update with status; Outstanding Actions update with status and evidence of completion to required standard. (P2)	19 October 2016
	5.3 Asset Register to be populated with complete and accurate data to facilitate Strategy Development and Maintenance Plan Development; this should include all information required to facilitate life cycle forward budget planning. (P3)	19 September 2016
	5.4 Management should develop a Strategy and Maintenance Plan for Core Paths and Bridges. (P3)	31 May 2016
236/007 Data Security & Information Management (Final Report Issued 4 April 2014)	5.1 Management should design processes to confirm that records are weeded in line with retention schedules. (P2)	27 September 2016
	5.5 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)	27 September 2016

<b>Internal Audit Report (2014/15)</b>	<b>Recommendation</b>	<b>Completed Date</b>
203/007 Roads Management (Final Report Issued 16 September 2014)	5.3 Workforce succession plans should be developed to enable continuous and sustainable road safety inspection arrangements. (P3)	30 September 2016
214/005 Flood Risk and Coastal Management (Final Report Issued 10 December 2014)	5.2 Performance of water course inspections and related activities against predetermined targets should be assessed to confirm effective service delivery. All Flood Management performance measures should be periodically reported to Senior Management to demonstrate fulfilment of statutory obligations. (P3)	20 October 2016
171/005 Homecare (Final Report Issued 9 January 2015)	5.1 Improved processes should be put in place to monitor external carers in order to confirm that charges are only made for services actually delivered. (P3)	21 October 2016
	5.3 Procedural guidelines of the management and administration of Client Funds / Corporate Appointeeship should be developed and Staff Training provided thereon as part of the review of Client Funds / Corporate Appointeeship that is underway to safeguard client funds and protect staff. (P3)	30 September 2016
178/002 Criminal Justice (Final Report Issued 10 March 2015)	5.1 There should be recorded evidence that the offender has confirmed their understanding of responsibilities and obligations under the CPO and the consequences of non-compliance (breach procedures). (P3)	30 April 2016
	5.2 An initial risk assessment should be completed in all cases, even if the offender has already undertaken this as part of an ongoing CPO. (P3)	30 April 2016
	5.3 Case management plans should always be prepared where applicable and within agreed timescales. (P3)	30 April 2016
	5.4 Where professional judgement has been used to deviate from the prescribed breach procedures, the justification should be evidenced and recorded in the case notes within Framework-i. (P3)	30 April 2016
	5.5 On completion of the CPO, ensure that all exit questionnaires are completed and recorded. (P3)	30 April 2016
127/999/001 Home Tuition (Contingency) (Final Report Issued 23 April 2015)	5.2 Authorisation of expenses should be completed at the appropriate level and closer scrutiny of mileage claims carried out with random sample checking. (P3)	9 May 2016
	5.3 Appoint a person with responsibility for end-to-end process for Home Tuition service to ensure accountability and ownership, monitoring and analysis. (P3)	9 May 2016



<b>Internal Audit Report (2015/16)</b>	<b>Recommendation</b>	<b>Completed Date</b>
154/010 LEADER Programme (Final 21 October 2015)	6.1 Ensure that the LEADER (and EMFF) State Aid guidance is clear to all participants, including the LEADER team. (P3)	31 May 2016
004/002 Grants and Following The Public Pound (Final Report Issued 11 January 2016)	5.1 The master Grants Received Register should be fully consolidated and reconciled to FIS on a quarterly basis. (P3)	25 August 2016
	5.2 A master Grants Disbursed Register should be populated monthly. (P3)	25 August 2016
	5.3 The Following the Public Pound Code of Practice (2006) and other Grants Received and Grants Disbursed related procedures and guidelines should be updated and published on the Intranet. (P3)	25 August 2016
	5.4 Management should ensure that there are clear monitoring arrangements within the up-to-date procedures and guidelines and that there is sufficient review activity taking place to ensure that the monitoring is being done. (P3)	25 August 2016
233/022 ICT Operational Processes (Final Report Issued 11 January 2016)	5.1 A control needs to be introduced within the IT service to allow Management to gain assurance that the details of all Leavers, and other relevant changes, are recognised timeously in the IT systems e.g. a monthly reconciliation. (P2)	2 November 2016
079/010 Authorised Signatories (Interim 30 October 2015)	5.2 To ensure the Council has a fit for purpose process for authorisation and authorised signatories, a project should be undertaken. (P3)	8 June 2016
205/010 Waste and Recycling Trade Waste (Final Report Issued 11 January 2016)	5.3 Regular performance reports should be provided for management review by the Trade Waste Team regarding contracts, numbers of customers, direct debit payees, debtors' limits, etc., to complement the monitoring of budgets. (P3)	6 October 2016
237-001 PSN Compliance (Final 13 November 2015)	5.1 Management should review the Lessons Learned part of the End of Project report and prepare an action plan noting how each area will be addressed. (P2)	1 August 2016
078/009 Creditors Payments (Final Report Issued 22 March 2016)	5.1 When designing processes, controls, guidance notes and corporate purchase to payment policies, the new ICT systems project team should take account of and address the weaknesses noted in this report. (P3)	8 June 2016
236/009 Information Governance (Final Report Issued 22 March 2016)	5.1 A central repository of Data Sharing agreements with government agencies should be established and compliance monitoring processes initiated, and outstanding actions relating to data sharing should be progressed. (P2)	4 October 2016
079/010 Salaries (Final Report Issued 28 April 2016)	5.1 Enhanced controls should be put in place to ensure the return of equipment and property when an employee leaves the Council's employment. (P3)	21 October 2016

## Outstanding Audit Actions as at 26 October 2016

Recommendation 2014/15	Management Progress in Addressing this Recommendation	Status
<b>203/007 Roads Management (Final Report Issued 16 September 2014)</b>		
<p>5.1 The Council's Road Asset Management Plan should be completed to include footways, structures and traffic signals. Road Data Management Plan Recommended Practices should be developed and approved. (P3)</p>	<p>Action assigned to Infrastructure Manager.</p> <p>June 2015: Delays of &gt;1 Year due to staff resource issues.</p> <p>April 2016: Delays due to development of Edinburgh options for RAMP system (and Roads Review).</p> <p>October 2016: The Council's RAMP holds limited data on footways / structures and traffic signals, and no system to manage the data. Options for CONFIRM (Asset Management) system will be considered within the CGI contract.</p>	<p>Action 20% complete – original due date March 2015; Revised Due Date extended to 31 March 2018.</p>
<p>5.2 Road Maintenance Manual should be developed to enable consistency in approach, methods and records. All relevant staff should have access to the manual and training in its application provided as necessary. (P2)</p>	<p>Action assigned to Infrastructure Manager.</p> <p>Sept 2014: A draft manual already exists and this will be finalised, approved and embedded in Commercial and Neighbourhood Services.</p> <p>June 2015: Delays of &gt;1 Year due to staff resource issues</p> <p>April 2016: Model documents considered as part of RAMP process together with other authority models.</p> <p>October 2016: Draft new Service Standards and revised budget model have been developed which will inform the Roads Review final report.</p>	<p>Action 50% complete – original due date March 2015; Revised Due Date extended to 31 March 2017.</p>
<p>5.4 Management should receive regular performance information in respect of road safety inspection and related repairs. (P2)</p>	<p>Action assigned to Infrastructure Manager.</p> <p>Sept 2014: Agreed and this will form part of a wider review of performance measures. Action assigned to Infrastructure Manager.</p> <p>June 2015: Delays of &gt;1 Year due to staff resource issues.</p> <p>April 2016: No progress - Roads Review to review requirements for new organisation to address performance management reporting.</p> <p>October 2016: Performance targets and measures have been developed as part of the revised Service Standards (see action above). Performance measures will also be included as part of the CONFIRM system.</p>	<p>Action 50% complete – original due date March 2015; Revised Due Date extended to 31 March 2017.</p>

Recommendation 2014/15	Management Progress in Addressing this Recommendation	Status
<b>214/005 Flood Risk and Coastal Management (Final Report Issued 10 December 2014)</b>		
5.1 The Authority should develop its own Shoreline Management Plan (SMP) which covers the whole of the Berwickshire Coast. (P3)	<p>Action re-assigned to Asset Manager.</p> <p>Dec 2014: Flood and Coastal Management Team Leader - The principal aim of a SMP is to provide a strategic framework for coastal erosion protection. Strategies and plans for coastal flood protection are currently being developed and it is proposed to complete this work before undertaking SMP development.</p> <p>April 2016: The shoreline management plan has not started yet. Initial talks have been held with Procurement.</p> <p>October 2016: Procurement of the shoreline management plan is due to begin by mid to late November 2016. This piece of work is being established as advanced works to inform the actions of the Forth Estuary Shoreline Management Plan, namely the Eyemouth Coastal Flood Study.</p>	Action 15% complete – original and target completion date 31 March 2017.

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Recommendation 2014/15	Management Progress in Addressing this Recommendation	Status
<b>078/555/001 Contract Management (Consultancy) (Final Report Issued 10 March 2015)</b>		
5.1 Separate standalone Procurement Procedural Standing Orders (PSOs) should be added to the suite of high level governance documents and should clarify delegated authority and accountability. (P3)	<p>Action assigned to Corporate Procurement &amp; Payment Services Manager.</p> <p>Oct 2015: Internal actions progressed though there is a dependency on finalised new legislation and associated statutory guidance.</p> <p>April 2016: The finalised new legislation and associated statutory guidance are delayed, and procurement resource deployment during 2016/17 on Business World ERP system project. Extension of due date &gt; 1 Year.</p>	Action 20% complete – original due date 31 October 2015; revised target completion date 30 April 2017.
5.2 A Business Case for Contract Management Framework should be developed. (P3)	<p>Action assigned to Corporate Procurement &amp; Payment Services Manager.</p> <p>As above.</p>	Action 20% complete – original due date 31 October 2015; revised target completion date 30 April 2017.

Recommendation 2014/15	Management Progress in Addressing this Recommendation	Status
<b>127/999/001 Home Tuition (Contingency) (Final Report Issued 23 April 2015)</b>		
<p>5.1 Fully develop and implement a suite of appropriate policies, procedures, guidance notes and handbook for the Home Tuition Service and Home Tutors which documents and clearly defines roles and responsibilities, referral review and reporting processes, and ensure training is provided to those staff involved. (P3)</p>	<p>Action assigned to Senior Lead Officer - Schools.</p> <p>April 2015: Senior Education Officer will be reviewing policies, procedures and guidance on Home Tuition.</p> <p>December 2015: The Home Tuition Panel met and agreed to progress actions however this will not be complete until Feb/March 2016.</p> <p>May 2016: Currently in the process of redesigning the Home Tuition Service, having looked at what other LA's are doing, their policies, procedures and guidelines. Looking at developing a more holistic approach to education outwith the school environment. Also getting/developing reporting back from school regarding home tuition. Building an exit process for pupils coming from home tuition back into the school environment. Would like to develop a home tuition handbook. In view of this, due date extended to 31 March 2017, as will take time to develop, write and implement policies, procedures, guidelines and training.</p>	<p>Action 50% complete – original due date 30 September 2015; revised target completion date 31 March 2017.</p>

Recommendation 2015/16	Management Progress in Addressing this Recommendation	Status
<b>231/015 ICT Disaster Recovery (Final Report Issued 21 September 2015)</b>		
<p>5.1 There should be a more rigorous approach to dissemination of the ICT Disaster Recovery Plan outside the IT service to ensure a thorough understanding by all services' staff on the execution of the plan, to clarify roles and responsibilities, to manage customer expectations of the IT service, and to ensure its fit with services' business continuity plans including the workaround arrangements set out therein. (P3)</p>	<p>Action assigned to Interim Head of IT.</p> <p>Sept 2015: Agreed. In addition we will append a brief communication plan and methodology to the plan to implement this improvement to enable appropriate links to services' business continuity plans.</p> <p>April 2016: Action is progressing and will be tracked through the ICT Board.</p> <p>October 2016: The Disaster Recovery Plan for IT is now within scope of the CGI contract. There is an interim recovery plan in progress which will be made available on the SBC Intranet once agreed and approved, in addition to engagement on the plan with relevant service managers, business system staff and business continuity support staff. However, the interim recovery plan will be replaced in 2018 with a full and business tested Disaster Recovery Plan as part of the SBC core server infrastructure being re-located to CGI datacentres.</p>	<p>Action 20% complete – original due date 31 March 2016; revised target completion date 31 January 2017.</p>

<b>Recommendation 2015/16</b>	<b>Management Progress in Addressing this Recommendation</b>	<b>Status</b>
<b>205/010 Waste and Recycling Services Trade Waste (Final Report Issued 11 January 2016)</b>		
5.1 A review of the Trade Waste Management and Administration database system should be carried out to ensure that it is robust and fit for purpose to assist with future service delivery. (P3)	Action assigned to Waste Strategy Manager. January 2016: We agree that a review is required and more robust arrangements put in place. However, this review needs to be aligned to the corporate review of IT therefore the timescale reflects this.	Action 0% complete – original and target completion date 31 December 2017.
5.2 Stock Control processes should be introduced at Contact Centres and at the Depots for Trade Waste Assets and Consumables in accordance with the Council's Financial Regulations and procedures. (P2)	Action assigned to Waste Strategy Manager. January 2016: Agreed. October 2016: Plan of action now in place to progress this work further with foremen at depots. A stock recording and control system has now been introduced (paper based), but the service wants to review the effectiveness and efficiency of this system, with view to making further changes and improvements. Work still to do within Contact Centres, to introduce more robust procedures around storage and location of sacks.	Action 50% complete – original and target completion date 31 March 2017.

<b>Recommendation 2015/16</b>	<b>Management Progress in Addressing this Recommendation</b>	<b>Status</b>
<b>078/009 Creditors Payments (Final Report Issued 22 March 2016)</b>		
5.2 SBc Contracts Management should ensure that an official order is in place before "call-offs" are made. (P2)	Action assigned to Chief Officer Roads. March 2016: Agreed  This action will be covered as part of the Internal Audit review on Procure to Pay which is currently underway.	Action 0% complete – original and target completion date 30 June 2016 (overdue).

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## Internal Audit Mid-Term Performance Report 2016/17

### Report by Chief Officer Audit & Risk

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## Audit and Risk Committee

14 November 2016

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### 1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit and Risk Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2016, towards completing the Internal Audit Annual Plan 2016/17. It also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards.**
- 1.2 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.
- 1.3 The Internal Audit Annual Plan 2016/17 that was approved by the Audit and Risk Committee on 29 March 2016 sets out the audit coverage for the year utilising available internal audit staff resources to enable the Chief Officer, as the Council’s Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year and is currently on target to complete its Annual Plan 2016/17, despite the change in staffing levels for the remainder of the year.
- 1.5 The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). Improvements have been implemented since the External Quality Assessment (EQA) Peer Review carried out by Renfrewshire Council in October 2015. The SBC Internal Audit Service conforms to PSIAS.

### 2 RECOMMENDATION

- 2.1 I recommend that the Audit and Risk Committee approves the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2016/17, and confirms that it is satisfied with the Performance of the Internal Audit service.**

### 3 BACKGROUND

- 3.1 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 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."
- 3.2 Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 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 2016/17 key stakeholders have been consulted and risk registers have been considered to capture potential areas of risk and uncertainty more fully.
- 3.4 The Internal Audit Annual Plan 2016/17 that was approved by the Audit and Risk Committee on 29 March 2016 sets out the audit coverage for the year utilising available internal audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

### 4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2016/17

- 4.1 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work (those audits which are complete are highlighted in dark shading) to deliver the Internal Audit Annual Plan 2016/17. The following table summarises the Internal Audit activity for the 6 months to 30 September 2016:

	Plan days Apr-Sep 2016/17	Actual days Apr-Sep 2016/17	Plan Report Nos. Apr-Sep 2016/17	Actual Report Nos. Apr-Sep 2016/17
Corporate Governance	50	46	1	1
Financial Governance	80	104	2	2
IT Governance	45	24	3	3
Internal Controls	15	9	1	0
Asset Management	25	19	1	1
Legislative and other Compliance	50	48	4	4
Consultancy and Advice	45	57		
Other	33	63		
Non Council	35	43		
<b>Total</b>	<b>378</b>	<b>413</b>	<b>12</b>	<b>11</b>



- 4.2 The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 109% (CIPFA Directors of Finance PI for Internal Audit services) and 92% completion of planned audit reports.
- 4.3 Not all planned audits have been completed in the 6 months to 30 September 2016 for the following reasons:
- The Community Safety audit as part of Internal Controls assurance work has been deferred from 2016/17 on request by Management though will not affect the overall assurance this year;
  - For a number of Audit Areas within the Plan a continuous audit approach has been adopted (e.g. Corporate Governance, Information Governance, Roads Review, Financial Key Controls, Counter Fraud, Income, and ICT Change Programme which are shown in light shading within Appendix 1) and audit assurances and opinion thereon will be included at the end of the year within the Internal Audit Annual Report.
- 4.4 In contrast some Internal Audit work that was scheduled for completion in the 3<sup>rd</sup> quarter has been accelerated to ensure productivity levels are retained as part of effective use of Internal Audit resources (e.g. pre-planning, research and testing work for Financial Governance – Procure to Pay, and Salaries including Expenses - and pre-planning and research for Internal Controls - Schools).
- 4.5 The allocation of audit plan days is not an exact science and some of the audit work has been carried out using less than planned days and some using more than planned days. Most notable in the former is the ICT Governance assurance work which reflects the change in audit approach to take account of the Council's change in ICT service provision to a contract with CGI from October 2016. Most notable in the latter is the Consultancy work which reflects the various members of the Internal Audit team engagement in Design Solution workshops and project groups in respect of the various HR, Payroll, Procurement and Finance management and administrative processes as part of the Business World ERP system project.
- 4.6 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance as the Council continues to transform its service delivery, for example, the Digital Transformation Programme including ICT Contract with CGI and Business World ERP Project, Health and Social Care Integration, the Welfare Reform Programme, the Information Governance Project, the Serious Organised Crime Action Plan, and the Corporate Fraud Improvement Plan.
- 4.7 Internal Auditors have also carried out contingency work requested by Management as part of other planned audit work.
- 4.8 Internal Audit resources were deployed in the delivery of the Follow-Up work to check that recommendations have been implemented by Management to ensure added value has been derived from the Internal Audit work through improvement in internal control and governance. Internal Auditors continue to work with Management to address any actions that become overdue, and bring any matters to the Committee's attention.
- 4.9 The Internal Audit function, in adopting its 'critical friend' role, continues to collaborate with the Corporate Performance team to perform independent and objective validation of Services' performance measures and self-assessments within a programme to ensure robust evidence of performance and improvement that demonstrates best value, an improvement action within the Audit and Risk Business Plan 2016/17.

## 5 COMPLETING THE PLAN FOR 2016/17

- 5.1 The Internal Audit staff resources have changed mid-year following the early retirement of the Internal Audit Manager on 31 August 2016 and the associated restructure of the Internal Audit function to deliver the efficiency savings included within the Revenue Financial Plan 2016/17. The revised Audit and Risk service structure was outlined as a result of workforce planning workshops and the development of the People Plan for the Audit and Risk service comprising internal audit, counter fraud, and risk management compliance and assurance functions. The Internal Audit staff resources comprise the Chief Officer Audit & Risk (50% allocation to Audit), three Senior Internal Auditors, and two Internal Auditors, who work in a collaborative way with the Corporate Risk Officer, Corporate Fraud and Compliance Officer, and Modern Apprentice.
- 5.2 Two of the Senior Internal Auditors have had secondments approved (one full-time to SB Cares as Finance Business Partner from mid-September 2016 to mid-March 2017 initially; and one to Business World ERP Project as workstream lead, half-time November and December 2016 and full-time January to May 2017). The secondment opportunities are anticipated to utilise their skills, knowledge and experience to provide corporate benefits and their specific involvement is expected to be beneficial to the delivery of Internal Audit financial governance assurance work for the Council and SB Cares during this implementation phase and in the future. On both occasions, to ensure resources are in place to deliver in full the approved Internal Audit Annual Plan 2016/17, a contract for services of an Interim Specialist Internal Auditor has been procured with an Agency. Furthermore the Modern Apprentice (MA), employed within Audit and Risk service since October 2015 in support of the Council's work opportunities scheme and ambitions to offer employment opportunities to young people, has secured a new MA Project Management role within CGI starting on 31 October 2016 which is very positive. Replacement recruitment will be considered in due course as part of the business, financial, and people planning processes.
- 5.3 The Internal Audit programme of work for the six months from October 2016 to March 2017 incorporating the remaining planned audit work has been discussed with Management. Based on staffing levels within this period, the Internal Audit Annual Plan 2016/17 can be delivered in full. There is no change proposed to the audit plan that would require approval by the Audit and Risk Committee.
- 5.4 The following table summarises the Internal Audit planned work in the second half of the year to 31 March 2017:

	Plan days Oct-Mar 2016/17	Plan Report Nos. Oct-Mar 2016/17
<b>Corporate Governance</b>	140	3
<b>Financial Governance</b>	100	2
<b>IT Governance</b>	15	0
<b>Internal Controls</b>	30	1
<b>Asset Management</b>	30	1
<b>Legislative and other Compliance</b>	0	0
<b>Consultancy and Advice</b>	45	
<b>Other</b>	36	
<b>Non Council</b>	35	3
<b>Total</b>	<b>431</b>	<b>10</b>

- 5.5 The Internal Audit work completed and work in progress will continue to be reported to the Corporate Management Team and to the Audit and Risk Committee at each of its meetings. This report will include an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each final internal audit report issued to relevant Service Management.
- 5.6 Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of its internal self-assessment of conformance with Public Sector Internal Audit Standards (PSIAS) will continue to be communicated to the Corporate Management Team and the Audit and Risk Committee within the Internal Audit Annual Report which will also provide an opinion on the levels of assurance based on audit findings over the year.

## **6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014**

- 6.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 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.
- 6.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

## **7 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP)**

- 7.1 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 (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS and develop a quality assurance and improvement plan (QAIP) based on the outcome. The PSIAS include:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (responsibility, independence, proficiency, quality);
  - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2 The Quality Assurance and Improvement Plan (QAIP) is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics, and an action plan to implement identified improvements.
- 7.3 An internal self-assessment of Internal Audit practices against the Standards has been carried out each year, as required by the PSIAS, and each assessment has indicated a reasonable level of conformance with both the Attribute Standards and Performance Standards and evidence of improvement in particular in applying the Code of Ethics.
- 7.4 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The Final Report from the EQA Peer Review carried

out by Renfrewshire Council in October 2015 concluded that the SBC Internal Audit Service generally conforms to the PSIAS, has identified areas of Good Practice, and has highlighted a few areas where improvements can be made. The Summary of Conformance with the PSIAS in the Final Report states either 'Fully Conforms' or Generally Conforms' against the 13 Assessment Areas. Areas of good practice include: substantial compliance with PSIAS and the International Professional Practices Framework (IPPF); clear, concise and easy to follow Internal Audit Charter; appropriate functional and administrative reporting lines for the CAE; appropriately qualified and experienced Internal Audit team.

- 7.5 The PSIAS includes the requirement to report the results of the QAIP to senior management and elected members. The results of the self-assessments and external assessments including the QAIP have been reported to Corporate Management and the Audit and Risk Committee within the Internal Audit Mid-Term Performance report and Internal Audit Annual Report in previous years. The following table provides an update on the QAIP improvement actions that were presented within the Internal Audit Annual Report 2015/16 and shows progress:

Standard	Improvement Action	Target Date	Action Owner
1100.14 Due consideration to potential impairments to independence and objectivity	EQA Action Plan 3.3 a-c a) Agree line reporting arrangements to carry out audits for Risk Management and Counter Fraud b) Rotate audit engagements by Internal Auditors c) Obtain stakeholder feedback for CAE performance appraisal	a – <b>Complete</b> b – <b>Complete</b> c – <b>Complete</b>	Service Director Regulatory Services and Chief Officer Audit & Risk
1300 Quality Assurance and Improvement Programme	EQA Action Plan 3.4 Housekeeping actions including evidence of internal quality review process, state conformance with the PSIAS, and regular records retention	<b>Complete</b>	Senior Internal Auditor
2000.6 Risk management	Continued improvement in identification and management of risk within the Council	March 2018	Chief Officer Audit & Risk
2000.12 Policies and Procedures	Review and revision of Audit Manual	<b>Complete</b>	Internal Auditor
2100 Nature of Work	EQA Action Plan 3.1 Clarify adding value to the Council through work of Internal Audit taking account of role and resources available & 3.2 Develop a documented assurance framework	<b>Complete</b>	Chief Officer Audit & Risk

- 7.6 The SBC Internal Audit service will be subject to an annual self-assessment against the PSIAS at the end of 2016/17. The progress with implementation of the improvement actions in the QAIP will be evaluated at that time. The results will continue to be reported to Corporate Management and the Audit and Risk Committee within the Internal Audit Annual Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

## **8 IMPLICATIONS**

### **8.1 Financial**

- (a) There are staff and other resources in place to achieve the Internal Audit Annual Plan 2016/17 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on systems of internal financial control, internal control and governance, and to highlight good practice and recommend improvements.
- (b) Budget monitoring of the Audit & Risk service (Internal Audit, Risk Management and Counter Fraud) is carried out by the Chief Officer Audit & Risk on a monthly basis (and discussed on a quarterly basis with Finance staff in accordance with current practice) to address any budgetary pressures and to manage service delivery within available financial resources.

### **8.2 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 2016/17, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of:
  - Ensuring that sufficient Internal Audit resources are available to deliver the Internal Audit Annual Plan 2016/17 in full.
  - Scheduling of audits through discussion with Management to ensure available capacity, and making suitable arrangements to minimise the impact of the audit process on service delivery.
  - Regularly monitoring progress on higher priority audits by the Chief Officer Audit & Risk and taking action as necessary.
  - Controlling and managing Contingency work by way of: Greater emphasis on what is not the responsibility of Internal Audit but what is the responsibility of Management; where possible, incorporating Contingency work within planned audit work; and the requirement for approval by the Chief Officer Audit & Risk before commencement.

### 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 the Scheme of Delegation are required as a result of this report.

## 9 CONSULTATION

9.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

9.2 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 & Risk**      **Signature .....**

### Author(s)

Name	Designation and Contact Number
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**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Risk Committee 29 March 2016

**Note** – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

AUDIT	2016/17	COMMENTARY	STATUS
<b>Corporate Governance</b>			
Corporate Governance - annual evaluation and statement 2016/17	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.	Continuous audit approach including follow-up on areas of improvement as part of other planned audit work; Annual evaluation scheduled 4th Qtr.
Information Governance	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.	Continuous audit approach including follow-up on areas of improvement as part of assurance role on the Information Governance Group and the Information Management Project Board.
Performance Management	30	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.	Final report on Statutory Performance Indicators (SPIs) and Local Government Benchmarking Framework (LGBF) issued 15 September 2016.
Workforce Planning	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.	Scheduled 4th Qtr
Corporate Transformation	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.	Scheduled 3rd Qtr; selection of projects for detailed review.
Adult Social Care Services	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.	Scheduled 3rd Qtr
Roads Services	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.	Continuous audit approach as part of assurance roles on the Alternative Service Delivery Board and Roads Services Review Project Team.
	<b>190</b>		

AUDIT	2016/17	COMMENTARY	STATUS
<b>Financial Governance</b>			
Financial key processes and controls, policies and procedures	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.	Continuous audit approach including follow-up on areas of improvement as part of assurance roles on the Business World ERP Project Board and other groups
Counter Fraud, Theft, Corruption & Crime	20	Review of fraud prevention controls and detection processes put in place by management, and progress with Improvement Plan actions.	Corporate Fraud & Compliance Officer is the Lead engaging with Corporate Fraud Working Group, and liaising with Internal Audit on any key control issues.
Income Charging, Billing & Collection	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.	Continuous audit approach including follow-up on areas of improvement as part of assurance roles on the Business World ERP Project Board and other groups
VAT	20	Completion of the review of the VAT treatment of supplies and services made by the Council to customers using a variety of sources such as HMRC VAT Notices, Case Law, Sector guidance and peer expertise to establish whether the correct VAT treatment has been applied.	Completed over 12 months to July 2016. Outline of key matters included in committee report commentary to Audit and Risk Committee 26 September 2016.
Procure to Pay service	20	Review of purchase to payments processes at Service level including authorisation.	Scheduled 3rd Qtr
Salaries (incl expenses)	20	Review of controls at Service level.	Scheduled 3rd Qtr
Revenues (Council Tax)	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.	Final report issued 16 September 2016
	<b>180</b>		

AUDIT	2016/17	COMMENTARY	STATUS
<b>ICT Governance</b>			
ICT Change Programme	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.	Previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes. Final Report issued 16 September 2016; specific assurance work in 4th Qtr on Contract Management arrangements with CGI.
ICT Security Controls	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.	Incorporated in scope of ICT Change Programme audit work - Final Report issued 16 September 2016.
Public Services Network (PSN) Compliance	5	Examine the Council's compliance with the requirements of the Public Services Network (PSN) and progress with implementation of actions required to achieve full compliance.	Final report issued 12 September 2016
ICT Operational Processes	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.	Incorporated in scope of ICT Change Programme audit work - Final Report issued 16 September 2016.
	60		

AUDIT	2016/17	COMMENTARY	STATUS
<b>Internal Controls</b>			
Schools	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.	Scheduled 3rd Qtr; sample of primary and secondary schools selected for visits.
Community Safety	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.	Deferred from 2016/17 on request by Management.
	45		

AUDIT	2016/17	COMMENTARY	STATUS
<b>Asset Management</b>			
Fixed Asset Registers	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.	Outline of key matters included in committee report commentary to Audit and Risk Committee 26 September 2016.
Capital Investment	30	Review of strategic asset planning and capital investment to ensure these are based on the priorities and outcomes set by the Council. Review of governance in place to ensure that capital projects are being managed efficiently and effectively from inception to completion. Assess progress with implementation of identified improvement actions to ensure compliance with established good practice.	Scheduled 3rd Qtr.
	55		

AUDIT	2016/17	COMMENTARY	STATUS
<b>Legislative &amp; Other Compliance</b>			
Selkirk Conservation Area Regeneration Scheme (CARS)	15	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.	Final report issued 2 August 2016
LEADER	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.	Draft report on EU Funded Programmes 2014-2020 LEADER and EMFF issued 7 October 2016 - awaiting formal Management Response. Audit Assurance Report issued to Scottish Government 31 October 2016 to comply with Audit terms in SLA.
European Maritime and Fisheries Fund	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	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).	Final report issued 5 August 2016
	50		



AUDIT	2016/17	COMMENTARY	STATUS
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<b>Consultancy</b>			
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Reviews	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.	Ongoing
Specific Requests	20	Highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews.	Ongoing
Project Boards / Teams e.g. - Information Governance - Welfare Reform - Serious Organised Crime	20	Provision of internal audit advice, support and challenge to management within change and transformation programmes and projects including provision of 'critical friend' role.	Ongoing
	90		

AUDIT	2016/17	COMMENTARY	STATUS
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<b>Other</b>			
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Contingency	30	Investigations and other reactive work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.	On request and in agreement by Chief Officer Audit & Risk.
Follow-Up	30	Recommendations are followed-up to ensure Management implementation to improve the internal control and governance arrangements.	Ongoing
National Fraud Initiative	9	Submission of data sets and case management of data matches arising from NFI exercise.	Corporate Fraud & Compliance Officer is the Lead engaging with key service contacts and Corporate Fraud Working Group, and liaising with Internal Audit on any key control issues.
	69		

SBC Total	739
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AUDIT	2016/17	COMMENTARY	STATUS
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<b>Non Scottish Borders Council</b>			
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SB Cares	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.	SB Cares Internal Audit Annual Plan 2016/17 approved by SB Cares Board and Management on 29 September 2016; audit work underway.
Scottish Borders Pension Fund	10	To be determined and agreed with Pension Fund Committee and Management.	Attendance at Pension Fund Committee and Board to assess governance arrangements.
Scottish Borders Health and Social Care Integration Joint Board	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.	Scottish Borders Health and Social Care Integration Joint Board (IJB) Internal Audit Annual Plan 2016/17 approved by IJB Audit Committee on 26 September 2016. In respect of joint services, assurances will be sought as appropriate from partner internal audit service providers (e.g. NHS Borders - PwC; SBC - SBC IA) and Management.
	70		

Overall Total	809
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## **TREASURY MANAGEMENT MID-YEAR REPORT 2016/17**

**Report by Chief Financial Officer**

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### **AUDIT AND RISK COMMITTEE**

**14 November 2016**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report presents the mid-year report of treasury management activities for 2016/17, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit and Risk Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2016 and demonstrates that Treasury activity in the first six months of 2016/17 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2015/16 out-turn and experience in 2016/17 to date for Council approval.

#### **2 STATUS**

- 2.1 This report is being presented prior to the September Financial Monitoring being approved by the Executive Committee, currently scheduled for 15 November 2016. Any changes required as a result of this meeting will be reflected in the final version of this report being submitted to Council on 15 December 2016.

#### **3 RECOMMENDATIONS**

- 3.1 **It is recommended that the Audit and Risk Committee:**
  - a) **Notes that treasury management activity in the six months to 30 September 2016 was carried out in compliance with the approved Treasury Management Strategy and Policy**
  - b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2015/16, as contained in Appendix 1, to Council for approval of the revised indicators.**

## **4 BACKGROUND**

- 4.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2016/17 at the Council on 11 February 2016. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 As set out in the annual Treasury Strategy, the Audit and Risk Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

## **5 TREASURY MANAGEMENT MID-YEAR REPORT 2016/17**

- 5.1 The Treasury Management Mid-Year Report for 2016/17 (the Mid-Year Report) is contained in Appendix 1. All of the 2016/17 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 11 February 2016.
- 5.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
  - a) An economic update for the first six months of 2016/17
  - b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - c) The Council's capital expenditure (prudential indicators)
  - d) A review of the Council's investment portfolio for 2016/17
  - e) A review of the Council's borrowing strategy for 2016/17
  - f) A review of compliance with Treasury and Prudential Limits for 2016/17
- 5.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval. An additional indicator has been included for PI-3 to show the Ratio of Financing Costs to Net Revenue including the PPP financing and repayment costs.
- 5.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.

### **6.2 Risk and Mitigations**

This report is an account of the outcomes delivered at the six month stage from the tightly risk controlled work that the Council's Treasury staff. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

### **6.3 Equalities**

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

#### 6.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

#### 6.5 **Carbon Management**

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

#### 6.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

#### 6.7 **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.

### **7 CONSULTATION**

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are currently being consulted and any comments received on the report will be reported at the Audit and Risk Committee meeting.

#### **Approved by**

**David Robertson**  
**CHIEF FINANCIAL OFFICER**

**Signature .....**

#### **Author(s)**

Name	Designation and Contact Number
John Yallop	Senior Finance Officer 01835 824000 ext 5933

#### **Background Papers:**

#### **Previous Minute Reference:**

Scottish Borders Council, 11 February 2016

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825016 Fax 01835 825166.  
email: treasuryteam@scotborders.gov.uk

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## **SCOTTISH BORDERS COUNCIL**

### **TREASURY MANAGEMENT MID-YEAR REPORT 2016/17**

*Draft – Pending 15 November 2016 Executive Committee*

## 1. BACKGROUND

### a) Treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

### b) The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. A primary function of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

### c) The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, where favourable conditions exist, any debt previously drawn may be restructured to meet Council risk or cost objectives.

### d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2016/17 as highlighted throughout this report.

## 2 ECONOMIC POSITION

### 2.1 ECONOMIC UPDATE *(from Capita Asset Services)*

#### a) UK

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government’s continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested



that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

b) **U.S.**

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

c) **Eurozone**

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

## 2.2 ECONOMIC OUTLOOK

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

### 2.3 INTEREST RATE FORECAST

- a) Table 1 summarises the latest interest rate forecast from the Council's treasury adviser, Capita Asset Services.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

**Source: Capita Asset Services – October 2016.**

- b) Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

### 3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There were no policy changes to the Statement. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

### 4 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2016/17

4.1 This part of the report is structured to update:

- The Council's capital expenditure plan.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow, and
- Compliance with the limits in place for borrowing activity.

#### 4.2 CAPITAL EXPENDITURE

*(Prudential Indicator (PI-1))*

- a) The original capital plan for 2016/17 was approved on 11 February 2016. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2016/17 which included net budget timing movements from prior years.

<b>Table 2</b>	<b>2016/17 Original Budget</b>	<b>2016/17 Current Approved Budget <sup>1</sup></b>	<b>Variance Original to Current Approved</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Place	21.8	25.0	3.2
People	27.7	25.4	(2.3)
Chief Executive	15.0	14.9	(0.1)
Other	2.3	2.2	(0.1)
<b>Total Capital Expenditure (PI-1)</b>	<b>66.8</b>	<b>67.5</b>	<b>0.7</b>

#### <sup>1</sup> Executive Committee 15 November 2016

- b) The current approved budget for 2016/17 is lower than the original budget due to adverse timing movements in areas of the capital plan. Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 15 November 2016. The key drivers of the changes in Table 2 are:

- Place department – the key movements are linked to the re-profiled Road Asset Management Plans and Winter Damage block budget. £2.4m was added to this budget as part of the 6 Month Capital Review. Also additions to Wilton Lodge Park (£100k) and Energy Efficiency Works (300k).
- People department – the key reduction in estimated expenditure is the net timing movement relating to the construction of Broomlands Primary School.

### 4.3 FINANCING OF THE CAPITAL PROGRAMME

- a) **Table 3** on the following page draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2016/17 capital programme.

<b>Table 3</b>	<b>2016/17 Original Budget</b>	<b>2016/17 Current Approved Budget <sup>1</sup></b>	<b>Variance - Original to Current Approved</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Expenditure (PI-1)	66.8	67.5	0.7
Other Relevant Expenditure	2.0	0.6	(1.4)
<b>Total Expenditure</b>	<b>68.8</b>	<b>68.1</b>	<b>(0.7)</b>
<i>Financed by:</i>			
Capital fund/Capital receipts	(1.3)	(1.3)	-
Capital grants & other contributions	(27.1)	(28.6)	(1.5)
Plant & Vehicle Fund	(2.0)	(2.1)	(0.1)
<b>Total Financing</b>	<b>(30.4)</b>	<b>(32.0)</b>	<b>(1.6)</b>
<b>Net Financing Need for the Year</b>	<b>38.4</b>	<b>36.1</b>	<b>(2.3)</b>

<sup>1</sup> Executive Committee 15 November 2016

- b) The reduction in overall financing need has arisen primarily due to the re-profiling the timing of the “Other Relevant Expenditure” which relates to lending to the National Housing Trust project delivered by Bridge Homes LLP. This amounts to a movement of £1.4m. Also, there is a projected re-profiling of the Capital Plan as detailed in 4.2 (b). In addition the level of borrowing required for specific projects has increased by £1.8m. This is negated by other small variations within other funding streams.

### 4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

#### CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council’s accounts for the year ending 31 March 2015.

<b>Table 4</b>	<b>2016/17 Original estimate £m</b>	<b>2016/17 Revised estimate £m</b>	<b>Variance £m</b>
<b>CFR * (PI-2)</b>	<b>291.8</b>	<b>285.9</b>	<b>(5.9)</b>

\* The CFR for this calculation includes current capital expenditure to 31 March 2015

**ACTUAL EXTERNAL DEBT (PI-5)**

- iii) Projected external debt for 2016/17 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. The borrowing figure is slightly lower than originally projected as the Council has had sufficient cash balances to meet expenditure requirements without further borrowing. In addition, the level of borrowing required to fund the Bridge Homes NHT Project is reduced in line with planned activity.
- v) Additional borrowing amounting to £4.0m has been undertaken in September 2016/17. Further borrowing of £10m to £12m is anticipated during the remainder of the year

<b>Table 5</b>	<b>2016/17 Original estimate  £m</b>	<b>2016/17 Current Approved Budget £m</b>	<b>Variance  £m</b>
Borrowing	197.9	197.1	(0.8)
Other long-term liabilities	52.6	52.9	0.3
<b>Total External Debt (PI-5)</b>	<b>250.5</b>	<b>250.0</b>	<b>(0.5)</b>

**(UNDER)/OVER BORROWING AGAINST CFR (PI-6)**

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cashflows to finance capital expenditure rather than enter into new debt financing arrangements.

<b>Table 6</b>	<b>2016/17 Original estimate  £m</b>	<b>2016/17 Current Approved Budget £m</b>	<b>Variance  £m</b>
<b>Gross External Debt</b>	<b>250.5</b>	<b>250.0</b>	<b>(0.5)</b>
CFR *	298.3	290.2	(8.1)
<b>(Under)/Over Borrowing against CFR (PI-6)</b>	<b>(47.8)</b>	<b>(40.2)</b>	<b>(7.6)</b>

\* The CFR for this calculation includes the current and two future years projected capital expenditure.

- viii) No difficulties are envisaged for the current or future years in complying with this prudential indicator.

### AUTHORISED LIMIT AND OPERATIONAL BOUNDARY (PI-7 and PI-8)

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
  - (ii) The **Operational Boundary** which shows the expected operational debt position for the period.
- x) **Table 7** below shows revised estimates for the debt indicators for the 2016/17 financial year and compares them with the original estimates shown in the 2016/17 Treasury Management Strategy Report.

<b>Table 7</b>	<b>2016/17 Original estimate £m</b>	<b>2016/17 Revised estimate £m</b>	<b>Variance £m</b>
<b>Gross External Debt (PI-5)</b>	<b>250.5</b>	<b>250.0</b>	<b>(0.5)</b>
<b>Authorised Limit</b> inc. Long Term Liabilities(PI-8a)	<b>307.2</b>	<b>310.1</b>	<b>2.9</b>
<i>Variance to External Debt Estimate</i>	<i>56.7</i>	<i>60.1</i>	<i>3.4</i>
<b>Operational Boundary</b> inc. Long Term Liabilities (PI-7a)	<b>272.4</b>	<b>273.1</b>	<b>0.7</b>
<i>Variance to External Debt Estimate</i>	<i>21.9</i>	<i>23.1</i>	<i>1.2</i>

#### 4.5 DEBT RESCHEDULING

Debt rescheduling opportunities continue to have been limited in the current economic climate. No debt rescheduling was undertaken during the first six months of 2016/17. The position will continue to be monitored on an ongoing basis, but current interest rate forecasts coupled with the corresponding restructuring penalty costs indicate it is unlikely that any debt rescheduling will be undertaken during the remainder of the year.

## INVESTMENT ACTIVITY

### 5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.
- b) The Council held £4.1m of balances in interest bearing accounts as at 30 September 2016 (£19.4m at 31 March 2016), and the investment yield for the first six months of the year was 0.39% against a benchmark of the average 7 day LIBID rate of 0.28%. As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The reduction in the balances invested from March to September, highlighted above are in line with the borrowing requirements as detailed in section 4.4 above. The reduced levels of investment and the need for increased borrowing come at a good time when interest rates remain low and are potentially still falling.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term. As part of this, and within the Treasury Management Strategy's Investment criteria officers have expanded the counterparty list used for operational purposes to Svenska Handelsbanken through the use of a call account.

### 5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.
- b) The Bank of Scotland is the Council's own bank for transactional receipts and payments. Although the bank only has an 'A' long term and 'A-1' short term credit rating from the main credit rating agencies, which is the lowest counterparty credit rating for investments as defined in the approved 2016/17 Treasury Management Strategy, it still remains a part-nationalised bank. On this basis, and as the Council currently only has an instant access investment account with the bank, it is proposed that the Council continue to allow the use of £5m as the daily maximum to be held with the Bank of Scotland to allow the daily cash management functions to operate effectively.
- c) It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much

more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

## TREASURY PERFORMANCE INDICATORS

The Treasury Management Strategy for 2016/17 established certain performance indicators for the Treasury Management Function, as defined below.

### 6.1 DEBT PERFORMANCE INDICATORS

These indicators are additional to the prudential & treasury management indicators covered earlier in this report. The Indicators are:

- i) **Average ‘Pool Rate’** charged by the Loans Fund compared to Scottish Local Authority average Pool Rate. Target is to be at or below the Scottish Average for 2016/17
- ii) **Average rate movement year on year.** Target is to maintain or reduce the average borrowing rate for the Council versus 2015/16.

The Average ‘Pool Rate’ can only be measured at the end of the financial year, once the Scottish Treasury Indicators have been published. The Average Rate movement year on year is on target to be maintained / reduced.

### 6.2 INVESTMENT PERFORMANCE INDICATORS

#### a) SECURITY

The Council’s maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.02% historic risk of default when compared to the whole portfolio.

**Year to Date (YTD) Performance** of this indicator is **0.02% historic risk** which is equivalent to the benchmark, if overnight deposits with the Council’s own bank, the Bank of Scotland, are taken into account. Excluding Bank of Scotland deposits, the risk of default on deposits was 0.002%, which is lower than the benchmark. This was achieved by investing with counterparties with higher credit ratings, especially in money market funds (AAA credit rating), which have a lower historic risk of default. Security risk was also managed by utilising only overnight or short term notice accounts.

#### b) LIQUIDITY

- i) Liquid short term deposits should be at least £3,000,000, available with a week’s notice. Liquid deposits were maintained above £3,000,000 throughout the six months to 30 September 2016.
- ii) Weighted Average Life benchmark, i.e. the average length of time over which cash is deposited, is **expected to be 0.5 years** (equivalent to a weighted average life of 6 months), with a **maximum of 1.0 years**.

The YTD weighted average life has been 0.01 years, well below the 0.5 year target. This 2016/17 figure also included money deposited in money market accounts, which could be called back at any time.



## **YIELD**

- i) Internal returns on cash investment above the 7 day LIBID rate.

The return for the six months to 30 September 2016 has averaged 0.39%, compared against an average seven day LIBID rate of 0.28%. This reflects the continued priority on ensuring cash is held in a secure and liquid form (as described in paragraph 5.2).

## **6.3 LOAN CHARGES**

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 11 February 2016 was £20.49m. It is expected that charges for 2016/17 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year. During the year so far an amount of £23k has been removed from this budget as approved by Executive Committee on 16 August 2016 to mainly to support the IT Transformation project and also condition surveys relating to artificial pitches. A further £1.506m will be removed from this budget in pending approval at the Executive Committee meeting on 15 November 2016. Updates on the estimates will continue to be reported as part of the revenue budget monitoring process.

**ANNEX A**

Indicator Reference	Indicator	Page Ref.	2015/16 Original estimate	2015/16 Revised estimate
<b>PRUDENTIAL INDICATORS</b>				
<b>Capital Expenditure Indicator</b>				
PI-1	Capital Expenditure Limits (£m)	6	66.8	67.5
PI-2	Capital Financing Requirement (£m) (CFR)	6	291.8	285.9
<b>Affordability Indicator</b>				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	9.0%	8.9%
PI-3	Ratio of Financing Costs to Net Revenue (exc PPP repayment costs)	N/A	8.9%	8.6%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	(0.05)	(0.00)
<b>External Debt Indicators</b>				
PI-5	External Debt (£m)	7	250.5	250.0
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	8	272.4	273.1
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	219.7	220.1
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	8	307.2	310.1
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	254.6	257.1
<b>Indicators of Prudence</b>				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	8	(47.8)	(40.2)
<b>TREASURY INDICATORS</b>				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		272.4	273.1
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		95.3	95.6
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		<b>Lower</b>	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	12	20%	20%