

# Public Document Pack

## **Argyll and Bute Council** **Comhairle Earra Ghaidheal agus Bhoid**

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19 September 2013

### **SUPPLEMENTARY PACK 1**

**AUDIT COMMITTEE - COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 20 SEPTEMBER 2013 at 11:15 AM**

I enclose herewith item 12 and 13 which were marked "to follow" on the Agenda for the above Meeting.

Douglas Hendry  
Executive Director – Customer Services

### **ITEMS TO FOLLOW**

- 12. EXTERNAL AUDIT - PROGRESS REPORT ON EXTERNAL AUDIT PLAN**  
Report by Audit Scotland (Pages 1 - 10)
- 13. EXTERNAL AUDIT REPORTS**
  - (a) Review of Internal Controls 2012 - 2013 (Pages 11 - 16)
  - (b) Scotland's Public Finances - Addressing the Challenges: Follow Up Audit (Pages 17 - 34)

### **AUDIT COMMITTEE**

Martin Caldwell (Chair)  
Councillor Maurice Corry  
Councillor Iain MacDonald  
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Councillor Gordon Blair  
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# Argyll and Bute Council

# Audit Committee

# External Audit Progress Report



Prepared for Argyll & Bute Council  
September 2013

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

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# Audit Progress

## Audit Plans

1. Our Annual Audit Plan (AAP) for the 2012/13 Argyll and Bute Council (ABC) audit was presented to the Audit Committee on 15 March 2013. The audit plan set out the key risks facing ABC in financial year 2012/13, the actions taken by management to mitigate these risks and the main audit outputs for the year.
2. The table at Appendix 1 provides details of progress to date against the 2012/13 AAP.

## Governance work

3. **Review of internal audit.** We completed our review of the internal audit service in terms of International Standards on Auditing 610 (Considering the Work of Internal Audit). Overall, we concluded that the internal audit service operates in accordance with the CIPFA code of practice for internal audit in local government. Our review identified a number of areas where we planned to place formal reliance on the work of internal audit for the purposes of our financial statements responsibilities. These areas were:

- |                                 |                       |
|---------------------------------|-----------------------|
| • Non Domestic Rates            | • Trade Receivables   |
| • Council tax                   | • Financial ledger    |
| • Payroll                       | • Treasury management |
| • Trade Payables and Purchasing | • Capital accounting. |

4. We issued a letter to the Head of Strategic Finance in March 2013 advising him of those areas of internal audit work that we planned to rely upon. We also shared our financial systems audit programmes with internal audit so that they could make use of them, as appropriate, when carrying out testing on key controls.
5. **Internal Controls.** We have updated our knowledge of the organisation in relation to governance and accountability and completed our preliminary evaluation of the key financial systems. These are the systems that we consider to be key to providing us with assurance for the financial statements. We carried out our controls testing work and the results of this were reported to management on 28 June 2013.
6. **ICT computer audit activity.** ABC exchanges data with many other public bodies for example, benefit information with DWP; the social work and education departments exchange information with the police, Criminal Justice partnership and Children Hearings; and information on births, deaths and marriages is shared with the General Register of Scotland.

7. Government Secure Intranet (GSI) is the mechanism that allowed the council to share data and services. The council reapplies annually to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
8. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures, with the aim of providing a substantial level of trust between organisations. ABC's first submission was rejected and the council is now at stage two and due to resubmit. Current GSX accreditation will expire on 26th September.
9. As a result of this ongoing work, an update on the PSN issue will be incorporated within our 2012/13 annual audit report in October 2013 together with an update on our Computer Services Review from last year.

## Financial Statements

10. We received the unaudited financial statements on 28 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team.
11. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising schedule issued to the Finance Manager - Corporate Support over the course of the audit. This schedule was finalised and agreed on the 28 August 2013. The more significant issues arising were discussed with the Head of Strategic Finance at a meeting on 10 September 2013.
12. Our ISA 260 Report will be submitted to this meeting of the Audit Committee. This report sets out for the Audit Committee's consideration the matters arising from the audit of the financial statements for 2012/13.

## Performance Audit and Best value

13. In February Audit Scotland was asked by ABC to investigate some issues raised about the Council's dealings with an external company, The Actual Reality Learning and Leadership Company Limited, which became The Actual Reality Trust in March 2013. Our response explained that it was not appropriate for Audit Scotland carry out work on all of the issues raised. However it was confirmed that the sales of Castle Toward and Ardentenny would be reviewed as part of the 2012/13 annual audit, and that targeted audit work would be carried out to review member to member and member to officer relationships. The results of the work on the property sales will be included within our 2012/13 annual audit report in October 2013. The work on member to member and member to officer relationships is currently progressing and will be the subject of a separate report.
14. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. The findings and key messages of each study are published in a national report. Recent studies of relevance to local government in

Scotland have included a review of Managing early departures from the Scottish public sector (published May 2013) and Maintaining Scotland's roads (published May 2013). The National Scrutiny Plan for Local Government was published in April 2013.

15. Full copies of these reports and all other national reports are available for download from the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
16. **Impact reports.** As part of our commitment to maximising the impact of our work, a targeted follow up review was undertaken of ABC's response to the Audit Scotland report 'Scotland's Public Finances: Addressing the Challenges' (August 2011). The aim of the local follow-up work was to assess how the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. The report arising from our review has recently been agreed by the council and will be submitted to this meeting of the Audit Committee.



# Technical Bulletins

17. Audit Scotland's Technical Services Unit prepares and issues Technical Bulletins (TBs) on a quarterly basis to provide auditors with guidance and information on technical developments in the quarter. Additionally, TBs are sent to audited bodies and other stakeholders to make them aware of the issues that have been notified to auditors. The most recent TB was issued in June 2013 (TB 2013/2). Key issues relating to the local authority sector are summarised at Appendix 2 for information.
18. It should be noted that the matters highlighted in Appendix 2 are not exhaustive; they highlight some of the key issues.

# Appendix 1

## 2012/13 Planned Outputs

Outturn against 2012/13 annual audit plan as at 16 September 2013

Planned outputs	Planned reporting date	Date draft report submitted	Management response to draft	Final report submitted
<b>Governance</b>				
Internal audit reliance letter	28/02/2013			4/03/2013
Annual audit plan	28/02/2013	25/02/2013	1/03/2013	04/03/2013
Internal controls management letter	31/07/2013	28/06/2013	10/09/2013	13/09/2013
ICT review	31/08/2013	Update to be incorporated within Annual Report		
<b>Financial Statements</b>				
Report to management in terms of ISA 260 (Communication of audit matters to those charged with governance)	30/09/2013			
Independent auditor's report on the financial statements	30/09/2013			
Annual report to Members	31/10/2013			
<b>Performance</b>				
'Scotland's Public Finances: Addressing the Challenges'- Follow up review	31/08/2013	2/09/2013	10/09/2013	13/09/2013

# Appendix 2

## Summary of Technical Bulletin issues

2013/2: June 2013

Topic	Issue
<b>2013/14 Code</b>	<ul style="list-style-type: none"> <li>• The CIPFA/LASAAC Local Authority Code Board has issued the edition of the Code which specifies local authority accounting requirements for 2013/14. It sets out the principles and practices of accounting required to give a ‘true and fair’ view of the financial position and transactions of a local authority, including group financial statements where the authority has material interests in subsidiaries, associates or joint ventures. In Scotland, the Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003.</li> <li>• Significant changes to the Code include the following:               <ul style="list-style-type: none"> <li>– Non-domestic rates</li> <li>– Property, plant and equipment</li> <li>– Leases</li> <li>– Service concession arrangements</li> <li>– Employee benefits</li> </ul> </li> </ul>
<b>2012/13 report on actuarial information</b>	<ul style="list-style-type: none"> <li>• PwC has prepared a report called Review of IAS 19 reporting to provide support to auditors when assessing the actuaries who produce retirement benefits figures under IAS 19 as at 31 March 2013. The report was commissioned by Audit Scotland (and the other UK audit agencies) and covers the local government, police and fire pension schemes. The work carried out for the report involved assessing the competence and objectivity of, and assumptions and approach adopted by, the relevant actuaries.</li> <li>• The work found that actuaries signing-off the calculation of the figures are appropriately qualified, and the actuarial firms are experienced and well-reputed. There are no known circumstances which would impair their objectivity to produce the figures.</li> </ul>
<b>Significant trading operations</b>	<ul style="list-style-type: none"> <li>• LASAAC and the CIPFA Directors of Finance (Scotland) Section has issued Significant trading operations consolidated guidance</li> </ul>

Topic	Issue
	<p>to provide updated guidance on the identification of significant trading operations.</p> <ul style="list-style-type: none"><li data-bbox="494 360 1402 654">• The most noteworthy aspect of the guidance is that it advises that the identification of a significant trading operation should focus only on those services or activities which are external to the local authority as a single entity. This should exclude activities that are statutory in nature such as care home services. Any internal trading would be subject to the duty to secure best value but not the legislation relating to trading operations and accounts.</li></ul>

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Mr Bruce West  
Head of Strategic Finance  
Argyll and Bute Council  
Kilmory  
Lochgilphead  
PA31 8RT

13 September 2013

Dear Bruce

**Argyll and Bute Council**  
**Review of Internal Controls - 2012/13**

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

We seek to gain assurances that the audited body:

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

The purpose of this review is to evaluate whether the key internal controls operating within the main financial systems are adequate so as to enable us to place reliance on them when forming an opinion on the 2012/13 financial statements.

**Internal Audit**

Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.

As part of our risk assessment and planning process we carried out an early assessment of the internal audit function. Our review concluded that the audit service provided by the Internal Audit section in Argyll and Bute Council operates in accordance with the CIPFA code of practice for internal audit in local government. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan, issued in February 2013.

**Systems of Internal Control**

Through discussions with internal audit and review of the timings of planned reviews in their internal audit plan, it was agreed that internal audit would review the key internal controls operating in the eight main financial systems: Financial ledger, Debtors, Creditors, Council Tax billing and collection,

Mr Bruce West  
Head of Strategic Finance  
Argyll and Bute Council

Non Domestic Rates billing and collection, Cash income and banking, Payroll and Treasury Management.

All eight internal audit files and reports were subject to review. Some gaps in coverage (mainly detailed substantive testing) were identified and carried out by ourselves. Our testing did identify a small number of issues that had not been raised by internal audit which require management consideration. These are listed in Appendix 1 to this management letter.

Internal audit have issued separate reports for each of the 8 reviews with a total of 41 recommendations (8 High, 10 Medium and 23 Low risk.)

On the basis of the work undertaken we have concluded that, in the main, we are satisfied that there are adequate controls operating within the main financial systems. We therefore placed reliance on these when planning our year end audit work. There are, however, a number of control weaknesses where improvements could be made. Action plans to address these weaknesses have been agreed by the council. Our approach to the financial statements audit was amended to reflect the identified control weaknesses.

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of members and officers to determine the extent of the internal control system appropriate to Argyll and Bute Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

### **Acknowledgement**

The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Please do not hesitate to contact Russell or myself if you have any specific queries relating to this management letter.

Yours sincerely



**David Jamieson**  
**Senior Audit Manager**

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## Appendix 1

No	Issue/Risk	Agreed Action	Responsible Officer	Action Date
1	<p>Departments are able to create new customer accounts on the sundry debtors system. There are no procedures outlining the credit checks to be carried out. In addition credit limits are not set. There is a risk of inappropriate customer accounts being set up.</p>	<p>We recently prepared a new Sundry Debt Procedures Manual which was issued on 9 May. Section 4 sets out policies for creating new accounts which recognises that they should be sent out only after consideration as to the credit worthiness of the debtor prior to provision of a non statutory service to them. At 4.3 it goes on to cover the procedure for a credit check. Section 11 covers credit notes. A reason must be stated for these. We have still to deliver training relating to the new manual to all users of the sundry debtors system. We are just about to lose our team leader on secondment for 2 years and we have still to recruit a replacement.</p> <p>Training will be delivered to reinforce the procedures set out in the Sundry Debt Procedure Manual by 31 Jan 2014.</p>	Revenues Supervisor	31 January 2014

No	Issue/Risk	Agreed Action	Responsible Officer	Action Date
2	Our testing of a sample of credit notes identified one instance where the reason for raising the credit note was not recorded on the sundry debtors system.	As above	Revenues Supervisor	31 January 2014
3	Our testing of Council Tax discounts and exemptions identified one instance where no completed application form could be found to support a class 21A exemption.	<p>Class 21 a is a dwelling of a person made bankrupt. If we have the evidence to support this exemption, then we may well process this as it can be difficult to get the appropriate person to fill in a an application form in these circumstances when they have walked away from a property. This is a pragmatic approach which avoids instigating recovery action when we know exemption is merited and no recoveries would be made.</p> <p>Agreed action: None required. We do not agree that this is a risk where we have evidence on file of the bankruptcy of the previous owner and the property vesting in the permanent trustee in bankruptcy.</p>		



No	Issue/Risk	Agreed Action	Responsible Officer	Action Date
4	<p>Our testing of Council Tax discounts and exemptions identified one case where a single person discount had continued but no correspondence could be found since February 2008.</p>	<p>We have utilised Experian to assist with single person discount checks. Where they have verified that the SPD is due against their records, we have not had to do any further work. You will not see evidence of this verification against the documents held in the document management system against that specific account as it was not based on "correspondence". We have carried out 2 exercises with Experian which have checked 100% of our SPD records.</p> <p>Agreed action: None required. We do not agree that this is a risk where we have verified the continued eligibility for single person discount against Experian records.</p>		

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# Argyll & Bute Council

## Scotland's Public Finances: Addressing the challenges. A targeted follow up report



Prepared for Argyll & Bute Council  
September 2013

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## Background

1. In 2010, Audit Scotland agreed a targeted approach to following-up a small number of performance audit reports each year to promote local impact.
2. '*Scotland's public finances: Addressing the challenges*' published in August 2011 is the only performance audit report to be selected for targeted follow-up in 2012/13. This report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.
3. The aim of the local follow-up work is to assess how Argyll and Bute Council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. This report summarises the key findings arising from our local follow-up work.

## Key findings

4. The following areas of good practice were identified through the review:
  - The budget pack was supported by a comprehensive package of budget papers outlining key assumptions, proposals, cost and demand pressures and financial risks;
  - The Council has carried out extensive budget consultation and engagement with members of the public, employees and key stakeholders;
  - The completed 3 year programme of service reviews identified and delivered the targeted savings.
5. The following points were identified for the council to consider:
  - The Council have identified a potential funding gap over the period 2013/14 to 2019/20 of £40.635 million. The gap is based on various assumptions and projections that may alter, perhaps significantly, as events develop;
  - The Council has identified required 2013/14 savings of £5.805 million. An approach/process is being developed to identify the further required savings of £34.830 million over the following 6 years.
  - Achieving the significant year on year incremental savings will require fundamental decisions to be made by elected members about service provision and delivery. As such there is scope for the Council to improve how it uses cost information to support decision making.

## Management action

6. Management have agreed the factual accuracy of the report and completed the accompanying action plan (Appendix 1).
7. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the issues that may exist. It remains the responsibility of management to determine the extent of any

improvement actions appropriate. We would stress, however, that commitment to an improvement agenda is an essential part of the efficient management of any organisation

### **Acknowledgement**

8. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged.

# Introduction

9. *Scotland's public finances: Addressing the challenges* was published by the Auditor General and the Accounts Commission in August 2011. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.
10. The key messages from the report were:
  - The Scottish Departmental Expenditure Limit revenue budget will fall by £2.1 billion (eight per cent) to £23.8 billion between 2010/11 and 2014/15 while the capital budget will fall by £1.2 billion (36 per cent) to £2.1 billion.
  - Public bodies will face increasing demand and cost pressures in the future. Increasing demand will be generated as a result of an ageing population and the heightened expectations of the public, while cost pressures arise in areas such as maintenance backlogs and the cost of revenue-financed capital projects.
  - Public bodies need to focus on achieving long-term financial sustainability. This requires a clear understanding of the organisation's costs, a clear methodology for setting budgets based on priorities and the outcomes to be achieved, and strong leadership and governance.
  - Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning will be necessary to ensure that the right people and skills are available to deliver effective public services in the future.
  - Public bodies are considering how they can work better together as a way to reduce costs, but progress to date has been limited and it is likely to be a number of years before cost savings are realised.
11. The report did not make any direct recommendations. However, the report provided a checklist setting out a number of key issues and risks which managers, elected members and other leaders of public bodies will need to identify, monitor and manage:
  - Reforming public services - including the risk of short-termism, unclear aims and objectives and lack of commitment or constructive challenge.
  - Workforce reductions - including the risk of loss of essential skills as a result of key staff leaving and increased workloads for those who remain.
  - Financial sustainability - including the risk of unclear priority budget-setting, lack of risk and evidence-based cost-reduction strategies and unforeseen cost pressures.
  - Leadership and governance - including the risk of lack of direction and ownership as a result of weak leadership, and inadequate scrutiny and challenge as a consequence of poor governance arrangements.



12. A key consideration of *Scotland's public finances: Addressing the challenges* was the extent to which workforce reductions were being used as a means to deliver financial savings. Audit Scotland's Performance Audit Group is currently undertaking an audit on workforce planning which is likely to address this issue in more detail.

### **Audit scope and objectives**

13. The follow up audit is being carried out in all 32 Councils in Scotland. In addition, all health boards, 20 Central Government bodies, including the Scottish Government and Scottish Enterprise, and Scottish Water will be covered by the follow up audit. The aim of this follow-up work is to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability.
14. The follow-up work focuses on two key questions:
- Does the council have sustainable financial plans which reflect a strategic approach to cost reduction?
  - Do senior officials and elected members demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?
15. These questions have helped us to establish how well Argyll and Bute Council is addressing the key messages contained in the national report.

# Findings

## Does the Council have sustainable financial plans which reflect a strategic approach to cost reduction?

### Financial Plan 2013/14

16. In October 2012 the council adopted a medium/longer term approach to managing its budget by reviewing its financial position over a 7 year period. Previously the council adopted a strategic 3 year approach to managing its budget. This revised approach is based on a medium/longer term financial outlook for the revenue budget and sets out to manage that by spreading out the savings required over a 7 year period. It comprises a detailed 1 year budget, summary budgets for years 2 and 3 and high level forecasts for years 4 to 7. The revenue budget and savings required are to be reviewed and updated each year along with the corporate and service plans. The budget approach agreed by the council in October 2012 identified an annual funding gap in 2019/20 of £40.894 million resulting in required annual incremental savings of £5.842m (2.9% of service revenue budgets) each year.
17. Table 1 below lists the revenue budget for the periods 2013/14 to 2019/20 reported to the council on 14 February 2013. Whilst the longer term budget figures were reported to the council in February, only the detail of the budget for 2013-14 was approved. The updated annual funding gap in 2019/20 was revised to £40.635 million, resulting in required annual incremental savings of £5.805 million.

**Table 1: revenue budget for periods 2013/14 to 2019/20**

Funding Gap	Detailed Budget		High Level Budget		Summarised Budget		
	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Base budget commitments	245,723	244,007	239,141	240,839	242,614	244,434	245,799
Departmental non-pay inflation	1,929	4,019	7,175	10,434	13,744	17,141	20,626
Departmental cost and demand pressures	2,077	4,524	6,091	8,091	10,091	12,091	14,091
Savings previously agreed	-1,403	-2,292	-2,292	-2,292	-2,292	-2,292	-2,292
Increased fees and charges	-350	-710	-710	-710	-710	-710	-710
<b>Total</b>	<b>248,326</b>	<b>250,258</b>	<b>250,115</b>	<b>257,072</b>	<b>264,157</b>	<b>271,374</b>	<b>277,514</b>
Funding	244,415	242,444	237,216	233,501	234,620	235,746	236,879
<b>Funding gap</b>	<b>-3,911</b>	<b>-7,814</b>	<b>-12,899</b>	<b>-23,571</b>	<b>-29,537</b>	<b>-35,628</b>	<b>-40,635</b>

18. The savings options agreed by the council in February 2013 meet the target of £5.842m per annum set by the council in October 2012 and are listed in Table 2 below:

**Table 2: annual savings options agreed by council**

Savings Proposals	Annual Saving £000
Improvement & HR	110
Strategic Finance	76
Adult Care	1,505
Children & Families	212
Community & Culture	348
Education	1,302
Facility Services	402
Customer & Support Services	248
Governance & Law	66
D&I Directorate	76
Economic Development	109
Planning & Regulatory Services	115
Roads & Amenity Services	910
3% increase in fees and charges 2015-16	363
<b>Total Savings</b>	<b>5,842</b>

19. Lead councillors worked with services to identify savings options and information on each savings option for 2013/14 is included within the annual service plans. Due to a required lead-in period, the council estimate that savings of £4.656 million can be realised for 2013/14. In order to achieve the updated annual funding gap arising from the budget (£5.805 million), the council agreed that the balance would be made up of diversion of one-off funding for Teacher Induction Scheme (£230,000) and transfer from reserves that have been unearmarked (£919,000).
20. The Scottish Government budget contains a commitment to ongoing efficiency savings. £2.160 million of the savings identified for 2013/14 are efficiency savings and £2.425 million of the full year savings shown at Table 2 represent efficiency savings.

**Significant financial risks**

21. A report submitted by the Head of Strategic Finance as part of the budget pack to the council in February 2013 summarises the current level of financial risk and compares to the financial risks noted within the report to council in February 2012. The report highlighted that there are a range of risks associated with the assumptions used in compiling the budget in terms of probability, service impact and financial impact.
22. An exercise was undertaken for each service looking at each of the main activities, teams and business units within a service and identifying risks related to cost levels, service demands and income. The probability, service impact and financial impact of each risk was assessed. A range of council wide risks were identified and assessed and risks related to savings options and funding were also identified and assessed.
23. The top three risks relating to service demands, in terms of the likely financial impact were identified as:
  - Winter Maintenance – Adverse weather conditions which require a greater than budgeted number of gritting runs
  - Adult care - Older People Population Growth
  - Older People - Level of service demand remains at current commitment or increases due to needs becoming more complex.
24. The main funding risks relate to council tax and Scottish Government grant. The estimated level of council tax income was reviewed at the end of November 2012 and is based on current and forecast band D equivalents and non-payment rates. No further increase in council tax income has been assumed for 2013-14 and 2014-15. A 1% variation in council tax income amounts to £0.450 million.
25. Scottish Government funding is based on the local government finance settlement announcement. The announcement on 27 November 2012 provided details of Local Government funding for 2013-14 and 2014-15 as part of the three year finance settlement. This represents a firm indication of funding for these 2 years and it is unlikely that funding will fall below these levels. One area of risk to funding would be if the council were deemed not to have met the conditions attached to the finance settlement and this has been assessed as remote. A 1% variation in Scottish Government funding amounts to £2.2m.
26. The report by the Head of Strategic Finance highlights that the council will need to monitor a number of the risks/assumptions contained in his report over the 2013/14 financial year and this monitoring will be built into the budget monitoring process.

**Cost Reduction Plans**

27. The council has completed a 3 year programme of service reviews where savings targets of between 15% and 20% were set. A clearly documented and structured approach encompassing baseline, benchmarking, future challenges, risks analysis and two stage options appraisal was used for each review. There was a robust methodology for identifying,

implementing and monitoring savings and changes in service delivery that led to efficiency savings, prioritisation or better use of resources. The council's Assurance and Improvement Plan Update 2013-2016 records that the council has demonstrated a good track record of completing service reviews to time and implementing the recommendations to deliver the required savings.

28. The programme of service reviews, which commenced in 2009, had been the main tool for the council in identifying budget savings since 2010/11. Savings proposals are now developed and considered as part of the budget process and are included within service plans. For 2013/14, the savings options section within each service plan contains a summary of all savings options followed by comprehensive details for each savings option. The details include impact on service delivery, impact on staff, longer term implications, risks associated with the implementation timetable and actions required to deliver savings. Where necessary, equality impact assessments have also been undertaken. Implementation of savings is reviewed through budget monitoring and performance scorecards to assess both the financial impact and the impact on performance.
29. As outlined above, officers have developed savings options for 2013/14, with each option described in the relevant savings template, and have also considered the actions required to deliver the saving and any risks associated with the saving implementation timeline. The council acknowledge, however, that the savings options have not gone through the same robust process as the service review options in previous years. As noted above, implementation of the savings will be monitored through routine budget monitoring.

#### **Action Plan 1**

30. The council has also developed a Corporate Improvement Plan to take forward corporate improvement, deliver the annual requirement for efficiency savings and support continuous improvement.

#### **Benchmarking: costs and performance**

31. Our Annual Report on the 2011/12 Audit recorded that there was scope to develop a more coordinated approach to benchmarking, to demonstrate benchmarking is being carried out on a comprehensive basis across all services and that it is being used to improve performance. The Report also noted that the process of mapping cost and budget to service and corporate outcomes could be further refined.
32. In their response, the council noted that these actions would be taken forward via the Corporate Improvement Plan as part of the project related to productivity and service improvement.
33. At its meeting in December 2012 the Audit Committee considered a report on the national review carried out by Audit Scotland "Managing Performance – Are You Getting It Right?" The committee noted that the areas for improvement identified in the report were also being taken forward through the project on Productivity and Service Improvement as part of the Corporate

Improvement Programme and that a key element of this project is the review of the council's Planning and Performance Management Framework (PPMF).

34. The council has produced an action plan to address the key points contained in Audit Scotland's report *Using cost information to improve performance* published in May 2012. The council acknowledge that it can improve how it uses cost information against a number of the key points from the checklist; in particular, there is scope to improve information in detailed cost analysis of services to support decision making arrangements. The action plan will be taken forward principally through the Corporate Improvement Plan project related to productivity and service improvement. No dates for completion of the action steps have been included in the action plan.

## Action Plan 2

### Longer Term Financial Strategy

35. As outlined in paragraph 16, the council's approach is based on a medium/longer term financial outlook for the revenue budget and sets out to manage that by spreading out the savings required over a 7 year period. It comprises a detailed 1 year budget, summary budgets for years 2 and 3 and high level forecasts for years 4 to 7. This approach was agreed by the council at its meeting on 25 October 2012 and proposed to balance income and expenditure over the medium/longer term, rather than requiring a fully balanced budget in each and every year. The key requirements for this approach were agreed as:
- spreading the revenue budget savings over the next 7 years;
  - reviewing and updating the revenue budget and savings required each year;
  - reviewing and updating corporate and service plans each year;
  - over the 7 years expenditure must not exceed income;
  - any use of reserves in any year must be offset by re-instatement in other years unless it is a one-off use of reserves to fund one-off costs;
  - the council must have adequate reserves to manage any interim differences between income and expenditure in the seven years; and
  - the final year expenditure must not exceed income that year to ensure the underlying budget carried forward is sustainable.
36. As detailed in Table 1, an annual funding gap in 2019/20 of £40.894 million was identified after deducting the current base commitments, inflation, cost/demand pressures and fees proposals from the funding and adjusting for the savings previously agreed as part of the 2012/13 budget exercise. In his report on the Revenue Budget to the council in February 2013, the Head of Strategic Finance records that if all of the proposals included in the budget were taken (including one-off requests for funds detailed in his report) then:

- total expenditure over the seven years is £12.630m less than income;
- the annual savings target of £5.842m has been met; and
- expenditure in 2019-20 exceeds income by £0.037m.

37. This is on the basis, however, that the savings targets each year from 2014/15 will be achieved. At this stage only savings for the first year (2013/14) have been identified and an approach to delivering the remaining years' savings is currently being developed. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. Members will need to provide consistent and clear leadership on priorities. There is a risk that the council is unable to deliver vital public services if these savings are not achieved.

### **Action Plan 3**

38. At its meeting of 27 June 2013, the council considered a report by the Head of Strategic Finance which set out proposals on how to take forward the revenue and capital budget process for 2014/15 and also provided summary information on the current budgetary outlook through to 2019/20 (long term position still around a £5.8m gap per annum). The proposals included a recommendation that the council need to consider whether it wants to continue with balancing the budget over the period to 2019/20 or whether the focus should be on a shorter period of time. A further update on the revenue budget outlook was reported to members on 29 August 2013. In overall terms this outlined a similar position to that reported in June.

## **Do senior officials and elected members demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?**

### **Ownership of Financial Plans**

39. The council has an effective budget setting process which clearly demonstrates an understanding of its costs, financial pressures and the impact of any proposed savings. The budget pack submitted to the council contains a comprehensive package of budget papers outlining key assumptions, proposals, cost and demand pressures and financial risks.
40. Within the budget pack, annual service plans are provided for each service, influenced by the objectives and priorities of the Corporate Plan. As part of the 2013/14 budget process, the council has also updated the Corporate Plan. Service Plans have been prepared for each service and these have been influenced by the objectives and priorities emerging from the corporate plan update and risk registers. The service plans provide an overview of each service, show how service and corporate outcomes relate to each other and set out the success measures, targets/timescales, and risks for each service outcome. The service plans also list details of the budgetary allocation against each service outcome and provide a summary of the key budgetary issues for each service.
41. Service budgets have been constructed to reflect the service plans. Within each service plan there are several templates including a financial summary, base adjustments, cost pressures, demand pressures, inflation and savings options. The templates also identify the risks and



resource implications as well as budgetary impact. As a result, the council is able to demonstrate it has allocated resources in line with its priorities.

42. Senior officials and elected members are involved throughout the budget setting and approval process. All budget related reports are presented to the council and lead councillors worked with services to identify savings options. Information on each savings option for 2013/14 is included within the annual service plans.
43. As noted at paragraph 21 above, a report submitted by the Head of Strategic Finance as part of the budget pack to the Council in February 2013 summarises the current level of financial risk and compares to the financial risks noted within the report to council in February 2012. Risks specific to Income & Funding and Expenditure are included in the Strategic Risk Register (SRR) which is considered regularly by the Audit Committee. The council oversees the strategic risks associated with activities mainly through direction from the Audit Committee. The SRR identifies 'a need to make significant and unplanned reductions in expenditure or redirection of budgets' in the amber risk category. The risk register also documents the controls in place to mitigate risks.
44. As part of the budget process, the strategic risk register is reviewed against the draft corporate and service plans. Service plans and budgets are prepared to reflect current risks.

### Transparency and Accountability

45. As part of the 2013/14 budget process, 3,000 copies of the budget consultation leaflet were distributed to council offices for members of the public to access. It was also available through the council's website where there was a budget simulator tool and on the "looking local" television channel. Responses or comments could be made in writing, by e-mail (where a general e-mail address was set up) or online. There was also a web cast by the Council Leader. A presentation based on the content of the budget consultation leaflet was made to the Community Planning Partnership Management Committee and to special meetings of the Area Community Planning groups. Lead councillors met a number of stakeholder groups. Argyll Voluntary Action carried out engagement sessions with hard to reach groups. The Deputy Leader and Lead Councillor for Strategic Finance and SMT also met with the trade unions for a budget briefing session.

### Role of elected members

46. Detailed quarterly revenue budget monitoring reports are presented to the full council. These provide narrative relating to year to date/forecast outturn position supported by overall successes, challenges, risks and future actions, objective (departmental breakdown) summary, subjective (cost type breakdown) summary and an analysis of targeted savings versus savings realised to date. This is supplemented by budget monitoring reports for each directorate detailing:
  - Successes, challenges, risks and future actions
  - Objective summary



- Subjective summary
- Targeted savings versus savings realised to date
- Major variances with explanations
- Expenditure to date versus remaining budget graph

47. Detailed quarterly capital monitoring reports are also presented to the full council.

# Identified risks and management action

No	Para No.	Issue/ Risk	Management Response	Target Date
1	29	<p>The council acknowledge that the savings options developed for 2013/14 have not gone through the same robust process as the service review options in previous years.</p> <p><i>There is a risk that planned savings for 2013/14 may not be achieved as a result of inadequate scrutiny and challenge of savings options identified.</i></p>	<p>Implementation of budget savings will be monitored through routine budget monitoring and progress reported to Council. The June budget monitoring report which was reported to Council in August indicated that 75% of savings had been secured 25% of the way through the financial year. There were only 2 savings options where significant issues had been identified and these have been reported – Struan Lodge and Streetscene.</p>	Already actioned.
2	34	<p>The council has produced an action plan to address the key points contained in Audit Scotland's report "Using cost information to improve performance" published in May 2012. The action plan is to be taken forward principally through the Corporate Improvement Plan project related to productivity and service improvement. No dates are included in the action plan</p> <p><i>There is a risk that each of the action steps is not accomplished within a reasonable timescale.</i></p>	<p>This will be taken forward on a number of fronts. Service prioritisation reviews will require an element of cost information to be considered. The Councils approach to benchmarking will require unit costs to be compared including the use of the SOLACE national benchmarking information. Progress has commenced within Roads and Amenity Services on developing service based financial performance measures and this will be reviewed and rolled out to all service and captured as part of the review of the Planning and Performance Management</p>	Progress will be reviewed at 31 March 2014.

No	Para No.	Issue/ Risk	Management Response	Target Date
			Framework.	
3	37	<p>The required 2013/14 savings of £5.805 million have been identified. An approach/process is being developed to deliver future years' savings. Members will need to provide consistent and clear leadership on priorities.</p> <p><i>There is a risk that the council is unable to deliver vital public services if these savings are not achieved.</i></p>	<p>This will be addressed as the Council reviews its corporate plan and develops with community planning partners the detailed action plans to support delivery of the Single Outcome Agreement. These priorities will then be reflected in spending plans through the programme of service prioritisation reviews that will align resources with council priorities.</p>	<p>Progress will be reviewed at 30 June 2014.</p>

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