East Lothian Council

MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 19 NOVEMBER 2013
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

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Committee Members Present:
Councillor K McLeod (Convener)
Councillor S Brown
Councillor J Caldwell
Councillor S Currie
Councillor A Forrest
Councillor J Williamson

Council Officials Present:
Mrs A Leitch, Chief Executive
Mr A McCrorie, Depute Chief Executive (Resources and People Services)
Ms M Patterson Depute Chief Executive (Partnerships and Community Services)
Mr J Lamond, Head of Council Resources
Mr T Shearer, Head of Communities and Partnerships
Mr R Montgomery, Head of Infrastructure
Ms K Maguire, Corporate Finance Manager
Mr D Proudfoot, Property Maintenance & Services Manager
Ms K MacNeill, Service Manager – Licensing, Administration & Democratic Services
Mr P Vestri, Corporate Policy & Improvement Manager
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr S Kennedy, Risk Officer

Clerk:
Miss F Currie, Committees Assistant

Apologies:
Councillor J Goodfellow
Councillor P McLennan

Declarations of Interest:
None

1. MINUTE OF THE MEETING OF THE AUDIT & GOVERNANCE COMMITTEE ON 17 SEPTEMBER 2013

The minute of the meeting of the Audit & Governance Committee on 17 September 2013 was presented for approval.

The Convenor drew Members' attention to an error in the second last paragraph on Page 3 and proposed the following amendment: deletion of "At the request of Councillor Caldwell..." There were no other amendments proposed.

Decision

The Committee approved the minute subject to one agreed amendment.

2. COUNCIL RESOURCES SERVICE RISK REGISTER

A report was submitted by the Depute Chief Executive (Resources and People Services) to the Committee for discussion, comment and noting of the Council Resources Risk Register.

The Risk Officer, Scott Kennedy, presented the report drawing Members attention to the appendices which contained details of the risks identified in the Register. He indicated that the key contacts were either Service Managers or officers and that the Register focussed on high or very high risks.

In response to questions from Members, the Head of Council Resources, Jim Lamond, explained that the risk of rent arrears had been increased by the recent welfare reforms. For those in receipt of benefits, arrears were calculated on the amount of rent due after the deduction of any housing benefit. However, the assessment of risk and the mitigating action taken to manage the risk had not been updated to reflect the recent monies made available by the Scottish Government for those affected by the welfare changes. Related to this funding, Mr Lamond indicated that plans were underway for a publicity/take-up campaign to encourage tenants to apply for the financial assistance available to them under the Council's Discretionary Housing Policy.

The Convenor thanked officers for their work on the Risk Register.

Decision

The Committee noted the content of the Council Resources Risk Register and agreed to:

- note that the relevant risks have been identified following appropriate consultation with all risk contacts;
- recognise that while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Council Resources LRWG and the Head of Council Resources has lead responsibility;
- note that the significance of each risk is appropriate to the current nature of the risk;
- note that the total profile of the Council Resources risk can be borne by the Council at this time in relation to the Council's appetite for risk; and
- recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2013/14, many are in fact longer term

risks for Council Resources and are likely to be a feature of the risk register over a number of years.

3. POLICY AND PARTNERSHIPS SERVICE RISK REGISTER

A report was submitted by the Depute Chief Executive (Resources and People Services) to the Committee for discussion, comment and noting of the Policy and Partnerships Risk Register.

The Risk Officer, Scott Kennedy, presented the report summarising the makeup of the Risk Register and the recommendations for action. The Head of Community and Partnerships, Tom Shearer, indicated that although the report had been prepared for the September meeting of the Committee the assessment of risks was unchanged and progress was being made on the action plan. There were no comments from Members.

Decision

The Committee noted the content of the Policy and Partnerships Risk Register and agreed to:

- note that the relevant risks have been identified following appropriate consultation with all risk contacts;
- recognise that while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Policy and Partnerships LRWG and the Head of Policy and Partnerships has lead responsibility;
- note that the significance of each risk is appropriate to the current nature of the risk;
- note that the total profile of the Policy and Partnerships risk can be borne by the Council at this time in relation to the Council's appetite for risk; and
- recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2013/14, many are in fact longer term risks for Policy and Partnerships and are likely to be a feature of the risk register over a number of years.

4. 2013/14 COUNCIL IMPROVEMENT PLAN MONITORING REPORT

A report was submitted by the Depute Chief Executive (Resources and People Services) to the Committee presenting the 2013/14 Council Improvement Plan six-month monitoring report.

The Corporate Policy Manager, Paolo Vestri, presented the report summarising the main findings. He drew Members' attention to the update on progress indicating that the Council was on target to meet all of the improvement points highlighted in the plan.

Councillor Williamson commented that it was disappointing that only 5 of the 23 Elected Members had signed up to undertake Continuing Professional Development (CPD). He encouraged his colleagues to engage with the programme.

In response to questions from the Convenor, Mr Vestri confirmed that the new Consultation Hub had been introduced and work was underway to develop good practice and improve the way the Council consults with service users and the wider public.

Decision

The Committee noted the progress in achieving the Council Improvement Plan as detailed in the monitoring report.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW 2013/14

A report was submitted by the Depute Chief Executive (Resources and People Services) to update the Committee on Treasury Management activity during the first half of 2013/14.

The Corporate Finance Manager, Kirsten Maguire, presented the report summarising the main points of the treasury management strategy. She outlined the short and long term borrowing undertaken during the current financial year and made reference to the advice provided by Sector on economic growth and its potential impact on the Council's borrowing costs. She concluded by referring Members to the separate Annual Treasury Management review on 2012/13, available in Members' Library.

Councillor Currie raised the question of longer term capital investment planning and the possibility of publishing a 5 year plan rather than the current 3 year forecast. Councillor Currie also queried the commitment to balancing the budget without the use of reserves by 2015/16. Mr Lamond sought to reassure Members that officers did plan over a longer term financial horizon for capital investments and projects. However, a number of factors could restrict the certainty of many of these forecasts and the Council's decision to publish only a 3 year plan reflected these restraints. The Depute Chief Executive (Resources and People Services), Alex McCrorie, indicated that the Council's wider budget plans were dynamic and the current intention to achieve zero use of reserves by 2015/16 could be adapted to meet changed circumstances should these arise.

Councillor Currie thanked Mr McCrorie for his response but commented that the budget agreed in February 2013 was a 3 year plan and by year 3 there was to be no use of reserves. The argument as to whether or not to use reserves, if they are available, was a different matter altogether. However, if a possible change of the use of reserves in year 3 was likely then that would signal a change to the previously agreed policy. Mr Lamond pointed out that the Council's 3 year financial strategy was always subject to annual review and refresh in February and Members would be consulted on any proposed change to the strategy as part of forthcoming budget development work.

Decision

The Committee noted the content of the report and that a separate report on 2012/13 Treasury Management activity had been lodged in the Members' Library.

6. INTERNAL AUDIT REPORT – ELECTRONIC DOCUMENT AND RECORDS MANAGEMENT SYSTEM (EDRMS)

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on the Electronic Document and Records Management System (EDRMS).

The Internal Audit Manager, Mala Garden, presented the report indicating that the review had been carried out as part of the audit plan for 2012/13. EDRMS had been rolled out to Human Resources, Payroll, Revenues and Benefits and, most recently, Housing and it was hoped that other areas would follow. Ms Garden outlined the main findings of the audit (that focused on HR) including the areas where expected controls were met, those with scope for improvement and the action plan agreed by management.

Councillor Williamson welcomed the introduction of EDRMS and asked about the timescale for completion of the implementation process. Mr Lamond indicated that while he was pleased with the progress so far, there was no definitive timescale for full implementation. The introduction of the system within Housing teams had been a significant step forward and this staged approach to implementation would continue into the Council's other business areas where appropriate.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for EDRMS.

7. INTERNAL AUDIT REPORT – GIFTS AND HOSPITALITY POLICY

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Gifts and Hospitality.

Ms Garden presented the main findings of the review of the arrangements for dealing with offers of gifts and hospitality. The audit focused specifically on the policy relating to Council employees. She outlined the areas with scope for improvement and the recommendation that Management should review the adequacy and effectiveness of the policy, with particular attention on the recording of offers of gifts and hospitality.

In response to questions from Councillor Currie on declaration forms, Ms Garden indicated that the number of forms received was disproportionate to the number of employees - only 5 declaration forms had been received in the last financial year, although the Council had approximately 5000 employees. This may be a result of a lack of staff awareness of the policy.

Councillor Currie expressed his disappointment at the results of the audit. He commented that the purpose of a Gifts and Hospitality policy and register of offers was so there could be no doubt or dubiety over what offers were made to Council staff and the reasons for their acceptance or refusal. While welcoming the recommendation for action, he sought assurances from Council officers that immediate steps would be taken to remind employees of the policy and the need to declare all offers of gifts and hospitality as soon as possible.

Depute Chief Executive (Partnerships and Community Services), Monica Patterson, assured Members that work was underway on revising the policy and tightening up the procedures for declaring offers, including proposals for one central Council register. Mr Lamond indicated that consultation on the new draft policy would conclude by March 2014 and a report would go to Cabinet shortly thereafter. Management would also consider interim arrangements to reassure Members, including reminding staff of the need to comply with the current policy.

Chief Executive, Angela Leitch, told Members that there was no evidence that the policy was not being complied with. However, the purpose of the audit was to identify areas for improvement.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Gifts and Hospitality, subject to the additional assurances provided by Council officers.

8. INTERNAL AUDIT REPORT – PAYMENTS TO SCOTTISH WATER

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Payments to Scottish Water.

Ms Garden indicated that this review of the internal controls surrounding the administration of payments to Scottish Water was carried out as part of the Audit Plan for 2013/14. She presented the main findings of the report outlining the areas where expected controls were met and the areas with scope for improvement.

In response to a question from the Convenor, Senior Auditor, Stuart Allan, confirmed that water and sewerage payments formed 26.6% of the Council Tax bill. The Council paid this money over to Scottish Water and received from them £5.73 per property for costs.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Payments to Scottish Water.

9. INTERNAL AUDIT REPORT – TYNE ESK LEADER PROGRAMME

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on the Tyne Esk LEADER Programme.

Ms Garden indicated that a review of the Tyne Esk LEADER Programme was carried out as part of the Audit Plan for 2013/14. The Programme is part of the Scottish Rural Development Programme (SRDP) aimed at promoting economic and community development within rural areas in East Lothian and Midlothian. In 2012/13 Audit Scotland carried out a review of LEADER projects throughout Scotland and identified significant concerns in a number of areas. In May 2013 a Scottish Government monitoring visit reviewed 10 project files and identified a number of issues. An action plan was drawn up with the LEADER Project Officer. Ms Garden presented the main findings of the internal audit report outlining the areas where expected controls were met and the areas with scope for improvement.

In response to a question from Councillor Currie, Ms Garden confirmed that arrangements were being put in place to address any potential conflicts of interest when Local Action Group members were also involved in project applications. Tom Shearer, Head of Communities and Partnerships, commented that many of the issues identified by the monitoring visit and the audit were administrative matters and that a rigorous review of files had been undertaken and procedures put in place to improve record keeping.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for the Tyne Esk LEADER Programme.

10. INTERNAL AUDIT REPORT – STATUTORY PERFORMANCE INDICATORS 2012/13

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Statutory Performance Indicators 2012/13.

Ms Garden indicated that in 2012/13 the Council reported on 25 Statutory Performance Indicators and, as part of the audit plan, Internal Audit reviewed a sample of 5 indicators. She presented the main findings of the report outlining the areas where expected controls were met and the areas with scope for improvement. There were no questions or comments from Members.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Statutory Performance Indicators 2012/13.

11. INTERNAL AUDIT FOLLOW-UP REPORTS

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recent follow-up work undertaken by Internal Audit.

Ms Garden told Members that Internal Audit had followed up the recommendations made in previously issued audit reports to ensure that they had been implemented as agreed by Management. She presented the report which showed that most of the recommendations had been fully implemented; a few partially implemented and only 2 were outstanding. There were no questions or comments from Members.

Decision

The Committee noted the findings of Internal Audit's follow-up work on Pathway Residential Unit for Young People, Prestonpans Infant School, Debtors, Non-Domestic Rates – Liability, Council Tax – Refunds and How Good is our Council (HGIOC).

12. INTERNAL AUDIT REPORT – HOUSING REPAIRS AND MAINTENANCE

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Housing Repairs and Maintenance.

Ms Garden indicated that the main purpose of the review was to ensure that the internal controls for housing repairs and maintenance were operating effectively. She presented the main findings of the report outlining the areas where expected controls were met and the areas with scope for improvement. She pointed out that the current responsible officer for the audit was the Property Maintenance Manager but that this may change following the realignment of Council services.

In response to a question from Councillor Currie, Ms Garden explained that historically there had been no consistent approach to identifying private owners in respect of rechargeable repairs for communal areas. This issue would be addressed as part of the action plan agreed by management.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Housing Repairs and Maintenance.

13. INTERNAL AUDIT REPORT – LICENSING

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Licensing.

Ms Garden indicated that a review of the internal controls surrounding the administration of the licensing process was carried out as part of the Audit Plan for 2013/14. She presented the main findings of the report outlining the areas where expected controls were met and the areas with scope for improvement. There were no questions or comments from Members.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Licensing.

14. INTERNAL AUDIT REPORT – PENCAITLAND PRIMARY SCHOOL

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Pencaitland Primary School.

Ms Garden indicated that a review of Pencaitland Primary School was undertaken as part of the 2013/14 Audit Plan. She presented the main findings of the report commenting that this had been a very good audit with controls operating well in almost all areas. There were no questions or comments from Members.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Pencaitland Primary School.

15. INTERNAL AUDIT REPORT – INSURANCE AND CLAIMS

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on Insurance and Claims.

Ms Garden presented the report outlining the purpose of the review, the main findings and the recommendations for action. There were no comments or questions from Members.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Insurance and Claims.

16. INTERNAL AUDIT PROGRESS REPORT 2013/14

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of Internal Audit's progress against the annual audit plan for 2013/14.

Ms Garden explained that the Council's external auditors, in their Interim Management report of April 2013, recommended that Internal Audit should present regular progress reports to the Audit & Governance Committee. She presented the report outlining the progress made to date against the annual audit plan. There were no questions or comments from Members.

Decision

The Committee noted the contents of the Internal Audit Progress Report 2013/14.

17. ANNUAL WORK PROGRAMME 2013/14

The Committee was provided with a copy of the updated annual work programme for 2013/14. Mr Vestri presented the work programme for information and drew Members' attention to the reports proposed for the next meeting of the Committee. There were no questions or comments from Members.

Decision

The Committee noted the annual work programme.

Signed ....

Councillor Kenny McLeod
Convener of the Audit and Governance Committee

cutting through complexity

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East Lothian Council

Audit strategy review and plan

Year ending 31 March 2014

9 January 2014

For audit and governance committee consideration on 21 January 2014

Contents

The contacts at KPMG in connection with this report are:

Stephen Reid
Director, KPMG LLP

Tel: 0131 527 6795
Fax: 0131 527 6666
stephen.reid@kpmg.co.uk

Michael Wilkie
Senior Manager, KPMG LLP

Tel: 0141 300 5890
Fax: 0141 204 1584
michael.wilkie@kpmg.co.uk

Sarah Burden
Assistant Manager, KPMG LLP

Tel: 0131 527 6611
Fax: 0131 527 6666
sarah.burden@kpmg.co.uk

About this report

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

This report is for the benefit of East Lothian Council ("the Council") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

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

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

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Stephen Reid who is the engagement leader for our services to East Lothian Council, telephone 0131 527 6795 email: stephen.reid@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

KPMG

Overview

This document describes for the Council's audit and governance committee how we will deliver our audit of East Lothian Council for the year ending 31 March 2014.

The audit strategy and plan has been developed from using our knowledge of the Council from earlier years and in accordance with the requirements of Audit Scotland.

Experience

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Your senior audit team provides continuity from 2012-13, and builds upon our established understanding of the Council's aims, objectives and delivery strategies.

We will update our understanding of your systems and objectives and will hold regular meetings with senior management.

Independence

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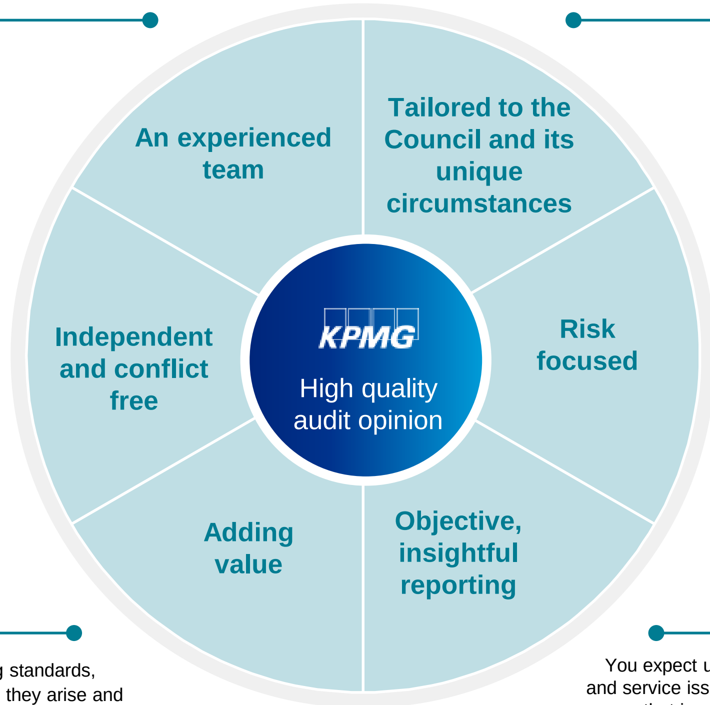
Independence and quality are at the foundation of our approach. We have systems and processes to ensure our ongoing independence and will report formally on this, together with any non-audit services undertaken. We are satisfied that we are independent.

Adding value

We will discuss the implications of new accounting standards, regulatory requirements and accounting issues as they arise and are applicable for the current or future reporting years.

We will report on identified material control weaknesses and other performance improvement observations as well as unadjusted audit differences.



Tailored approach

Pages 3 to 21

We invest the time to understand the key risks, challenges and drivers affecting the Council's operations. Our audit approach is carefully designed to align with these.

Risk-based approach

Pages 3 to 21

We work closely with management to inform our understanding of the Council and its challenges to ensure our audit responds accordingly

Our audit plan outlines the specific areas of focus for the year to 31 March 2014.

Insightful reporting

You expect us to form independent views on the key accounting and service issues. We will express these clearly and concisely in a way that is understandable to accountants and non-accountants alike.

Our audit gives us an independent view on your key results drivers. We use this knowledge to challenge the key messages delivered by your internal reporting systems.

We will discuss these areas with the audit and governance committee.

Executive summary

Planning for our audit takes into account the broad risk profile of the Council and includes consideration of other areas of assurance such as the shared risk assessment.

Context

Our audit is undertaken in accordance with appointment terms made by the Accounts Commission, Audit Scotland's *Code of Audit Practice* and International Standards on Auditing (UK & Ireland).

Our approach to the Council's audit is risk-based, focussing on our understanding of the Council and the wider environment in which it operates, while also reflecting the expectations of Audit Scotland.

Significant risks and other matters

From our initial risk assessment procedures we have identified two significant risks for the 2013-14 audit, in relation to:

- the Council's financial position, including revenue, capital, the impact on borrowing and achievement of efficiency savings; and
- the revaluation of Council dwellings.

Our planning procedures have not identified any other significant risks. Other matters we wish to bring to your attention are in relation to the accounting for the Council's participation in the Lothian Pension Fund.

We will provide an updated list of significant risks and other matters in our annual audit report which will be reported to the audit and governance committee in September 2014.

Shared risk assessment

The approach is informed through participation in the local area network ("LAN") of local audit and inspection representatives and the annual shared risk assessment process which is part of a simplified and coherent approach to delivering local government scrutiny. A key aspect of this agenda is to better coordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies. Scrutiny bodies that engage with local government established a shared assessment of the risks in each council and developed a range of proportionate approaches in response to the risk assessment.

The shared risk assessment process results in each council receiving an assurance and improvement plan ("AIP") each year. The shared risk assessment process for 2013-14 has been finalised and we have considered this as part of our planning for this year's audit. We will take account of the outcome of the 2014-15 risk assessment process, which is due to be finalised in February / March 2014.

Best Value

Under the Local Government in Scotland Act 2003 ("the 2003 Act"), auditors also have a duty to be satisfied that councils have made proper arrangements to secure best value. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of Best Value and community planning under section 52 of the 2003 Act.

Currently, Best Value audits are carried out by central teams within Audit Scotland's best value scrutiny improvement group in partnership with local auditors.

Overall reporting

In addition to reporting on matters identified during our audit, as part of our audit appointment, we are also required to consider the Council's arrangements in a number of other areas and report our findings. These include:

- arrangements with respect to the National Fraud Initiative;
- the Council's response to specific national studies;
- review and reporting on various grant claims made by the Council;
- follow-up on the response to specific performance audits; and
- arrangements for reporting statutory performance indicators.

We will summarise our findings in each of these areas in our annual audit report.

Introduction

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This specifies a number of objectives for our audit.

The Accounts Commission has appointed KPMG LLP as auditors of the Council under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive. This document summarises our responsibilities as external auditors for the year ending 31 March 2014 and our intended approach to issues impacting the Council's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice*. Under this, auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code of Audit Practice* also places a number of obligations on the Council.

Auditors' objectives in relation to the *Code of Audit Practice* are to:

- audit the financial statements and place a certificate on the statements stating that the audit has been conducted in accordance with Part VII of the Act;
- satisfy ourselves that:
  - the financial statements have been prepared in accordance with all applicable statutory requirements;
  - proper accounting practices have been observed in the preparation of the financial statements;
  - the body has made proper arrangements for securing Best Value and is complying with its community duties; and
  - the local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information;
- hear any objection to the financial statements lodged by an interested person.

We conduct our audit of the financial statements in line with International Standards on Auditing (UK and Ireland). We have a professional responsibility to report if the Council's financial statements do not comply, in any material respect, with the IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 ("the Code"), taking account of the international financial reporting standards issued by the International Accounting Standards Board and relevant guidance issued by the Chartered Institute of Public Finance and Accountability ("CIPFA") / Local Authorities (Scotland) Accounts Advisory Board ("LASAAC").

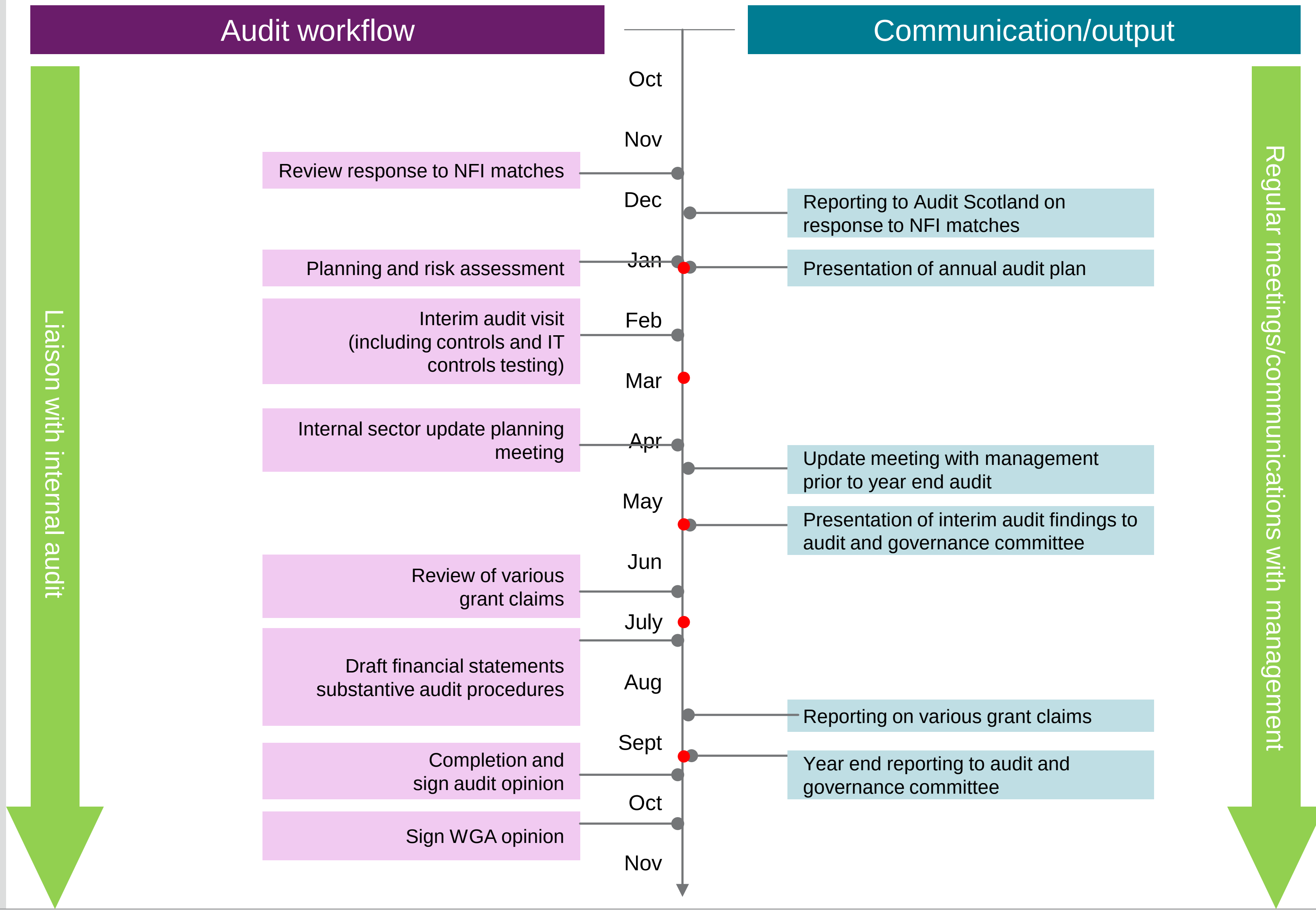
As part of our audit we also review the financial information contained in the foreword to ensure that it is consistent with the financial statements. We also review the corporate governance statement to ensure it has been prepared in accordance with the Code and other relevant guidance, taking account of the financial statements and other information gained by us as auditors.

International Standard on Auditing (UK and Ireland) 240: *The auditor's responsibility to consider fraud in an audit of financial statements* applies to our work. In particular, this Standard requires us to consider directly the possibility that management may choose to override the system of internal controls that otherwise may appear to be operating effectively. The Standard requires the auditor to maintain an attitude of professional scepticism, recognising the possibility that a material misstatement due to fraud could exist – notwithstanding the auditor's experience with regard to the honesty and integrity of management and those charged with governance.

In accordance with International Standard on Auditing (UK and Ireland) 260: *Communication with those charged with governance* we will report to you all non-material, non-trivial errors, which have not been adjusted.

2013-14 audit timeline

Out timetable is largely unchanged from the prior year, but will be subject to refinement through discussions with management.



● audit and governance committee meetings

Audit outputs

Our audit process will result in reporting on a number of outputs to the Council; these are listed in the table on the right.

Output	Description	Report date
Audit strategy	■ Our strategy for the external audit for the year.	■ By 31 January 2014
Update NFI report	■ We report on the Council's actions to investigate and follow-up NFI matches.	■ By 31 December 2013
Interim management report	■ We report our findings from our interim audit visit where we will update our planning for the year end and perform controls testing.	■ By 30 May 2014
Statutory performance indicators	■ We will report on arrangements for preparation of the Council's statutory performance indicators; this will be included in our annual audit report.	■ By 30 September 2014
Independent auditor's report	■ Our opinion on the Council's financial statements.	■ By 30 September 2014
Annual audit report to the Council and the Controller of Audit	■ We summarise our findings from our work during the year.	■ By 30 September 2014
Whole of Government Accounts	■ We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.	■ By 31 October 2014
Audit reports on grant claims and other returns	■ We will report on the following returns: ■ Housing Benefit Count return; ■ Non Domestics Rate return; ■ Education Maintenance Allowance return; and ■ Criminal Justice Authority return.	■ In line with Audit Scotland's reporting timetable

Financial context

Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the Council's financial statements.

We have discussed current financial performance with management based on the 2013-14 revenue and capital budgets for the Council.

Audit Scotland's report *Responding to challenges and change: An overview of local government in Scotland* highlighted a number of service challenges for councils, with demand and resource pressures continuing to build, against a backdrop of reform in public services. The report highlights a large number of issues which councils face, the majority of which are applicable to the Council. The Council must also comply with the requirements for a Single Outcome Agreement ("SOA") which is a mechanism for aligning public sector activity to national priorities.

The Council is therefore operating in a challenging economic environment, with funding reductions and increasing expenditure pressures. These include Welfare Reform and the integration of Health and Social Care. In response, management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment.

Over the next three years the amount of funding available for Council services is forecast to drop from £195.7 million to £191.4 million. During this period there is an ambitious five year Council plan to deliver, new cost pressures to be managed and a range of 'unknowns'. Management estimate that they have secured 20% of the expenditure reduction which will be needed by the end of 2015-16. They recognise that in the medium-term the deficit will need to be met through cost containment.

The Council is planning to utilise most usable un-earmarked general reserves by 31 March 2015. In 2015-16 the Council is budgeting for a break-even position. Theoretically, while reserves are not planned to be required in 2015-16, this clearly gives rise to significant challenge and risk for the Council, requiring it to achieve budget in each of the next two financial years and to ensure that the level of required change is delivered to achieve an underlying recurring financial balance from 2015-16.

Financial position – revenue

As part of our planning for this year's audit, we have obtained an understanding of the reported financial position to date. The quarter two financial review identifies a year to date underspend of £1.1 million. Management noted that £0.6 million of the underspend relates to the devolved school management budget, but the overall position is complicated by severance costs and related staff cost savings. Management has assessed budget group forecasts, and expect the utilisation of reserves to be in line with the budget of £2.2 million.

A number of budget adjustments have been made by management in quarter two, including confirmation of the receipt of £5.6 million additional revenue support grant in relation to the council tax reduction scheme, crisis grants, community care grants and curriculum for excellence.

A transformation programme has been established to implement change projects which reduce costs and support delivery of the Council plan. A RAG rating on progress with efficiency savings by budget group is reported within the quarterly financial reviews. Two budget groups, schools – primary and community partnerships, were given a red rating in September 2013; indicating less than 50% of budgeted efficiency savings are likely to be achieved by year end.

We will update our understanding of the Council's financial position, and year end outturn position together with the longer term financial strategy and budgets for 2014-15 to 2016-17. We will assess management's progress with implementation of the transformation programme and efficiency savings. Commentary and analysis on these areas will be provided within our annual audit report.

Financial context

Financial position – capital; general services

Total capital expenditure in 2012-13 was £52.2 million, below the approved capital plan of £60.3 million. This level of capital investment represented a 27% (£19.3 million) decrease over 2011-12 levels and reflected the lower limits approved in October 2012.

The financial strategy's capital limits seek to avoid any new additional borrowing after 2013-14. Management recognise the need for these limits to be applied flexibly to take account of project slippage, inter-year transfers and additional capital income.

The 2013-16 capital plan was refreshed by management in light of the 2012-13 year end position and other known changes. Significant changes to 2013-14 were:

- slippage of £727,000 from 2012-13 on the North Berwick Museum, now included in 2013-14;
- revision to spend profiles and budgeted costs of capital projects, for example, Peppercraig depot and Dunbar Community Facility;
- addition of new capital projects, including the relocation of the gypsy traveller site and additional classroom space at primary schools; and
- expected capital income increases to £12.8 million due primarily to slippage of asset sales from 2012-13.

Actual spend to 30 September 2013 is £10.6 million, representing 32% of the revised 2013-14 capital budget of £33 million. Capital budgets in 2014-15 and 2015-16 are £20.4 million and £22.6 million respectively.

Financial position – capital; housing revenue account

The housing revenue account capital budget for 2013-14 is £25.6 million. As reported by management in the quarter two financial review, year to date spend is £10.5 million, representing 41% of the annual total. Management has identified that significant slippage in 2013-14 of £4.4 million is expected on four of the affordable housing projects.

Year to date spend on mortgage to rent of £0.8 million has exceeded the annual budget allocation of £0.6 million. Management expect one further application to be completed in 2013-14 and are not considering any further applications. Open market acquisitions completed in 2013-14 have been funded by carry forwards from prior years.

We will read management's capital monitoring reports and provide commentary on the achievement of the capital budget and any impact on the capital limits and associated borrowing during the year.

Financial statements audit focus areas

Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the Council's financial statements.

Through meetings with management, we have performed initial risk assessment procedures to identify focus areas for the 2013-14 audit.

We have developed an understanding of your key audit risk areas based on our initial risk assessment procedures, including discussions with management. The key areas identified are detailed below. Our risk assessment procedures are ongoing throughout the audit, and we will update you in respect of any emerging risks as we become aware of them.

Property, plant and equipment

Under the Code and IFRS, property, plant and equipment ("PPE") is required to be held on the balance sheet at fair value which for specialised assets is assumed to be depreciated replacement cost and for other PPE is open market value. In order to comply with these accounting requirements, Council assets are subject to rolling valuations.

In 2011-12 we provided management with recommendations to improve the Council's valuation policies and procedures. Management updated the Council's valuation cycle in 2012-13. Under the rolling basis of revaluations, Council dwellings will be subject to valuation in 2013-14 using the Beacon approach (adjusted vacant possession). Issues and risks related to this valuation include ensuring appropriate identification and componentisation of individual assets and allocation of Beacon values. Following the completion of a tender process, the District Valuer was appointed to conduct the valuation. A preliminary report has been received and is currently subject to management consideration.

We will update our understanding of the assets to be valued as part of the 2013-14 cycle, taking into consideration our prior year discussions with management in respect of this programme.

We will examine the valuations in detail, liaising with our internal experts to consider the Council's general approach. We will also consider the accounting implications of the valuations to ensure they are appropriately reflected in the financial statements.

Retirement benefits

The Council accounts for its participation in the Lothian Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants. The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.

IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities.

Our audit approach to IAS 19 includes:

- review of the financial assumptions underlying the actuaries' calculations and comparison to our central benchmarks;
- testing of the level of contributions used by the actuary to those actually paid during the year; and
- testing of membership data used by the actuary to data from the pension fund.

Financial statements audit focus areas

Fraud risk from management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. Our audit methodology incorporates the risk of management override as a significant risk.

Fraud risk from income recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. However, part of the Council's income is received from non ring-fenced government grants. As government grants are agreed in advance of the year, with adjustments requiring Government approval, we do not regard the risk of fraud from this revenue recognition as significant.

The other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing revenues). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant.

Sales income is recognised at point of sale, with an invoice raised when the service is delivered, minimising the judgement necessary. The potential for revenue to be incorrectly recognised will be addressed through appropriate substantive procedures.

Financial statements – comprehensive income and expenditure statement

Our audit approach in relation to the financial statements and testing of systems of internal control is driven by our assessment of the inherent risk of misstatement of the captions in the financial statements.

We use our experience from earlier years' audits to inform our assessment.

Caption	2012-13 balance (£million)	Planning risk assessment	Process					Risk areas
			Income	Expenditure	Grants	Payroll	Other	
Gross income	(74,133)	●	✓					■ Income is incomplete ■ Income is not applied to the correct year
Gross expenditure	295,943	●		✓		✓		■ Expenditure is incomplete ■ Unapproved expenditure is incurred ■ Expenditure is not applied to the correct year ■ Expenditure is not in accordance with requirements ■ Commitments at year end are not captured accurately ■ Remuneration report disclosures are incorrect ■ Voluntary severance package disclosures are incorrect.
Other operating expenditure	1,572	●		✓				
Financing and investment income and expenditure	16,124	●	✓	✓				
Taxation and non-specific grant income	(232,797)	●	✓		✓			
Other comprehensive income and expenditure	18,790	●	✓	✓				

● Low inherent risk

● Moderate inherent risk

● High inherent risk

Audit focus areas – balance sheet

On this page we link the captions with significant risks to the relevant processes for the Council's balance sheet.

Caption	2012-13 balance (£million)	Planning risk assessment	Process					Risk areas
			Income	Expenditure	Grants	Payroll	Other	
Property, plant and equipment	747,715	🟡					✓	■ Revaluation gains and impairment losses are not recognised appropriately
Other long term assets	9,953	🟢					✓	
Short term debtors	17,960	🟢	✓					
Cash and cash equivalents	1,665	🟡					✓	■ Bank reconciliations are incorrectly prepared
Other current assets	2,224	🟢					✓	
Short term borrowing	(29,796)	🟢					✓	
Short term creditors	(21,503)	🟢		✓	✓	✓		
Provisions	(5,020)	🟢					✓	
Long term liabilities & borrowing	(347,535)	🟢					✓	
Pension asset / liability	(110,840)	🟡				✓		■ Actuarial assumptions are overly prudent / optimistic ■ Data underlying actuarial calculations is inaccurate ■ Actuarial calculations are not accurately reflected in the financial statements
Useable reserves	(18,961)	🟢					✓	
Unuseable reserves	(245,863)	🟢					✓	

Presentation of financial statements

The Council is required to prepare financial statements in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013-14* ("the Code").

While there are some changes in the content of the Code for 2013-14, the financial statements and underlying accounting policies are expected to remain substantially consistent with the previous year.

KPMG remains committed to working with management to enhance the clarity and impact of the financial statements, including the implications of the revisions to the Code.

Code of practice on Local Authority Accounting in the United Kingdom 2013-14 ("the Code")	The 2013-14 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2013-14 ("*the Code*")* which is based on International Financial Reporting Standards ("IFRS"). The 2013-14 Code has a number of amendments from the 2012-13 version and management should reflect these changes to the reporting requirements in the draft financial statements. The amendments include: ■ amendments to the Comprehensive Income and Expenditure Statement and Council Tax Income Account as a result of changes to IFRS; ■ clarification regarding the revaluation of property, plant and equipment and recognition for assets held for sale; ■ augmentation to pensions on service concession arrangements; ■ additional disclosure requirements for borrowing and investments; ■ amended guidance on collecting non-domestic rates as a principal; and ■ amendments to the accounting for retirement benefits following amendments to IAS19 *Retirement benefits*.

Changes to Local Authority Accounts (Scotland) Regulations

The Scottish Government has commenced a consultation period to amend the Local Authority Accounts (Scotland) Regulations. The consultation period closed on 4 October 2013, but at the time of compilation of this plan, the outcome of that consultation is unknown. The proposed draft regulations include a number of changes designed to help strengthen corporate governance processes. The intention is that the proposed regulations will be applicable to 2013-14 onwards and consideration should be given to the implications for the Council's reporting arrangements arising from the content of the consultation draft and of course from the finalised Regulations once these are known.

Financial reporting for charitable trusts

The Council has four common good funds and around 40 trust funds. From 2013-14, all charitable trust funds registered with the Office of the Scottish Charity Regulator ("OSCR") will require an audit. The audit of these charitable trust funds may result in a significant administrative and financial costs to the Council. Management expect there to be one fund requiring an external audit in 2013-14. We will obtain an understanding of management's reasoning for no other funds requiring audit, assessing the reasoning against relevant guidance.

Detailed arrangements for the audit of the charitable trusts will be discussed and agreed with management and a paper brought to the audit and governance committee in due course.

Group financial statements

IFRS and the Code require the Council to prepare group financial statements.

The Council uses a range of service delivery vehicles to facilitate the discharge of its functions which, whilst technically independent, are effectively under the Council's influence or control. The Council is required under IFRS and the Code to prepare group financial statements which include the Council's interest in subsidiaries, associates and joint ventures.

The Code requires the following statements to be prepared, together with appropriate notes:

- movement in reserves – this statement summarises all movements in reserves;
- group comprehensive income and expenditure – this statement summarises the group's income and expenditure for the year;
- group balance sheet – this statement sets out the overall financial position of the group at the year end; and
- group cash flow - the group cash flow statement includes the cash flows of the Council and the Common Good Funds and Trusts. Cash receipts and payments that flow to and from the Council and its subsidiaries only (full group members) must be included. Cash flows to and from the Council to its associates are included within the cash flow statement of the Council.

Subsidiaries

These are entities in which the Council either:

- controls the majority of equity capital or equivalent voting rights;
- appoints the majority of the governing body; or
- exercises (or has the right to exercise) influence (i.e. give direction which must be complied with) over the entity's operating and financial policies.

The Council considers that the following are subsidiaries:

- Trust Funds;
- Common Goods Funds; and
- Musselburgh Joint Racing Committee.

We reviewed this on appointment in 2011-12 and confirmed our agreement with the Council's view.

Associates

These are entities in which the Council can exercise a significant influence without support form other participants. The assessment of relationships with other entities in 2011-12 concluded that the following required to be treated as associates:

- Lothian Valuation Joint Board;
- Enjoy East Lothian Limited;
- East Lothian Investments; and
- Brunton Theatre Trust.

In prior years, the Council also accounted for interests in Lothian and Borders Police Board and Lothian and Borders Fire & Rescue Board as associates. This had the effect of turning the Council's net assets of £264.8 million into a group net liability of £67 million. Following the dissolution of those boards from 1 April 2013, the differences between the group and Council financial statements will be smaller.

Mandatory communications

Mandatory communications with those charged with governance as required by Auditing Standards are set out opposite.

These cover:

- **fraud;**
- **related party transactions; and**
- **independence.**

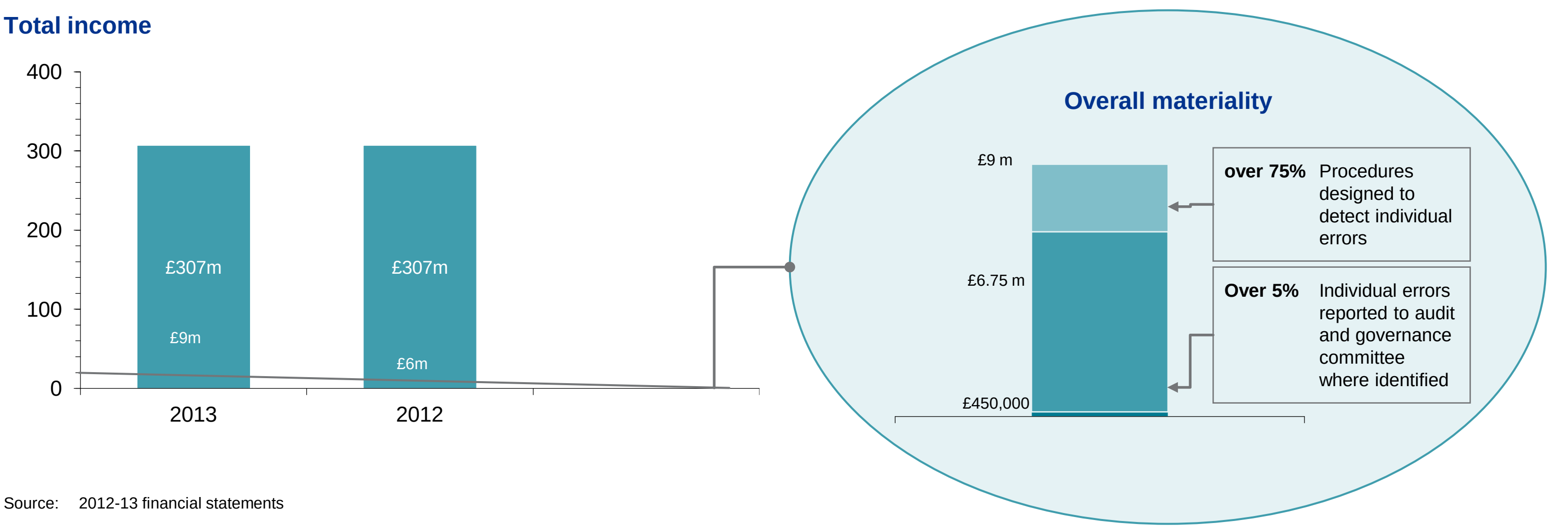
Area	Issue	KPMG response
Fraud risks	■ It is the responsibility of management to implement accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but do not eliminate the risk of misstatements caused by fraud or error. ■ Those charged with governance must ensure, through oversight of management, the integrity of these systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with laws. This is in the context of preparing financial statements that give a true and fair view and that do not contain material misstatements arising from fraudulent reporting (intentional misstatements/ omissions to deceive the financial statement user) or from the misappropriation of assets.	■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. The audit team will review and discuss fraud related risks and controls with internal audit, the chief financial officer and senior management. ■ Our risk assessment procedures will include a number of interviews with senior personnel concerning processes to identify and respond to risks of fraud.
Related party transactions	■ Management has processes in place to identify related party transactions and a number were disclosed in the 2012-13 financial statements. All material related party transactions must be disclosed in the financial statements.	■ We will ensure that there continues to be appropriate processes in place as part of the financial statements preparation process to identify any related party transactions.
Independence	■ Auditing Standards require us to consider our independence and related matters in our dealings with the Council.	■ We have provided our formal independence communication in appendix one. In respect of non-audit services provided to the Council we have completed internal conflict checks to confirm that the services may be provided with no threat to our audit independence.

Mandatory communications: audit materiality

Our audit work is planned to detect errors that are material to the financial statements as a whole.

Our materiality is based on total income and takes into account the low risk nature of the Council.

Total income



Source: 2012-13 financial statements

Determining materiality

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

We have reassessed our level of materiality this year based on our knowledge and understanding of the Council's risk profile and, therefore, financial statements. Materiality has been set at £9 million which is approximately 3% of total income in 2012-13. This will be revised once draft financial statements for 2013-14 are known.

We design our procedures to detect errors at a lower level of precision, i.e. £6.75 million.

We will report identified errors greater than £450,000 to the audit and governance committee.

Reporting to audit and governance committee

To comply with Auditing Standards, the following three types of audit differences will be reported to the audit and governance committee:

- adjusted audit differences;
- unadjusted audit differences; and
- disclosure differences (adjusted and unadjusted).

Governance and scrutiny arrangements

We review governance and scrutiny arrangements in light of the shared risk assessment, Best Value and Single Outcome Agreement.

The shared risk assessment process for 2013-14, while identifying a number of areas for further consideration, did not identify any significant areas where the Council was not making progress.

Shared risk assessment

Following the publication of the Crerar report in September 2007, the Scottish Government's response stated its aim of establishing a simplified and coherent approach to delivering local government scrutiny. A key aspect of this agenda is to better coordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies.

Local area networks ("LANs") have been established for each council. These bring together local scrutiny representatives in a systematic way with the common aims of joint scrutiny scheduling and planning, sharing risk assessment and the delivery of a single corporate assessment through the Best Value 2 audit process. As your external auditor, we are a key member of the shared risk assessment process for the Council.

The role of the shared risk assessment process is to ensure that relevant data collected from councils and other sources by their organisation is analysed and bought to the LAN for discussion. All LAN members discuss and agree a shared risk assessment ("SRA") and identify a proportionate scrutiny response.

A national scrutiny plan sets out how Scotland's scrutiny agencies coordinate their work and focus on the key issues at each council. This plan is underpinned by an assurance and improvement plan ("AIP") for individual councils.

The SRA process for 2013-14 identified:

- there are two areas of 'scrutiny required'; education and children's services and 'we have improved the life chances for children, young people and families at risk'. These were assessed as 'no scrutiny required' in the previous AIP; and
- there were 13 areas where previously no scrutiny was required, but in 2013-14 further information is required.

Best Value and continuous improvement

Under the Local Government in Scotland Act 2003 ("the 2003 Act"), auditors have a duty to be satisfied that councils have made proper arrangements to secure best value. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of Best Value and community planning under section 52 of the 2003 Act. Currently, Best Value audits are carried out by central teams within Audit Scotland's best value scrutiny improvement group in partnership with local auditors. The timing, nature and extent of these is now determined as part of the SRA process. A key component of the SRA will be the extent to which implementation of the existing Best Value improvement plan has had the anticipated impact. As your external auditor, we are responsible for conducting follow-up reviews to assess the Council's progress against its agreed improvement priorities.

The Council has put in place a Council plan covering the period 2012 to 2017. This recognises the various challenges facing the Council currently, and over the five year period; identifying four objectives driving the business. Annual progress against these objectives and related outcomes from the Single Outcome Agreement is monitored through the Council's annual performance report. We will update our understanding of continuing progress and maturing arrangements during our final audit visit.

Management has strong procedures for assessing the Council's performance. This includes use of the How Good Is Your Council? self assessment and analysis against national performance reports. Areas for improvement are identified and reported to the audit and governance committee. We will understand how management implements, monitors and reports achievement of these improvements.

Governance and scrutiny arrangements (continued)

Governance statement

The Council is required to prepare and disclose a governance statement to detail the purpose of the framework of internal control, along with an analysis of its effectiveness. It should describe sources of assurance for members and senior officers and identifies areas for improvements to be focussed on in the future. We are required to review the governance statement against disclosure requirements and consider its content against our knowledge and understanding of the Council. We will then report on our findings in our annual audit report.

Single outcome agreement

Single outcome agreements ("SOAs") are a mechanism for aligning public sector activity to national priorities and the Accounts Commission has no immediate plans to audit their delivery. Best Value 2 will draw upon evidence contained within a council's SOA in order to consider outcomes more widely, as planning for, and managing the delivery of, outcomes should be central to all aspects of a local authority's activity. Successful delivery of SOAs will depend on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service-level, within councils and across partner agencies.

During the audit cycle, our responsibilities extend to updating our understanding on the approach the Council and its partners are taking to:

- developing governance and accountability arrangements to support the SOA in line with Scottish Government advice;
- ensuring explicit links are made between high-level SOA outcomes and more detailed service-level outcomes, outputs and activities – both within a council and across community planning partners;
- ensuring the SOA is supported by robust resource planning arrangements at a service-level within the Council and jointly with community planning partners;
- ensuring the SOA is supported by robust performance management and reporting:
  - corporately
  - at service level
  - jointly with partners;
- reporting progress towards SOA outcomes to the Scottish Government, in line with guidance on annual reporting; and
- undertaking Public Performance Reporting ("PPR") on progress towards SOA outcomes, including linking SOA outcomes and indicators with other forms of PPR such as SPIs (specified and unspecified), other local performance indicators and community planning partners' public performance reporting – all in accordance with statutory guidance on PPR issued in 2003.

We will include a summary of our findings in our 2013-14 annual audit report to members and the controller of audit.

National Fraud Initiative

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use. NFI helps participating bodies to identify possible cases of fraud, and to detect and correct any under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud.

Management is responsible for investigating data matches from the latest round and we are required by Audit Scotland to review ELC's progress and engagement with the NFI process. We prepared a short return to Audit Scotland in December 2013 and we will report management's progress to the audit and governance committee during the year.

Fraud returns

Audit Scotland's *Code of Audit Practice* requires auditors to make submissions of instances of fraud and irregularity. We will liaise with your internal auditors and relevant finance staff in advance of completing these submissions.

Internal audit

We will liaise with your internal auditors to minimise duplication of effort.

Internal audit arrangements

International Standard on Auditing (UK and Ireland) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect, if any, on external audit procedures;
- obtain a sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of internal audit when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaison with your internal auditors and maintain an understanding of their approach to ensure duplication of effort is minimised. We will review the internal audit work proposed or completed during our interim audit visit to determine the extent of assurance that can be taken from the work performed.

The general programme of work will be reviewed for significant issues to support our general work in assessing the Council's annual governance statement.

2013-14 internal audit plan

We will read the reports and consider the results of all internal audit work, and intend to place specific reliance on some areas of work.

The table opposite highlights areas where we intend to place reliance and how this affects our planned audit approach (subject to a lack of significant risks being identified by internal audit).

Internal audit area	Impact on our planned audit approach
Creditors Housing revenue account Journals Procurement – scheme of delegation	We will evaluate internal audit findings and read work papers for these areas in detail with a view to placing reliance on the work where relevant.
Welfare reform Trading operations Gifts and hospitality policy	We will evaluate internal audit findings and consider any impact on our work for the year.
Statutory performance indicators	We will evaluate internal audit findings and consider the implications for our overview of the Council's arrangements in respect of recording, monitoring and publishing statutory performance indicators.

Performance management

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local government bodies on behalf of the Accounts Commission.

We will review the Council's response to these and will report our findings to Audit Scotland.

Local response to national studies

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local government bodies on behalf of the Accounts Commission. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at individual organisation level, as appropriate.

In order to ensure that added value is secured through the role of the Accounts Commission, Audit Scotland and its appointed auditors, will continue to ensure that audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits. We will therefore be required to make returns to Audit Scotland that performance reports have been considered by the Council and that action has been planned in response.

We will assess how the Council has responded to relevant national reports, preparing returns to Audit Scotland.

Auditors are required to provide the following information:

- Was the report discussed at any executive board or committee? If so, which committees and on which dates?
- Did the body carry out a self-assessment against the national report's findings?
- Did the body produce an action plan (a copy of which will be provided to Audit Scotland)?
- Are there plans to provide committee(s) with feedback on actions?

In particular, we will consider the Council's response to the recent report from the Accounts Commission *Health inequalities in Scotland.* We will report our findings to the audit and governance committee.

Targeted follow up of performance audit

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified two reports for follow-up in 2013-14; *Arms length external organisation: are you getting it right?* and *Major capital investments in councils*. This will involve looking at what action has been taken and what difference this has made. We will include commentary in the annual audit report and may provide supplementary reports, where necessary.

Statutory performance indicators

The statutory deadline for publication by the Council of statutory performance indicators ("SPIs") is 30 September 2014. In 2009-10 there was a significant shift in approach, reflecting the changing environment in which local authorities operate. There are further changes to the requirements for auditors for 2013-14.

Auditors must assess the adequacy of arrangements in place in local authorities for collecting and publishing information in relation to certain specific SPIs. We will complete a pro-forma schedule to reflect the audit work on SPIs and this will be submitted to Audit Scotland by 30 September 2014. Our annual audit report for 2013-14 will include a summary of this appraisal, the respective duties and responsibilities of the Council and us as auditor, any significant issues arising from the audit work and recommendations for improvement.

KPMG team; reporting

The team benefits from strong continuity at senior level, building on our engagement leaders' involvement in the audits of the Council in previous years.

Team member	Role
Stephen Reid *Engagement Director* Telephone: 0131 527 6795 Email: stephen.reid@kpmg.co.uk	Stephen has overall authority and responsibility for the audit engagement, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters.
Michael Wilkie *Audit Senior Manager* Telephone: 0141 300 5890 Email: michael.wilkie@kpmg.co.uk	Michael serves as the day-to-day audit liaison between management and KPMG and a first point of contact. He also provides technical accounting, regulatory and other advice in the first instance.
Sarah Burden *Assistant Manager* Telephone: 0131 527 6611 Email: sarah.burden@kpmg.co.uk	Sarah coordinates the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work.

Reporting

Through regular meetings at appropriate levels, there will be open and regular discussion between management, auditors and management. As a result, accounting and control issues can be identified and reported to allow you to manage them throughout the year.

Audit Scotland's *Code of Audit Practice* requires us to communicate to management findings arising as a result of the audit work completed. Reports to management will be submitted throughout the course of the year, with draft reports discussed and agreed with management and action plans developed to include the recommendations, target dates for implementation and the member of staff responsible for implementation.

We envisage submission of the following reports in respect of 2013-14:

- May 2014, interim management report based on the findings of our testing of financial, strategic and IT controls; and
- September 2014, annual audit report to the Council and the Controller of Audit, encompassing our report to those charged with governance. This will include consideration of performance management arrangement, public performance reporting and our findings surrounding the financial statements process.

We will also submit information on the following areas to Audit Scotland during the year: NFI; fraud returns; Audit Scotland national reports; Best Value; grant claims; and statutory performance indicators.

Fee arrangements

Our audit fees are set according to the fee ranges set by Audit Scotland.

Fee arrangements

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

- a central estimate of the number of days need to do the audit;
- the average remuneration rate for the audit team;
- the contribution to travel and expenses within the sector;
- the contribution towards performance audits, where relevant; and
- the contribution towards other central costs not met by the Scottish Consolidated Fund.

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

- draft report, financial statements and full electronic files of supporting work papers available at the start date of our on site visit agreed with officers preferably in electronic format;
- reliance on your internal controls;
- availability of key members of staff during the audit fieldwork; and
- completion within the agreed timetable.

Audit Scotland has notified us that the fee range for 2013-14 is £214,620 to £262,320, with a mid-point of £238,470 (including VAT). This represents no increase from 2012-13. We have proposed a fee of £238,470, which represents the mid-point. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

cutting through complexity

Appendices

Independence

Auditing Standards require us to communicate to the audit and governance committee in writing at least annually on any matters which may reasonably be thought to bear on our independence and set out the safeguards in place in relation to these matters and confirm that we are independent.

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

We are satisfied that our general procedures support our independence and objectivity, except for those detailed below where additional safeguards are in place.

General procedures to safeguard independence and objectivity

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

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

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

Confirmation of audit independence

We confirm that as of 9 January 2014, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

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

Yours faithfully

KPMG LLP

Audit Scotland code of audit practice – responsibilities of East Lothian Council

Financial statements

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

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit and governance committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

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

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Audit Scotland code of audit practice – responsibilities of East Lothian Council (continued)

Financial position

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

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

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

KPMG

cutting through complexity

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 21 January 2014

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Scotland's Public Sector Workforce

3

1 PURPOSE

1.1 To provide Audit and Governance Committee with a summary of the Audit Scotland report, '*Scotland's Public Sector Workforce'* and the Council's actions in relation to the report's recommendations.

2 RECOMMENDATIONS

2.1 It is recommended that the Committee notes the Audit Scotland report and the actions being taken by the Council in relation to the report's recommendations.

3 BACKGROUND

3.1 ***Scotland's Public Sector Workforce*** was published by the Accounts Commission in November 2013. The report is based on an audit carried out by Audit Scotland to assess if public bodies are effectively managing changes to their workforces. The specific objectives were to determine:

- How will the size and structure of the public sector workforce change between April 2009 and March 2015?
- What were the financial costs and benefits of changes to the public sector workforce and are the changes likely to provide long-term cost reductions?
- Did the workforce planning approaches that public bodies used follow good practice and include assessments of capacity and capability to ensure that the workforce can meet future needs?
- What significant opportunities and challenges face those managing the public sector workforce in future years?

3.2 The audit is based on evidence from:

- published and unpublished national and local data
- work at nine fieldwork sites

- responses to a survey of 80 public bodies
- interviews with representatives from organisations such as the Royal College of Nursing, British Medical Association, the Society of Local Authority Chief Executives (SOLACE), and the Scottish Social Services Council.

3.3 The audit focused on the approaches used by councils, the NHS, the Scottish Government and other central government bodies to change their workforces from April 2009 to March 2013. This time period was used as 2009/10 was the last year in which budgets increased. Most of the figures quoted in the report refer to this period.

3.4 The audit report is in three parts:

- Part 1: Changes in staff numbers and costs
- Part 2: Implementing workforce changes
- Part 3: Planning for future workforce changes

Part 1: Changes in staff numbers and costs

3.5 The key findings and messages from this part of the audit report are:

- From March 2009 to March 2013, the Scottish public sector workforce reduced by 26,600 WTE (seven per cent) to 373,400.
- Over these four years, 9,664 staff transferred to arm's-length or other bodies outside the public sector. These staff still deliver services paid for by public money, but they are no longer included in public sector employment figures.
- At least 15,816 WTE staff left through early departure schemes.
- Staff have also retired or left for jobs outside the public sector. At the same time, public bodies have recruited staff to fill posts that are critical to their ability to deliver services.
- Reported staff costs reduced by £1 billion (eight per cent) to £12.7 billion, between 2009/10 and 2011/12. Some staff who transferred to arm's-length and other non-public sector bodies are still being paid indirectly through public funds.

3.6 The number of staff employed by East Lothian Council has reduced from 3,558 fte in April 2009 to 3765 fte in December 2013. Staff costs within East Lothian Council's budget has increased slightly from £128.7m in 2008/09 to £130.3m in 2012/13.

3.7 In line with many other Councils and public bodies East Lothian Council has reduced the size of its management team. The size of the Council Management Team has reduced by 25% from 2009 (Chief Executive, four Directors and 11 Heads of Service) to 2013 (Chief Executive, two Depute Chief Executives, the Jointly Accountable Officer for Health and Social Care and seven Heads of Service).

3.8 The Audit Scotland study also highlights that some aspects of the workforce profile have changed between 2009 – 2013. Between 2009 and 2013, the average age of public sector staff increased. In 2013, the average age was 44 years and four months compared with 43 years and nine months in 2009. Audit Scotland looked at the age distribution of the full and part-time staff in the survey bodies in 2009 and 2013 and found that the number of staff:

- aged under 20 years fell by 25 per cent
- aged 50-59 years increased by 5 per cent
- in all other age groups decreased by between six and 12 per cent

3.9 If all of those aged 50 years or more leave their jobs within the next 10–15 years, over 37 per cent of the workforce will leave. There is a risk that this could create gaps in essential skills and experience

3.10 The age profile of East Lothian Council's workforce followed similar trends to that of the national workforce profile. Between March 2009 and December 2013 the number of staff:

- aged under 20 years fell from 26 to 6 (77%)
- aged 50 – 59 years increased from 1431 to 1485 (3.8%)
- aged 60 and over increased from 299 to 351 (17%)

3.11 Just over 40% of the Council's workforce is aged 50 years or more. The aging profile of the Council's workforce can be attributed in large part to financial situation whereby fewer new staff have been recruited over the last four years; notwithstanding the Voluntary Early Release Scheme introduced in 2013 fewer staff are retiring early; and, people are able to stay at work beyond their pension age. The steps taken by the Council to increase work placement opportunities, modern apprenticeships and graduate placements (Cabinet, 12th January 2014) will introduce a new cohort of employees who are under-25 years and will go some way, at least temporarily, reverse the decline in the proportion of staff in the younger age group.

Part 2: Implementing workforce changes

3.12 The key findings and messages from this part of the audit report are:

- The 80 survey bodies had used a range of approaches to manage workforce numbers and costs. Each of the nine fieldwork bodies planned, at a service level, when changing their workforces. NHS bodies also produce single organisation-wide plans, bringing together their service-level workforce plans.
- Eight fieldwork bodies had used an early departure scheme but none had fully tested their schemes before using them. Fieldwork bodies followed appropriate approval processes for significant workforce changes but they did not routinely collect information

on the costs and savings of the approaches they were taking.

- The nine fieldwork bodies worked closely with staff and unions on proposed workforce changes and are monitoring the effect on staff. They generally rely on existing systems to measure the effects on staff and on how services are performing.

3.13 The report identifies 17 methods used by public bodies to manage workforce numbers and costs (see Exhibit 7; page 24). East Lothian Council has used several of the most common of these methods including:

- Pay restrictions/ pay freeze – the Council has maintained the pay freeze/ pay restrictions negotiated nationally by the Convention of Scottish Local Authorities and local authority trade unions
- Vacancy management – the Efficient Workforce Management Planning framework introduced by the Council in 2010 is projected to achieve overall savings of £3.9m in 2012/13 and 2013/14. A report on the Council's Efficient Workforce Management Planning framework is being prepared for consideration by the next meeting of the Audit and Governance Committee
- Voluntary early departure/ release scheme – see paragraph 3.14
- Using fewer agency/ temporary staff – the Council is closely monitoring the use of agency staff and taking measures to reduce the number of agency staff employed
- Changing employees' work patterns – the Council introduced a Worksmart programme which enables staff to work more flexibly, including home-working
- Negotiating changes to employees' terms and conditions – the Council negotiated new employee business travel arrangements.

3.14 The audit report includes details of early departure schemes offered to employees by various public bodies. East Lothian Council's Voluntary Early Release Scheme, which was approved by Cabinet on 12 March 2013 was based on good practice and guidance from Audit Scotland. A total of 96 members of staff will have left the Council under the scheme by March 2014. The one-off cost of the scheme will be £3.1 million but this will generate annual savings of over £3m.

3.15 A report on the implications of the Voluntary Early Release Scheme is being prepared for consideration at the March meeting of the Policy and Performance Review Committee.

3.16 The Accounts Commission report recommends that, where they have not already done so, councils, the NHS, the Scottish Government and other central government bodies should:

a) develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content. Senior managers and boards or elected members should scrutinise and monitor these plans

b) use established good practice approaches, such as the NHS 'six steps' method and the Aberdeenshire Council toolkit, to help plan workforces and develop consistent workforce plans

c) ensure they have set clear objectives for their workforce change programmes; including considering possible consequences, such as the need for recruitment, retraining or regrading posts; and cost and plan for these

d) learn from previous experience; by consulting others when developing early departure schemes for the first time, or by evaluating the effectiveness of their own schemes

e) assess the impact of different terms and conditions on the likely costs and uptake of their schemes before they put a scheme in place

f) collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members

g) develop and adapt existing mechanisms to monitor the impact of workforce programmes on staff wellbeing by, for example, adding questions to staff surveys or changing the timing of staff surveys

h) when redesigning services, consider how this could affect the services they delivery and put measures in place to monitor this.

3.17 The Council’s Efficient Workforce Management Planning framework introduced in 2010 was broadly based on the principles and good practice outlined in recommendations a) – c). Service reviews and Service Plans take account of staffing requirements and evidence from sources such as How Good is Our Council self-evaluations. The Council is developing a detailed Workforce Development Plan that addresses the need to maintain a skilled, flexible motivated, and well-managed workforce and takes account of changes in the Council workforce profile. One of the Plan’s four objectives is to ‘Develop a workforce for the future.’

3.18 The Council’s Voluntary Early Release Scheme and Efficient Workforce Planning programme are based on good practice (recommendations d – f).

3.19 The Council undertakes an annual Employee Engagement Survey which includes questions that monitor employee wellbeing (recommendation g).

3.20 The reports on impact of Efficient Workforce Management Planning and the Voluntary Early Release Scheme due to be presented to the Audit and Governance and Policy and Performance Committees will evaluate and review the impact these measures to manage and reduce the Council's workforce have had on council services (recommendation h).

Part 3: Planning for future workforce changes

3.21 The key messages from this part of the audit report are:

- Public sector finances will be under pressure for the foreseeable future, as budgets decrease and the ageing population increases demand for many public services. Budgets are expected to decrease by a further £57 million in real terms by 2015/16. There is variation between sectors – councils' funding will reduce by £281 million up to 2015/16, while NHS and central government budgets will increase by £101 million and £123 million respectively.
- At the time we completed our work, only 58 of 80 surveyed bodies were able to predict workforce numbers and costs for 2014/15. These bodies expect staff numbers to fall by 3,122 WTE up to 2014/15. Overall costs are expected to rise by £209 million, in cash terms, as public bodies implement inflationary and other pay increases.
- Given the challenges ahead, public bodies, and especially councils, will need to make further workforce changes. Without service reform, these are unlikely to deliver the savings needed. Public bodies need to think differently about how they deliver services, for example by prioritising and redesigning services and increasing joint working and collaboration. The Scottish Government has a number of reforms under way which could help deliver some of the change needed.

3.22 The report concludes with the following recommendations that where they have not already done so, councils, the NHS, the Scottish Government and central government bodies should:

- Forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary.

  The Council's service planning process, three-year financial strategy, People Strategy, Efficient Workforce Management Planning framework and Workforce Development Plan are based on the good practice outlined by this recommendation.
- Make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces.

  The Council has a strong commitment to explore sharing of resources with Community Planning partners and Midlothian Council. For example, East Lothian and Midlothian Councils share management posts in several services including Health and Safety, Environmental Health and Trading Standards and

Secondary School Head Teachers from both Councils are collaborating in a Self-Improving Schools initiative. A Shadow Health and Social Care Partnership has been established under the management of a Jointly Accountable Officer. There is an extensive multi-agency programme of joint training and staff development involving early years staff.

- Monitor the age of their staff, to prepare for peaks in departures resulting from people leaving when they reach retirement age.

  The Council monitors the age profile of its employees and produces an annual workforce equalities profile which includes detailed information about age and gender of employees.

4 POLICY IMPLICATIONS

4.1 The Account Commission report provides useful guidance to local authorities on how to plan and manage their workforces. The Council can show that it is already acting on or is putting plans in place to meet the various recommendations in the report to ensure it has the workforce required to deliver the services and outcomes set out in the Council Plan.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial – none.

6.2 Personnel – none.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 *Scotland's Public Sector Workforce;* Accounts Commission, November 2013

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy and Improvement Manager
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	6th January 2014

Scotland's public sector workforce

ACCOUNTS COMMISSION

AUDITOR GENERAL

Prepared by Audit Scotland
November 2013

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**

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 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**

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.

Contents

Exhibit data

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

Summary

Key facts

373,400[1] Number of whole-time equivalent (WTE) staff employed directly by councils, the NHS, the Scottish Government and other central government bodies in Scotland in March 2013

£12.7 billion Estimated staff costs in public sector bodies 2011/12

15,816 (4%)[2] Minimum number of staff (WTE) who left through an early departure scheme between 2009/10 and 2012/13

£1 billion (8%) Total reduction in staff costs between 2009/10 and 2011/12

9,664 (3%)[2] Number of WTE jobs transferred between 2009/10 and 2012/13 to arm's-length or other bodies who deliver services that are paid for, at least in part, by public money

Notes:
1. Calculated by Audit Scotland from Office for National Statistics and Information Services Division data.
2. Percentage of 2009 workforce.

Background

1. Workforce planning is the process that organisations use to make sure they have the right people with the right skills in the right place at the right time. To manage their workforces effectively, organisations need to have up-to-date information on:

- the numbers of people they employ to carry out different tasks
- what skills the workforce has and where there are gaps
- what skills and staff will be needed to deliver future services and priorities.

They must then plan and manage their workforces, and make any necessary changes, to meet their organisational objectives.

2. The devolved public sector is an important source of employment in Scotland.[1] In March 2013, councils, the NHS and central government, including the Scottish Government, employed 443,900 full and part-time staff (headcount), representing 18 per cent of the total workforce in Scotland.

3. Staff costs are the largest single element of public bodies' spending. In 2011/12, around £12.7 billion was spent on staff costs in councils, the NHS, the Scottish Government and other central government bodies. Public bodies need to manage their workforces strategically to deliver service priorities while dealing with financial pressures and making savings. Many bodies are currently reducing the size of their workforces to help meet budget cuts, through early departure schemes, outsourcing service delivery to other organisations and changing how they deliver services.[2] It is important, when making these changes, that bodies retain staff with the skills needed to deliver their strategic priorities and that the approaches they use provide value for money.

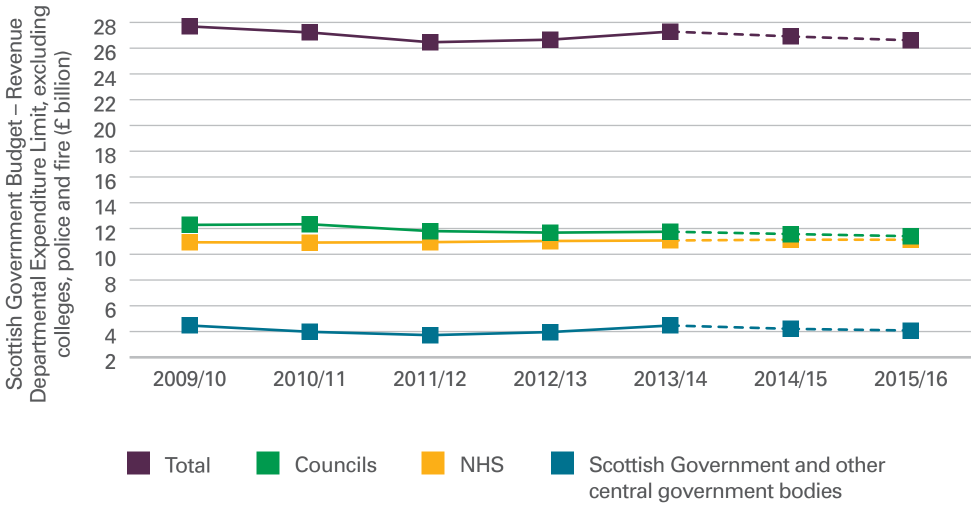
4. Councils receive around 70 per cent of their funding from Scottish Government revenue funding, council tax, and non-domestic rates.[3] [4] We estimate that in 2012/13 councils received around £11.7 billion revenue funding from these sources. The NHS received £11 billion revenue funding from the Scottish budget in 2012/13. Central government, which includes bodies such as the Scottish Government, Scottish Water, the Scottish Court Service and Creative Scotland, received £4 billion revenue funding. In total, these three sectors received £26.7 billion in revenue funding from the Scottish budget, council tax and non-domestic rates in 2012/13. This is £1 billion (four per cent) less in real terms than in 2009/10.[5] Between 2009/10 and 2012/13:

- council income from Scottish Government revenue funding, council taxes and non-domestic rates reduced by £607 million (five per cent) in real terms, to £11.7 billion
- the NHS's revenue budget allocation increased by £99 million (one per cent) in real terms, to £11 billion
- the central government sector's revenue budget reduced by £516 million (12 per cent) in real terms, to £4 billion. (Exhibit 1, page 6).

Exhibit 1

Funding changes 2009/10 to 2015/16

Since 2009/10 all sectors have faced budget pressures and these will continue to 2015/16 at least.



Note: Figures converted to 2012/13 prices. Figures for councils include Scottish Government grants and receipts from non-domestic rates and council taxes. They exclude receipts from service fees and charges for council services, other revenue and housing rents.

Source: Audit Scotland

5. The financial pressures facing Scottish public bodies will continue until at least 2015/16, the period of the current Spending Review. Further detail is included in Part 3 of this report.

About our audit

6. The aim of our audit was to assess if public bodies are effectively managing changes to their workforces. The specific objectives were to determine:

- How will the size and structure of the public sector workforce change between April 2009 and March 2015?
- What were the financial costs and benefits of changes to the public sector workforce and are the changes likely to provide long-term cost reductions?
- Did the workforce planning approaches that public bodies used follow good practice and include assessments of capacity and capability to ensure that the workforce can meet future needs?
- What significant opportunities and challenges face those managing the public sector workforce in future years?

7. The nature of public services and how they are provided has changed significantly in recent years. Many public bodies have outsourced aspects of their work to arm's-length external organisations (ALEOs) or to private sector companies. Third sector organisations also provide a range of services on behalf of public bodies. In all of these cases, some form of public funding is paid to the service provider, a proportion of which will be used to pay staff. This report focuses on staff employed directly by public sector organisations, and on the costs associated with employing those staff. The report does not look at the funds paid to other bodies providing services on behalf of public bodies or their employees.

8. We gathered audit evidence from:

- published and unpublished national and local data
- work at nine fieldwork sites [6]
- responses to our survey of 80 public bodies [7]
- interviews with representatives from organisations such as the Royal College of Nursing, British Medical Association, the Society of Local Authority Chief Executives (SOLACE), and the Scottish Social Services Council.
- Appendix 1 (page 43) sets out our audit approach and details who took part in our audit. Report supplement 1 (PDF) summarises the details of our nine fieldwork sites. Our audit did not include a number of smaller central government bodies and some bodies did not provide all of the information we asked for.

9. We received assistance and advice throughout the audit from an advisory group. Appendix 2 (page 45) lists the members of this group.

10. We focused on the approaches used by councils, the NHS, the Scottish Government and other central government bodies to change their workforces from April 2009 to March 2013. We used this time period, as 2009/10 was the last year in which budgets increased. Most of the figures quoted in our report refer to this period. Our information on staff costs covers the period from April 2009 to March 2012, as actual costs for 2012/13 for all bodies were not available at the time of our audit. To help understand what might happen up to the end of the current spending review period, we include some estimates up to 2014/15. These were provided by surveyed bodies and other named sources.

11. When we refer to the 'public sector in Scotland' we refer to the staff directly employed by councils, the NHS, the Scottish Government and other central government bodies. Our report excludes the 39,500 whole time equivalent (WTE) staff employed by colleges, police, and the fire and rescue service.[8] We have excluded these bodies and staff because they were undergoing major reform at the time of our audit.

12. The three sectors included in our audit operate within different frameworks:

- The NHS and central government bodies are directed by the Scottish Government to follow certain policies. Both sectors have a no-compulsory-redundancy policy, and adopted the Scottish Government's pay policy, introduced as part of the 2011/12 Scottish budget announcement.[9]
- Councils have greater autonomy over how they deliver services, manage budgets, and employ and manage workforces. One significant difference is the use of compulsory redundancy. While the Scottish Government has

restricted the use of compulsory redundancy in central government bodies and the NHS, some councils have used compulsory redundancy to change their workforces.

- The NHS adheres to some workforce management policies that operate at a UK level. These apply to the majority of NHS staff. All doctors', dentists', nurses' and allied health professionals' pay is based on recommendations by UK pay review bodies.

- Some NHS, Scottish Government and central government bodies are restricted in how they can reduce costs as a result of guarantees to protect staff terms and conditions. Some staff are given lifetime pay protection when they change job due to organisational restructuring while others may have their terms and conditions protected for a specified time only.

13. This audit complements our report *Managing early departures from the Scottish public sector.*[10]

14. Our audit report is in three parts:

- Part 1. Changes in staff numbers and costs

- Part 2. Implementing workforce changes

- Part 3. Planning for future workforce changes

15. In addition to this report, we will publish the following supporting material on our website in January 2014:

- Background data for individual public bodies.

- Good practice guide.

Key messages

1 From March 2009 to March 2013, the Scottish public sector workforce reduced by 26,600 WTE (seven per cent), to 373,400. A significant number of staff left through early departure schemes (15,816 WTE, equal to four per cent of the 2009 workforce). Another 9,664 WTE (three per cent) transferred to ALEOs or other non-public sector bodies. These staff still deliver services paid for by public money, but they are no longer included in public sector employment figures.

2 These changes helped public bodies to reduce their staff costs by an estimated £1 billion (eight per cent) between 2009/10 and 2011/12. Some of this reduction in staff costs will be offset by other payments to ALEOs and other non-public sector bodies to deliver public services.

3 The 80 survey bodies used a range of approaches to manage workforce numbers and costs. Each of the nine fieldwork bodies planned, at a service level, when changing their workforces. NHS bodies also produce single organisation-wide plans, bringing together their service-level workforce plans. Eight fieldwork bodies had used an early departure scheme but none had fully tested their schemes before using them. Fieldwork bodies did not routinely collect information on the costs and savings of their workforce change programmes.

4 Public sector finances will be under pressure for the foreseeable future although this varies between sectors. At the time we completed our work, only 58 of the 80 public bodies surveyed were able to predict workforce numbers and costs for 2014/15.

5 Given the challenges ahead, public bodies will need to make further workforce changes. Without service reform these are unlikely to deliver the savings needed. Public bodies need to think differently about how they deliver services, for example by prioritising and redesigning services and increasing joint working and collaboration. The Scottish Government has a number of reforms under way that could help deliver some of the change needed.

Recommendations

The Scottish Government and the Convention of Scottish Local Authorities (COSLA) should:

- work with public bodies to improve the consistency and accessibility of the data they collect on public sector employment and staff costs. This would provide more clarity on the relationship between staff numbers and costs and the impact of changes in employment levels on disposable income and workforce availability
- provide strategic guidance on how bodies can redesign services and work better together to jointly plan and deliver services
- improve strategic planning of public sector workforces to identify and plan for future skills needs, gaps and challenges across the public sector.

Where they have not already done so, councils, the NHS, the Scottish Government and central government bodies should:

- develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content. Senior managers and boards or elected members should scrutinise and monitor these plans
- assess the impact of different terms and conditions on the likely costs and uptake of their schemes before they put a scheme in place
- collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members
- forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary
- make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces.

Part 1

Changes in staff numbers and costs

Key messages

1. From March 2009 to March 2013, the Scottish public sector workforce reduced by 26,600 WTE (seven per cent) to 373,400.
2. Over these four years, 9,664 staff transferred to arm's-length or other bodies outside the public sector. These staff still deliver services paid for by public money, but they are no longer included in public sector employment figures.
3. At least 15,816 WTE staff left through early departure schemes.
4. Staff have also retired or left for jobs outside the public sector. At the same time, public bodies have recruited staff to fill posts that are critical to their ability to deliver services.
5. Reported staff costs reduced by £1 billion (eight per cent) to £12.7 billion, between 2009/10 and 2011/12. Some staff who transferred to arm's-length and other non-public sector bodies are still being paid indirectly through public funds.

The public sector workforce reduced by 26,600 WTE (seven per cent) between 2009 and 2013

16. The devolved public sector workforce in Scotland grew by 52,700 WTE staff (a 1.5 per cent annual increase) in the ten years after devolution, from 347,300 in March 1999 to 400,000 in March 2009. From March 2009 to March 2013, public bodies reduced their workforces overall by seven per cent, equivalent to a 1.7 per cent annual decrease, to 373,400 WTE staff:[11]

- Councils made the biggest reduction of 23,800 WTE staff (ten per cent) to 204,500 WTE.
- The NHS made the smallest reduction, with its workforce decreasing by 1,400 WTE staff (one per cent) to 133,200 WTE.
- The Scottish Government and other central government bodies reduced their workforces by 1,400 WTE overall (four per cent) to 35,700 WTE staff.

17. Between March 2009 and March 2012, councils, the NHS, the Scottish Government and other central government bodies reduced their workforces by

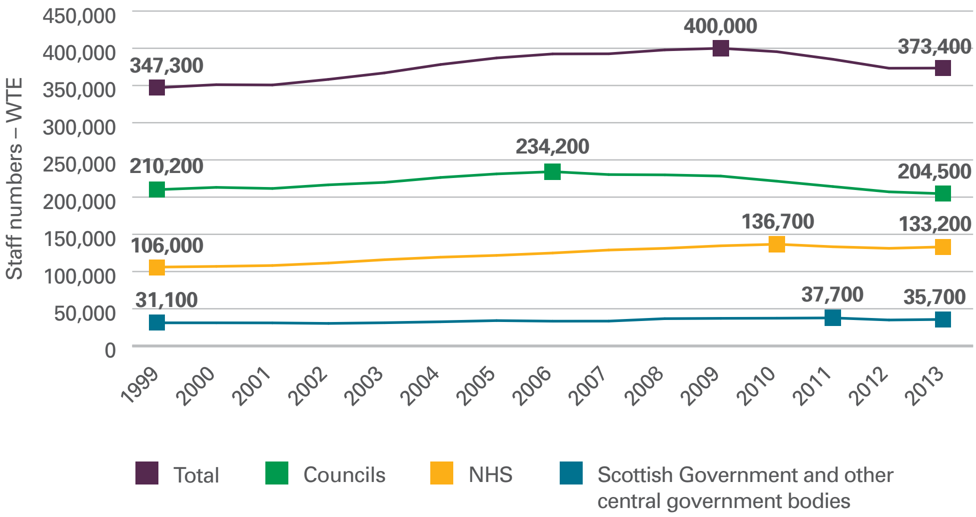
councils, the NHS, the Scottish Government and other central government bodies have reduced staff numbers and costs since 2009

26,800 WTE to 373,200 WTE staff. The public sector workforce has begun to grow again. During 2012/13, there was a net increase of 200 WTE. Council staff reduced by a further 2,600 WTE while NHS and central government workforces increased by 2,000 and 800 respectively[12] (Exhibit 2).

Exhibit 2

Public sector employment between 1999 and 2013, by sector

Public sector employment declined from a peak of 400,000 in 2009. Council employment began declining in 2006.



Source: Audit Scotland from Office for National Statistics data

18. Councils began to reduce their workforces in March 2006, by an average of just under one per cent a year until 2009. Since then, councils have reduced workforces by an average of 2.6 per cent each year. The Scottish Government and other central government bodies and the NHS began to reduce numbers in the first six months of 2010.

19. Fifty-nine of the 80 public bodies in our survey, including all 32 councils, reduced the size of their workforce between 2009 and 2013. Eighteen NHS and central government bodies increased their staff numbers:

- Thirteen of 22 NHS bodies reduced their workforces, while nine increased staff numbers. Six of the eight special boards increased their staff numbers, ranging from an increase of three WTE at the Scottish Ambulance Service, to over 450 additional WTE staff (79 per cent increase) at NHS Education for Scotland.[13] Only three of the 14 territorial boards increased staff numbers: NHS Lothian, by 78 WTE (less than one per cent); NHS Shetland, by 48 WTE (ten per cent); and NHS Highland, by 811 WTE (11 per cent) (paragraph 20).

- Fourteen of the 26 central government bodies surveyed reduced their workforces. Nine increased their total staff numbers.[14]

20. Some of the changes to individual workforces are due to staff transferring within the public sector. They do not affect the overall total but result in movements across and within sectors. For example, the NHS is now responsible for prisoner healthcare, which led to the transfer of 253 staff from the Scottish Prison Service to nine territorial health boards in October 2011.[15] New arrangements for the integration of health and social care in the Highlands led to the transfer, in April 2012, of 1,100 staff from Highland Council to NHS Highland, and 160 staff from NHS Highland to the council. Other significant changes have taken place through the Scottish Government's programme to simplify the public sector landscape. This resulted in staff transfers between existing, merged and new central government bodies. For example, in April 2010, around 615 staff transferred from two bodies to the Scottish Government to create Marine Scotland.

Almost 10,000 WTE staff transferred to arm's-length or other bodies outside the public sector

21. Based on our survey, we calculate that since 1 April 2009, 9,664 WTE staff transferred from councils, the NHS and central government bodies to arm's-length bodies (ALEOs) or other bodies outside the public sector, such as SERCO.[16] This is equivalent to 36 per cent of the overall reduction in workforce numbers.

22. In the last four years, 15 councils, one NHS board and two central government bodies transferred staff to ALEOs and other non-public sector bodies. Councils transferred a total of 9,100 WTE staff (just under four per cent of the total council workforce in March 2009). NHS Forth Valley transferred 541 facilities management staff to SERCO in 2010/11, as part of the contract arrangement for the new Forth Valley Royal Hospital. Highlands and Islands Enterprise and Scottish Enterprise transferred 23 staff in total to Atos in 2011 as part of a joint IT shared services arrangement with Skills Development Scotland.

23. Staff who transferred under these arrangements are not included in the public sector employment statistics or staff costs. They may continue to provide or support the delivery of public services, paid for by public money. The cost of these outsourcing arrangements is reported in public bodies' accounts as general expenditure rather than as staff costs. Case study 1 illustrates how this works.

Case study 1

South Lanarkshire Council transferred 224 WTE staff to an ALEO to deliver its sport, culture and recreation facilities

In 2010, South Lanarkshire Council transferred 224 WTE staff to South Lanarkshire Leisure and Culture Trust. The trust receives an annual service fee (£21.6 million in 2011/12) from the council. It also receives income from users through charges for the services it provides. The staff are no longer included in the public sector employment statistics or accounted for as public sector staff costs. They continue to deliver public services and the council contributes to the costs through the annual service fee.

Source: Audit Scotland

The public sector workforce reduced by 15,816 WTE through early departure schemes

24. In *Managing early departures from the Scottish public sector,* we reported that 13,846 public sector staff (headcount) agreed to leave their employment as part of an early departure scheme in 2010/11 or 2011/12.[17] Usually staff do not leave immediately. For example, when agreeing early departures in 2011/12 and 2012/13, the Scottish Government set three dates over each year when staff could leave. In Glasgow City Council, departure dates were set by individual heads of service and spread over a three-year period. For this audit, we collected information on the number of staff who actually left each year from 2009/10 to 2012/13.

25. Over the four years from 2009/10 to 2012/13, 18,908 people (headcount) left their jobs through an early departure scheme. We have calculated the number of jobs affected on a WTE basis, using a conversion factor based on data from the Office for National Statistics (ONS). We estimate that 15,816 WTE jobs were vacated by the 18,908 employees who left through early departure schemes.

26. The number of staff leaving through early departure schemes varied across the public sector. The Scottish Government and other central government bodies made the greatest relative use of early departure schemes to reduce workforce numbers:

- 11,543 WTE staff left councils, equivalent to five per cent of the March 2009 workforce in councils
- 946 WTE staff left the NHS, equivalent to one per cent of the March 2009 NHS workforce
- 3,327 WTE staff left the Scottish Government and other central government bodies, equivalent to nine per cent of the March 2009 workforce.

27. The number of staff leaving through early departure schemes peaked at 6,238 WTE in 2010/11. The number of public bodies using early departure schemes peaked one year later in 2011/12. The number of people leaving through early departure schemes has reduced in recent years in all three sectors. This downward trend may be due to a combination of factors, including the targeting of schemes and less interest in early departure schemes amongst remaining staff (Exhibit 3, page 15).

Natural departures, secondments and recruitment led to further changes

28. Of the 26,600 WTE posts removed from the public sector between 2009 and 2013, 9,664 were through transfers to ALEOs and other bodies outside the public sector. Reductions through public bodies' early departures schemes led to 15,816 fewer posts. This leaves a net difference of 1,120 WTE posts. This is made up of a combination of recruitment; secondments to other non-public sector bodies; and natural turnover, when staff retire or leave for jobs outside the public sector.[18]

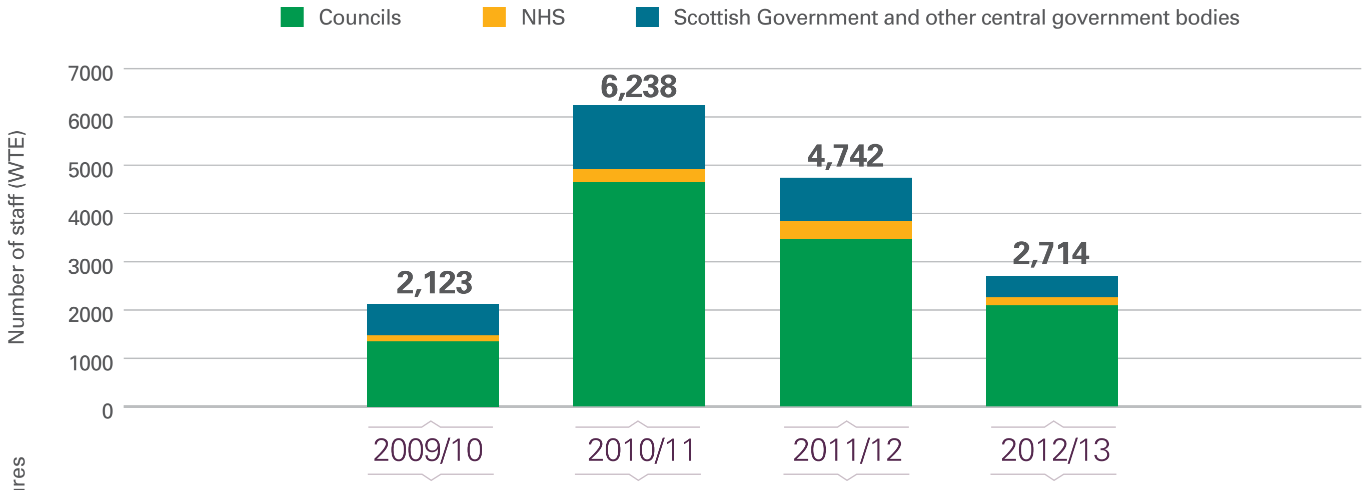
29. Overall staffing levels have decreased. Councils, the NHS, the Scottish Government and central government bodies have also recruited staff. For example to replace business-critical skills lost through natural turnover or to bring in new skills to deal with service changes and new responsibilities. The Scottish Environment Protection Agency (SEPA) recruited 43 staff between 2009 and 2013 to deliver new responsibilities arising from the Flood Risk Management (Scotland) Act 2009. The new responsibilities included: producing a national flood risk assessment for Scotland; identifying vulnerable areas; producing flood hazard and flood risk maps; and establishing a flood risk management planning service. Overall, SEPA reduced its staff numbers by 148 WTE between 2009 and 2013.

30. It is important that public bodies plan strategically. When a post is vacated they should firstly assess if the post is business-critical and if so, how it should be filled.

Exhibit 3

Number of bodies using, and staff (WTE) leaving through, early departure and early retirement schemes, 2009/10–2012/13

The number of people leaving through an early departure scheme has reduced in recent years.



Number of bodies with early departures (number of bodies / percentage of bodies in the sector)

	2009/10	2010/11	2011/12	2012/13
Scottish Government and other central government **(26 bodies)**	**12** 46%	**18** 69%	**18** 69%	**16** 62%
NHS **(22 bodies)**	**7** 32%	**9** 41%	**14** 64%	**12** 55%
Councils **(32 bodies)**	**22** 69%	**29** 91%	**30** 94%	**29** 91%
Total **(80 bodies)**	**41** 51%	**56** 70%	**62** 78%	**57** 71%

Number of bodies

Percentage of bodies in the sector

Source: Audit Scotland

We found that, when staff left a business-critical post, our fieldwork bodies often re-evaluated and re-graded the job. Public bodies also took advantage of staff leaving to redeploy staff from elsewhere in the organisation (Case study 2, page 16).

Some aspects of the workforce profile changed between 2009 and 2013

31. As well as the overall reduction in public sector staff, the profile of the workforce has changed. Between 2009 and 2013, the average age of public sector staff increased. In 2013, the average age was 44 years and four months compared with 43 years and nine months in 2009. We looked at the age distribution of the full and part-time staff in our survey bodies in 2009 and 2013 and found that the number of staff:

- aged under 20 years fell by 25 per cent
- aged 50-59 years increased by 5 per cent
- in all other age groups decreased by between six and 12 per cent (Exhibit 4, page 17).

If all of those aged 50 years or more leave their jobs within the next 10–15 years, over 37 per cent of the workforce will leave. There is a risk that this could create gaps in essential skills and experience (see Part 3).

Case study 2

Glasgow City Council's early departure scheme in 2010 resulted in 2,607 staff leaving

Glasgow City Council ran an early departure scheme in 2010 targeted at all staff over the age of 50. The scheme excluded staff working in business-critical posts in education and social work services. A total of 2,607 individuals applied and all were accepted for departure. In one department, Land and Environmental Services, just over 23 per cent of the workforce (831 staff) applied to leave in the three years up to 2012/13. In some teams within the department, applications for early departure were equivalent to 40 per cent of the team workforce. Following a detailed review to determine what investment was needed to maintain services and flexibility, the department identified that it would bring in 452 staff. This was achieved by recruiting staff and redeploying them from elsewhere in the council.

Source: Audit Scotland

32. Some public bodies are now targeting the recruitment of young people. Scottish Government and ONS official statistics show that, in the year to March 2013, the number of 16-24 year olds employed by 53 central government bodies on a full or part-time basis increased by 140, to 1,300. Overall, the percentage of young people in the workforces of these public bodies increased from 3.8 per cent to 3.9 per cent.[19]

33. Identifying other changes in the make-up of the public sector workforce is made difficult by incomplete information on, for example, the ethnic origin of staff or the types of job that public sector staff do.[20] Our analysis of the available information shows that while there are differences across sectors, the gender profile of the workforce and type of employment have not changed significantly since 2009 (Exhibit 5, page 18).

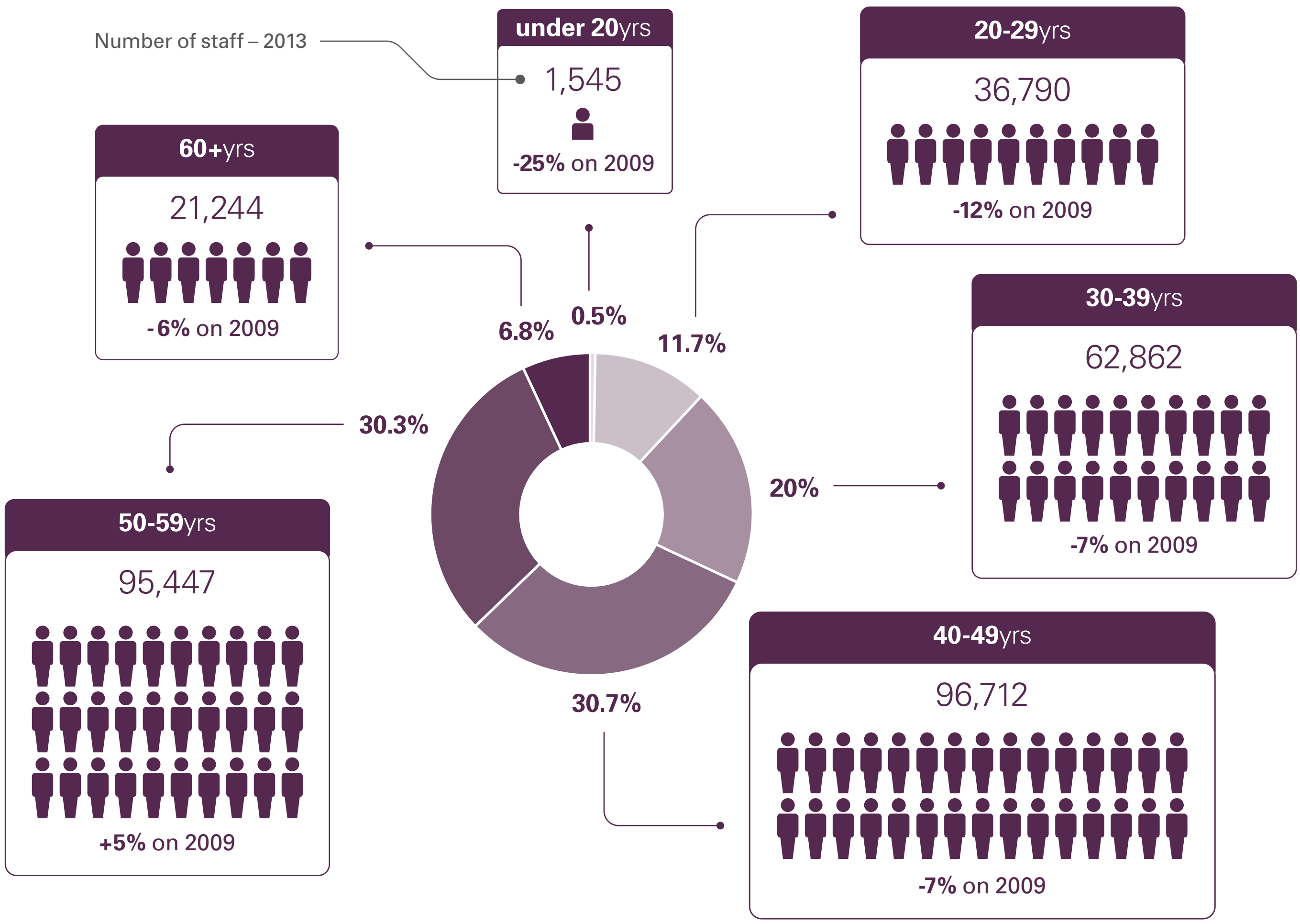
34. The number of senior manager jobs and administrative posts has decreased in some parts of the public sector:

- The Scottish Government has a target to reduce senior manager costs by 25 per cent between April 2010 and 2015. It reported a reduction of 17 per cent by the end of March 2013.[21]

- The NHS set a target to reduce the number of senior managers by 25 per cent from April 2010 to April 2015. It reported a reduction of 23 per cent up to April 2013.[22]

- Councils have reduced the size of their management teams. We reported in *Responding to challenges and change: an overview of local government in Scotland* that by the end of 2012, 18 councils had four or fewer directors on their senior management team.[23]

Exhibit 4
Changes in the public sector workforce, by age, 2009/10–2012/13
The total number of staff in each age group decreased between 2009/10 and 2012/13 except in the 50-59 age group.



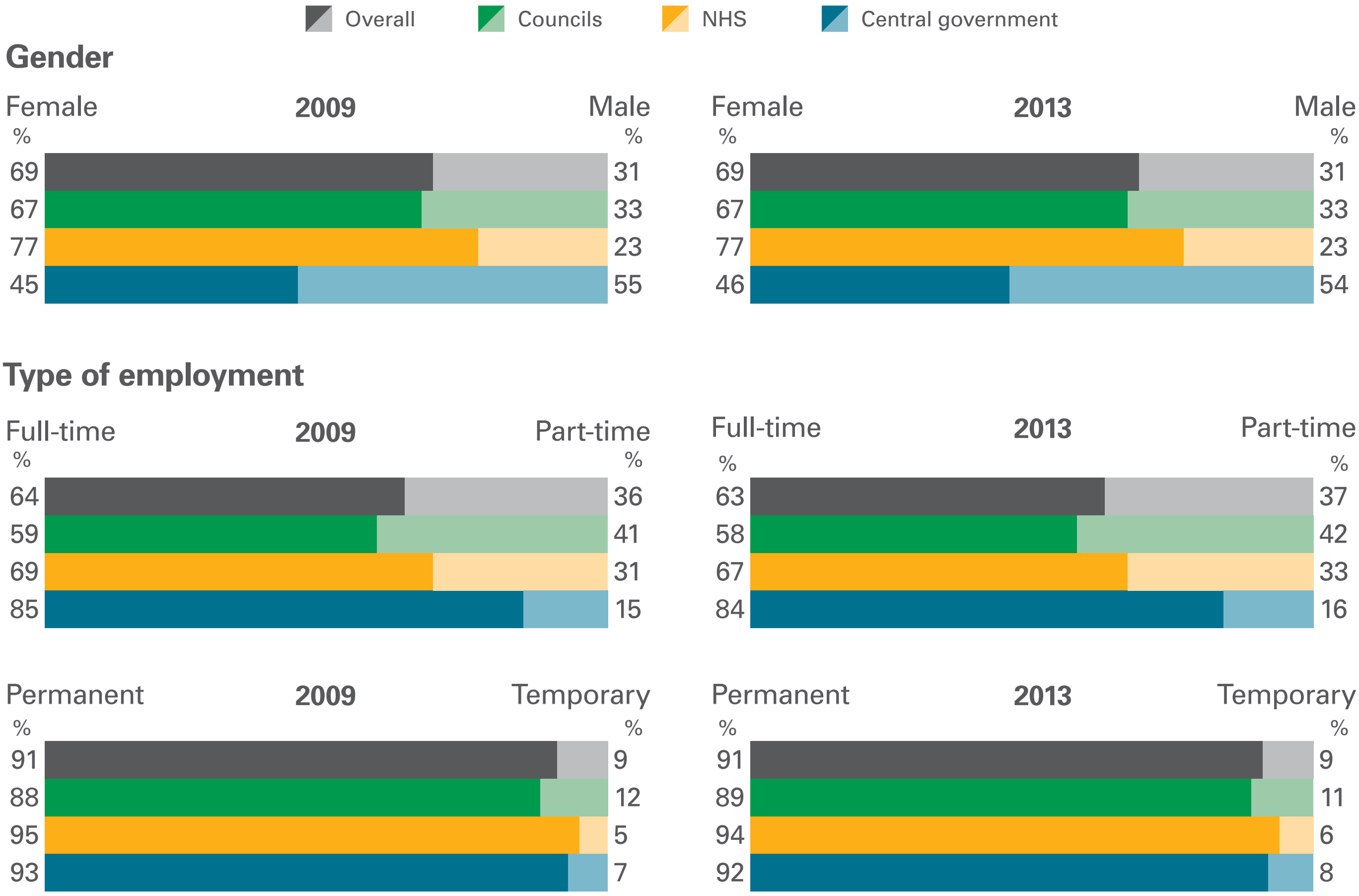
Note: Total WTE staff in 64 of the 80 survey bodies reduced from 329,000 in March 2009 to 314,600 in March 2013. Other bodies could not provide age breakdowns for both years.

Source: Audit Scotland

- In the Scottish Government and its agencies the number of first-tier management posts decreased by 10 per cent between 2009 and 2012.
- In the NHS, the percentage of administrative and support services staff employed decreased from 30.1 per cent in September 2009, to 28.6 per cent in March 2013.[24]
- In the Scottish Government and its agencies, the number of administrative grade posts reduced by more than eight per cent between 2009 and 2012.[25] We do not have equivalent information for councils or other central government bodies.

35. We do not have complete information for all types of staff employed in the public sector due to the variety of jobs that exist. Previous reports by Audit

Exhibit 5
Changes in the public sector workforce, 2009–13, by gender and type of employment



Source: Audit Scotland from survey data and other published data

Scotland have raised concerns about the loss of expertise amongst trading standards and planning staff in councils.[26] The number of teachers employed in Scotland decreased by three per cent, from 53,000 in 2009, to 51,410 in 2012. Pupil numbers also fell over the period. Overall, pupil to teacher ratios increased from 13.2 pupils to each teacher in 2009 to 13.4 in 2012.

36. NHS staffing varies across specialisms. For example, Information Services Division (ISD) data show the following:

- The number of NHS consultants rose from 4,250 to 4,532 WTE between September 2009 and March 2013. Demand has also increased resulting in vacancy rates decreasing from 3.8 per cent in September 2009 to 3.1 per cent in March 2010, before increasing to 4.3 per cent in March 2013.

- The same pattern is evident for nursing and midwifery staff. Overall, the number of nursing and midwifery staff in post fell by 1,392 WTE to just over 57,000 WTE over the period. Vacancies decreased between September 2009 and September 2010 from 2.5 per cent to 0.8 per cent, but increased to 2.7 per cent in March 2013. NHS spending on bank and agency nursing and midwifery staff had fallen from £106 million in 2009/10 to £90.5 million in 2010/11. This is now increasing again. In 2012/13, the NHS spent £110.6 million on bank and agency nursing and midwifery staff.

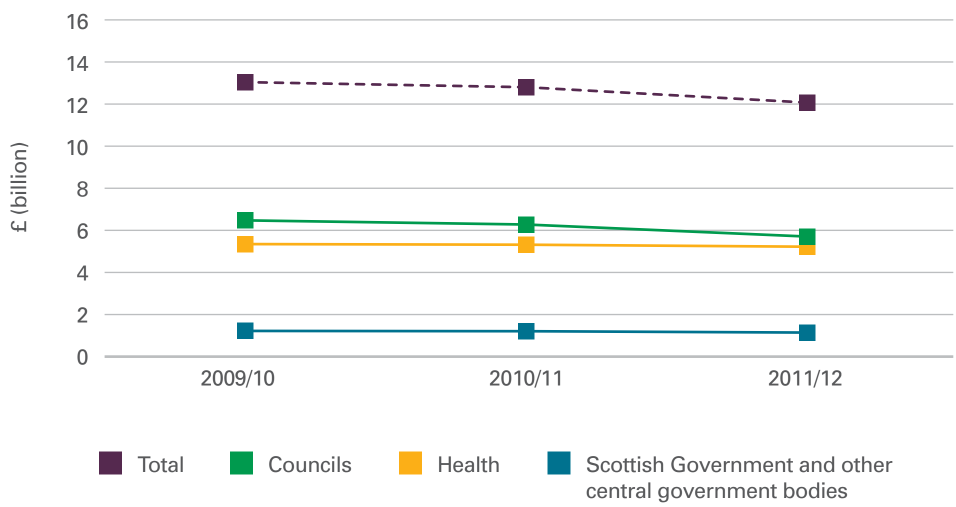
Reported staff costs reduced by £1 billion (eight per cent) in real terms between 2009/10 and 2011/12. But public bodies are still meeting some of these costs

37. We estimate that councils, the NHS, the Scottish Government and other central government bodies spent at least £12.7 billion on staff costs in 2011/12. Staff costs decreased by £1 billion in real terms (eight per cent) over the three years from 2009/10.[27] Staff who transferred to arm's-length and other bodies may continue to be paid for by public money. As such, the reduction in staff costs is offset, in part, by additional service contract costs.[28]

38. Staff costs changed over the three years in each sector as follows (Exhibit 6):

- Councils reduced staff costs by £813 million (12 per cent) in real terms, to £6 billion in 2011/12. Over the same three-year period, council staff numbers decreased by nine per cent.
- The NHS reduced staff costs by £136 million (two per cent), to £5.5 billion in 2011/12 while NHS staff numbers reduced by three per cent.
- In the Scottish Government and other central government bodies staff costs decreased by around £83 million to at least £1.2 billion in 2011/12 (seven per cent). Our analysis for the sector is not complete. We estimate that the 66 bodies included in our analysis of staff costs represent approximately 85 per cent of the workforce in the Scottish Government and other central government bodies.

Exhibit 6
Changes in staff costs, in real terms, 2009/10 to 2011/12



Note: Figures are adjusted to 2011/12 prices.

Source: Audit Scotland

39. Councils reduced staff costs for all service areas between 2009/10 and 2011/12. The extent of reduction varied across services. Education and social work staff costs reduced by seven and 11 per cent respectively; cultural and related services staff costs reduced by 19 per cent and central services staff costs reduced by 38 per cent.

It is difficult to get reliable cost information

40. There is no single source of data for staff costs and we have drawn information from a range of sources to produce our estimates:

- The audited accounts for councils do not identify staff costs as a separate item. We used unaudited information from the local financial returns (LFRs) to provide trend information on employment costs. LFRs are the best source of comparative financial information currently available.[29]

- Our estimates of NHS staff costs are based on Scottish Government monitoring which is audited, reliable and collected consistently across the years.

- We reviewed the accounts of 66 central government bodies including, the Scottish Government. Where relevant, this included predecessor organisations. There are inconsistencies in what is included in staff costs in each body's accounts. For example, in some cases, board remuneration costs were listed separately but not in others. We have adjusted the figures, where possible, to try to ensure consistency.

41. The staff costs reported in bodies' annual accounts include the cost of early departure payments. We estimate that, since 2009/10, councils, the NHS, the Scottish Government and other central government bodies incurred costs of at least £663 million for those leaving as part of an early departure scheme. So, the actual reduction in staff costs from 2009/10 to 2011/12 may be more than £1 billion.

Recommendation

The Scottish Government and the Convention of Scottish Local Authorities (COSLA) should:

- work with public bodies to improve the consistency and accessibility of the data they collect on public sector employment and staff costs. This would provide more clarity on the relationship between staff numbers and costs and the impact of changes in employment levels on disposable income and workforce availability.

Part 2

Implementing workforce changes

Key messages

1 The 80 survey bodies had used a range of approaches to manage workforce numbers and costs. Each of the nine fieldwork bodies planned, at a service level, when changing their workforces. NHS bodies also produce single organisation-wide plans, bringing together their service-level workforce plans.

2 Eight fieldwork bodies had used an early departure scheme but none had fully tested their schemes before using them. Fieldwork bodies followed appropriate approval processes for significant workforce changes but they did not routinely collect information on the costs and savings of the approaches they were taking.

3 The nine fieldwork bodies worked closely with staff and unions on proposed workforce changes and are monitoring the effect on staff. They generally rely on existing systems to measure the effects on staff and on how services are performing.

our fieldwork bodies made the changes needed to their workforces to achieve their business and financial objectives

42. This part of our report includes examples of practice from our nine fieldwork sites. We chose these to provide a mix of views and experiences. We recognise that there may be other good practice examples at locations where we did not carry out detailed work.

Fieldwork bodies planned changes to their workforces at service or departmental level. NHS bodies had also produced organisation-wide plans

43. We assessed the workforce planning approaches used at our nine fieldwork sites against good practice to find out the following:[30]

- Did fieldwork bodies link workforce requirements with corporate objectives, financial planning and service delivery plans? When they did this, did they consider possible changes in policy, budgets, demand and the future supply of the workforce?
- Did each organisation identify:
  - the skills and capabilities needed to deliver its priorities now and in future?
  - skills gaps?
  - areas where staff had skills that were no longer required and offered opportunities for redeployment or savings?

Fieldwork bodies used service-level workforce planning to deliver their organisational objectives. NHS bodies had also produced organisation-wide workforce plans

44. Preparing a workforce plan for the whole organisation helps strategic planning by identifying opportunities for redeploying people and providing an opportunity for more joined-up planning across service areas or departments. Without an organisation-wide plan there is a risk that:

- changes to how an organisation delivers services in one area may have unplanned or unintended effects on other services
- management teams cannot manage workforce changes to ensure that the organisation is making best use of its staff resources to achieve its objectives.

45. We found that all nine fieldwork bodies linked their workforce requirements to organisational objectives, financial plans, and service delivery. NHS bodies had also produced detailed organisation-wide workforce plans, in line with a specific Scottish Government requirement to produce these annually.

46. All of the fieldwork bodies had planned their workforces well at a service level, with the details included in individual service or departmental plans.[31] These plans set out the bodies' aims and intentions for the service, typically over 3-5 years. We reviewed examples of service level plans at the fieldwork sites and found that they contained:

- a clear rationale for making changes that linked to organisational objectives
- details on what changes they would make in how they deliver services
- an outline of the services' current resources, for example budget and staff
- details on how the workforce should change to deliver redesigned services.

47. There may be reasons why organisations plan at a service or departmental level. For example, councils deliver a wide range of services. Some have large workforces, including specialist staff who are unlikely to be redeployed to a job outside their main area of expertise. Where public bodies use service level planning, they need to consider the risks of not preparing organisation-wide workforce plans, and take action to mitigate them.

48. Where public bodies choose to use service or departmental plans rather than organisation-wide plans, good practice suggests that their individual plans should have a similar structure and level of detail, so that they can be compared and subject to central analysis and scrutiny. Our review of the 22 NHS organisation-wide workforce plans found they did not have a consistent structure or content. This makes it difficult for the Scottish Government Health and Social Care Directorate (SGHSCD) to develop a view of the NHS's workforce needs across Scotland. The SGHSCD is currently consulting with boards about ways to improve and speed up the development of plans. We did not review enough individual service plans at fieldwork sites to form a view on the extent to which they had similar structures.

49. From our fieldwork, we identified that all three NHS bodies and two councils were using existing tools and good practice approaches to develop their workforce plans. NHS bodies follow the SGHSCD 'Six steps methodology to integrated workforce planning' guidance. Aberdeenshire Council developed an electronic workforce planning toolkit with support from the Improvement Service. It allows public bodies to use scenario planning to help develop long-term plans for new or restructured services. Twenty-nine Scottish councils requested and received an electronic copy of the toolkit. The council and the Improvement Service report that it has been used by at least eight other councils including South Lanarkshire, which used it to review some of its services.[32]

Fieldwork bodies had identified their skills needs and started responding to potential skills gaps

50. We found evidence that all nine fieldwork bodies had identified the mix of skills needed to deliver services over the next few years. They had also taken action to respond to potential skills gaps at individual service level. The Scottish Government published its draft capability plan in January 2013. This identified additional skills that staff will need over the next few years, such as in tax policy, administration and digital and social media.

51. We also found good examples of organisations working with education providers to reduce skills gaps. For example, between 2009 and 2013, SEPA worked with the Universities of Stirling and Dundee to train specialists in flood risk management. This was to help meet new EU directives that led to the Flood Risk Management (Scotland) Act 2009. The new legislation increased demand for specialists Europe-wide and not enough were available in Scotland. SEPA resolved this shortage by developing a trainee programme with the universities. This allowed recruits to develop their skills through both work and part-time study, thereby filling the skills gap.

Public bodies used a range of approaches to manage workforce numbers and control costs

52. The public bodies we reviewed used different approaches to help manage staff numbers and costs between 2009/10 and 2012/13 (Exhibit 7, page 24).

53. All 80 of the public bodies we surveyed set limits on pay increases to manage their staff costs. As part of the Scottish budget considerations in 2011/12 and 2012/13, Scottish ministers introduced a pay freeze for all staff at the top of their pay scale in the Scottish Government, its agencies and non-departmental public bodies.[33] The policy was also adopted by the NHS in Scotland and some councils. Public bodies adopting the policy did not give inflationary pay increases to staff, although staff costs did increase for other reasons, such as pay progression. The Independent Budget Review Panel estimated that pay restrictions across the public sector avoided additional staff costs of £240 million in 2011/12, rising to a total of £570 million by 2012/13.[34]

54. Seventy-seven of 80 public bodies used vacancy management to reduce staff numbers and costs. This is when an organisation fills only vacant posts that are business-critical. NHS Lanarkshire used a mixture of vacancy management and recruiting, redeploying and retraining staff to alter the skills mix within the allied health professionals (AHP) service. The overall number of AHP staff decreased by only two (from just over 800 WTE) but by changing the grade mix, NHS Lanarkshire reported a saving of £1.5 million between 2010/11 and 2012/13.

Exhibit 7

Methods used by public bodies to manage workforce numbers and costs 2009/10–2012/13

Bodies used a variety of methods to manage workforce numbers and costs.

Note 1: The NHS employs bank staff to help manage the need for additional staffing hours cost-effectively and safely. NHS boards can also contract nursing staff through agencies, but this is more expensive.

Source: Audit Scotland

55. Seventy public bodies redeployed staff to alternative posts, if the post they occupied was no longer needed. South Lanarkshire Council reviewed its customer contact service with a view to making savings. It implemented a programme to increase telephone and web-based contact, and was able to merge five call centres into two. It moved surplus call centre staff to other duties, retraining some, for example, to provide advice to customers who visit council offices. South Lanarkshire Council estimates this redesign saved £400,000 in 2011/12.

56. Sixty-six public bodies restricted the use of overtime by either stopping it or limiting overtime that managers could authorise or staff could claim.

57. Sixty-two public bodies used voluntary early retirement schemes. These are broadly similar to early departure schemes but tailored to staff approaching retirement age.

58. Sixty-two public bodies used fewer agency and temporary staff by either stopping the practice or limiting when staff could be recruited temporarily.

59. Fifty-three public bodies changed employees' work patterns, for example by allowing staff to work from home; offering flexible hours or locations; or both of these. Glasgow City Council's Land and Environmental Services department negotiated a change from a standard five-day working pattern to a four-on/four-off pattern. This allowed the department to manage its staff resources more effectively and to make better use of its assets, such as vehicles and equipment. Aberdeenshire Council introduced a 'Worksmart' programme, which uses new technology to allow staff to work flexibly, at home or at other council locations.

60. Councils were more likely to re-grade staff posts and negotiate changes to employees' terms and conditions than the NHS, the Scottish Government or other central government bodies. This may be due, in part, to pay protection for some NHS and central government staff which may be time-limited or for life. Central government bodies' pay protection is usually time-limited. However, some NHS employees have lifetime pay protection. This means that if an NHS employee with lifetime pay protection is transferred to another NHS position on a lower grade, they will keep their higher pay, including entitlement to bonuses and overtime payments, until they leave, or pay progression erodes the difference, or the NHS body can negotiate a change.[35]

61. Twelve councils have used compulsory redundancy. Some have introduced 'no-compulsory-redundancy' policies, sometimes with associated conditions. For example, Scottish Borders Council has adopted a no-compulsory-redundancy policy in return for union and staff agreement to suspend pay progression.

62. Sixty-nine public bodies, including eight of our fieldwork bodies, used voluntary early departure schemes to reduce staff numbers and costs between 2009/10 and 2012/13.[36] This includes voluntary redundancy and voluntary early release schemes that allow staff to leave employment before retirement age, with a compensatory payment paid, at least in part, by their employer. The early departure schemes developed differ among bodies reflecting different terms and conditions and pension packages as well as the differing objectives set for each departure scheme (Exhibit 8, page 26).

63. The Scottish Government requires its directorates, agencies and NHS bodies to use early departure schemes that are in line with the Civil Service Compensation Scheme or the NHS's Agenda for Change pay, terms and conditions programme. There are advantages in using established schemes, as they can be introduced without lengthy negotiation and all staff are treated the same. However, the fixed nature of these schemes means that the NHS and some central government bodies cannot alter the terms for departures.

Exhibit 8

Examples of early departure schemes terms and conditions[1]

	Entitlement for each year of service including the maximum		Pension arrangements	Typical max payback period[2]
NHS	104 weeks	Four weeks' pay for each full year of service up to a maximum of 104 weeks.	Staff at minimum pension age can take their pension early with no reduction to benefits. Staff will surrender some redundancy payment (age dependent), to meet the costs of receiving their pension early. No additional years will be added.	104 weeks
Civil Service Compensation Scheme	84 weeks	Four weeks' pay for each year of service up to a maximum of 84 weeks.	Staff at minimum pension age can opt for early retirement but will be asked to surrender some of their redundancy payment to meet the cost of receiving their pension early. No additional years will be added.	104 – 156 weeks
Skills Development Scotland[3]	104 weeks	Under 40s: 4 weeks' pay for each year of service up to a maximum of 104 weeks. 40+: 8 weeks' pay for each year of service up to a maximum of 104 weeks.	Staff eligible for early retirement will receive statutory redundancy pay (based on age and length of service) and access to unreduced pension. No additional years will be added.	76 weeks
Stirling Council	66 weeks	The number of weeks' pay that would be taken into account for statutory redundancy, multiplied by 2.2, up to a maximum of 66 weeks.[4]	Up to 10 years may be added to pension entitlement but payback must be within 2 years.	104 weeks
Glasgow City Council	up to 66 weeks	A total of 0.5 – 66 weeks' pay depending on age and number of years' service. Other variations may also be taken into account such as working patterns, bonuses and shift working.	Between 4 and 6.6 years may be added to pension entitlement. This may be reduced for staff with less than 5 years' service.	156 weeks

Notes:
1. This simplifies the arrangements and benefits provided. Schemes have restrictions for some employees, for example those with less than two years' service. We have standardised 1 month to 4 weeks for consistency.
2. Period within which costs are to be recovered. The payback period is the time after which the body will expect to start saving money when someone leaves through an early departure scheme. In some schemes, an average payback period for all departures within the scheme is used instead of assessing each individual application.
3. Skills Development Scotland (SDS) was created in 2008 by merging some staff from five predecessor bodies (including the two arms of Careers Scotland which existed within Highlands and Islands Enterprise and Scottish Enterprise). The design of SDS's early departure scheme was influenced by the schemes of its predecessor bodies, although on less favourable terms than those operated in the preceding three years.
4. Statutory redundancy is based on an employee's age and length of employment. Employees receive 0.5 week's pay for each year of employment if they are aged under 22, 1 week's pay if they are aged between 22 and 41, and 1.5 weeks' pay if they are aged 41 over. Other conditions also apply.

Source: Audit Scotland

64. Public bodies may choose to use inbuilt discretions within standard schemes. For example, the Scottish Government and its agencies can apply to the Cabinet Office for permission to alter the usual tariff of four weeks' pay for each year of service. Some public bodies, including the City of Edinburgh Council, decided that an offer of 1.5 weeks' pay for each year of service would be enough to help achieve the workforce reductions they needed.

65. Not all of the workforce planning approaches that public bodies use are focused on reducing staff numbers. Some public bodies have faced difficulties in recruiting for posts due to competition from other employers, or their location, and have had to try different approaches. For example, both Aberdeen City and Aberdeenshire councils have used alternative approaches when recruiting teachers. In July 2013, Aberdeen City Council agreed to offer an incentive payment to encourage applicants from outside the city to apply for vacancies, to make up a shortfall of around 40 teachers. Aberdeenshire Council instigated a programme to recruit teachers from Canada and Ireland. On previous occasions, Aberdeenshire Council advertised posts and received no applicants, but their 2013 recruitment campaign resulted in 85 applications for the 52 posts advertised. The council appointed 13 overseas staff who started work in August 2013; another 17 overseas teachers will start before the end of 2013.

66. By using a mix of approaches, the nine fieldwork bodies had made the workforce changes needed to achieve their business and financial objectives. It is important that bodies understand how these approaches work together. None of the fieldwork bodies had evaluated the relative effectiveness of their approaches.

Fieldwork bodies implemented their early departure schemes effectively but did not fully test them before using them

67. Public bodies using early departure schemes incur upfront costs, with savings spread over the following years. It is important that schemes attract enough interest to achieve the savings necessary, while remaining affordable. We found that, before introducing schemes, none of the public bodies we reviewed had fully tested them, by modelling different terms and conditions of their schemes or different levels of uptake by staff. Without doing this, bodies cannot be sure that their schemes are affordable, provide value for money and will generate the required level of savings. Bodies had not sought input from other public bodies on their experiences of running schemes with different terms and conditions.

68. All the early departure schemes that eight of the nine fieldwork bodies used had a payback period against which bodies assessed applications. Organisations use these to test the value for money of proposals and work out if they can recover costs from the expected savings within a specified timeframe. Where staff who apply qualify for high compensatory payments, this could reduce their likelihood of meeting the body's payback criteria. This is because it will take longer to recover costs and make savings. If this is the case, public bodies may have to reject these applications. It is important that bodies consider carefully the value for money of their schemes and make consistent decisions when assessing applications.

69. We found that the eight fieldwork bodies had implemented their departure schemes effectively. For example:

- They had set out details of their schemes clearly and offered support to staff throughout the process.

- They managed who could leave and when. The Scottish Government used an open early departure scheme, where any member of staff could apply, but employed strict, well-defined criteria to ensure that staff with key skills did not leave. In 2011/12, the Scottish Government's voluntary exit panel considered 450 applications and turned down 13 (Case study 3). Glasgow City Council's scheme targeted those aged 50 years or over. The council controlled when staff could leave, agreeing departure dates over the three-year period after an application was accepted.

- They used other workforce approaches along with, or instead of, early departure schemes. For example:

  - Some redeployed staff to vacant posts or posts vacated by people who had accepted an early departure.
  - South Lanarkshire Council and the Scottish Government took the opportunity to redesign and re-evaluate jobs and regrade posts freed up by departures, restructuring the workforce where possible.
  - Some public bodies made early departure schemes available to staff they had been unable to redeploy, to prevent them remaining on the redeployment register for a long period. For example, NHS Lanarkshire offered voluntary departure packages to staff if there were limited opportunities for them to be redeployed due to, for example, a lack of posts at their grade.
  - The Scottish Ambulance Service promoted opportunities for staff to transfer to the A&E service, when it redesigned its Patient Transport Service.

Case study 3: Good practice example

The Scottish Government's early departure scheme

The scheme evaluates individual applications for early departure against various criteria that help decide if an application may be accepted or rejected.

Criteria
The individual's post will be deleted under reorganisation or restructuring.
The individual's departure helps meet the directorate's plan to reduce headcount and is part of an active reorganisation or restructuring programme.
The applicant is on the redeployment list, or about to be added to the list; and their skill set or location suggests that opportunities for another posting are very limited, or they are likely to need skill development before being posted.
Releasing the individual provides an opportunity for reorganisation or restructuring resulting in business and cost efficiencies. (If the vacated post needs to be filled, it should be as a lower grade and filled internally.)
External recruitment will be needed because of the location of the post or the specialist nature of the post.
The post is business-critical at present; that is, the post cannot be left vacant and there is no available immediate successor.
The applicant's skill set has to be retained.

Source: Scottish Government

Only the Scottish Government formally documented how it appraised options to manage workforce numbers and costs

70. All nine fieldwork bodies reported that they developed their workforce management approaches by considering, or appraising, a range of options to control staff numbers and reduce costs. They selected those they thought would be most effective and acceptable, and discussed them with unions, staff groups, boards and elected members. However, only the Scottish Government had formally documented its option appraisal. In 2010, its Resources Committee considered over 20 options and ruled out four (for example, introducing new contracts of employment). It then adopted the other 16 to varying degrees. Other public bodies reported weighing and discussing their options but not all documented their decisions.

Fieldwork bodies followed appropriate processes for approving significant workforce changes

71. The nine bodies we reviewed followed appropriate governance arrangements by asking their boards and elected members to approve significant workforce reshaping proposals, including their early departure schemes.

72. Boards, elected members and the Cabinet Office (for the Scottish Government and its agencies) were asked to approve the use of funding for early departure schemes.[37] Approval was sought based on broad assumptions about the likely numbers departing and associated costs. For example, the Scottish Government requested Cabinet Office approval to run an early departure scheme in 2012/13. The Scottish Government had identified that, to help balance its budget for the year, it would need to reduce staff numbers by 300 WTE. It sought permission from the Cabinet Secretary for Finance, Employment and Sustainable Growth to spend up to £12 million, to cover the estimated costs of the 300 WTE departures, if this number of staff came forward. After the assessment process, the Scottish Government agreed 148 WTE staff departures in 2012/13, at a cost of £6.8 million.

Fieldwork bodies did not routinely collect information on the costs and savings of their workforce change programmes

73. Public bodies should monitor the costs and savings from their workforce programmes. This provides assurance that they are achieving value for money and that they will achieve the overall savings required. They should also report these to boards and elected members. Our principles of good practice on early departure schemes state that all bodies should publicly report the costs of their early departure schemes and the savings these generate.[38]

74. The nine fieldwork bodies we reviewed provided reports to boards and councils on the number of staff applying for early departures and on the overall effect of significant changes in the workforce. But not all public bodies were routinely collecting information on the savings they made from wider changes to the workforce, or the costs of these.

75. All NHS bodies separately identify savings from workforce changes and report these to their boards and the Scottish Government Health and Social Care Directorate (SGHSCD). Glasgow City Council also reported overall costs and savings to its elected members. We found that the five other fieldwork bodies monitored the impact of their workforce programmes through departmental and service budgets but they did not separately identify workforce savings.

76. In our survey, six of the 57 public bodies which ran an early departure scheme in 2012/13 were unable to provide information on the savings they expected from the scheme. One could not separately identify costs.

77. For the eight fieldwork bodies with an early departure scheme, reported costs ranged from £27,000 to £69,600 for each person, each year. Savings among these bodies ranged from £3,650 to £40,850 for each person, each year. The greatest variation was in the costs and savings reported by the three central government bodies (Exhibit 9).

Exhibit 9
Examples of costs and savings from early departure schemes at seven fieldwork sites

Highest and lowest average costs and savings for each departure in fieldwork bodies between 2009/10 and 2012/13, by sector			
	Councils	**NHS**	**Central government**
Average cost per head (lowest - highest)	£36,100 - £59,900	£34,850 - £64,400	£27,000 - £69,600
Average yearly saving per head (lowest - highest)	£15,950 - £34,950	£20,550 - £39,150	£3,650 - £40,850

Note: The exhibit excludes Aberdeenshire Council, which did not provide costs and savings information, and the Scottish Ambulance Service, which has not run an early departure scheme.

Source: Audit Scotland

78. The work involved in developing detailed workforce reshaping programmes can be significant. The time spent by staff may not always be recorded as a direct cost. It is important that organisations understand the likely costs (and savings) of their programmes. Public bodies should at least recognise that:

- major changes are likely to have development and implementation costs, such as administering the scheme and recruiting, redeploying and training people.
- these costs will be higher if changes involve large numbers of staff.

Only one fieldwork body – the Scottish Court Service (SCS) – had measured the administrative cost of running its scheme. SCS estimates that it cost £79,000 of direct staff time to administer its early departure scheme for the 96 staff who left. Our reports, *Learning the lessons of public body mergers* and *Managing early departures,* provide guidance on measuring workforce costs and savings and, specifically, how to calculate the cost of early departure schemes.[39]

Fieldwork bodies worked with staff and unions when developing workforce changes and are monitoring the effect on staff wellbeing

79. We found evidence in all nine fieldwork bodies that they had worked with staff and unions on plans to reshape their workforces. Employee representatives sit on NHS boards and, in all three sectors, unions were consulted about proposed workforce changes. Bodies communicated regularly with staff about proposals for workforce changes and kept them informed about plans. For example, NHS Forth Valley involved staff in working groups that helped develop the board's proposals.

80. Fieldwork bodies were using existing measures to monitor the impact of workforce changes on staff wellbeing. For example:

- using staff surveys and employee audits to track staff morale and staff satisfaction
- using indirect measures of staff wellbeing, such as sickness absence data, and stress counselling services, to help identify if changes could adversely affect the workforce. The Scottish Government monitors the amount of flexitime that staff build up and are not taking, and the take-up of annual leave by staff.

81. There is some anecdotal evidence that workloads are increasing. For example, respondents to Glasgow City Council's 2012 staff survey expressed concerns that workforce changes had reduced resources and increased workloads. It is important that bodies adapt and continue to use systems to monitor staff wellbeing.

Fieldwork bodies were generally using existing systems to measure the effect of workforce changes on service performance

82. The nine bodies we reviewed generally relied on existing systems to monitor the effects of workforce changes on performance. It is important that, when planning significant changes, such as when councils implement the new welfare benefits changes, bodies put in place appropriate measures and systems to monitor the effect on performance. When NHS Forth Valley restructured its Acute and Urgent Care services in 2009, it monitored performance more closely so that it could quickly identify any service deterioration.

Recommendations

Where they have not already done so, councils, the NHS, the Scottish Government and other central government bodies should:

- develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content. Senior managers and boards or elected members should scrutinise and monitor these plans

- use established good practice approaches, such as the NHS 'six steps' method and the Aberdeenshire Council toolkit, to help plan workforces and develop consistent workforce plans
- ensure they have set clear objectives for their workforce change programmes; including considering possible consequences, such as the need for recruitment, retraining or regrading posts; and cost and plan for these
- learn from previous experience; by consulting others when developing early departure schemes for the first time, or by evaluating the effectiveness of their own schemes
- assess the impact of different terms and conditions on the likely costs and uptake of their schemes before they put a scheme in place
- collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members
- develop and adapt existing mechanisms to monitor the impact of workforce programmes on staff wellbeing by, for example, adding questions to staff surveys or changing the timing of staff surveys
- when redesigning services, consider how this could affect the services they delivery and put measures in place to monitor this.

Part 3

Planning for future workforce changes

Key messages

1 Public sector finances will be under pressure for the foreseeable future, as budgets decrease and the ageing population increases demand for many public services. Budgets are expected to decrease by a further £57 million in real terms by 2015/16. There is variation between sectors – councils' funding will reduce by £281 million up to 2015/16, while NHS and central government budgets will increase by £101 million and £123 million respectively.

2 At the time we completed our work, only 58 of 80 surveyed bodies were able to predict workforce numbers and costs for 2014/15. These bodies expect staff numbers to fall by 3,122 WTE up to 2014/15. Overall costs are expected to rise by £209 million, in cash terms, as public bodies implement inflationary and other pay increases.

3 Given the challenges ahead, public bodies, and especially councils, will need to make further workforce changes. Without service reform, these are unlikely to deliver the savings needed. Public bodies need to think differently about how they deliver services, for example by prioritising and redesigning services and increasing joint working and collaboration. The Scottish Government has a number of reforms under way which could help deliver some of the change needed.

public bodies should continue to review workforces. They will also need to find new ways to make savings

Public sector finances will continue to be under pressure for the foreseeable future

83. We estimate that funding for the Scottish Government, other central government bodies, the NHS and councils (including council tax and non-domestic rate payments) will reduce by £57 million (0.2 per cent) in real terms to £26.6 billion by 2015/16. There is variation across the sectors. We estimate that:

- council income from revenue grants from the Scottish Government, council taxes and non-domestic rates will reduce by £281 million (two per cent) in real terms
- the NHS's revenue budget allocation will increase by £101 million (one per cent) in real terms
- the central government sector's revenue budget will increase by £123 million (three per cent) in real terms.[40] These changes are shown in Exhibit 1 (page 6).

84. Councils also collect income from other sources; such as service fees, charges and housing rents. Councils raised £5.6 billion from these in 2011/12.[41] Councils will need to increase their income from other sources by five per cent over the three years from 2013/14 to 2015/16 to make up the reduction of £281 million in Scottish Government grants, council taxes and non-domestic rates.

85. Beyond 2015/16 the situation is likely to become even more challenging. In August 2013, the Centre for Public Policy for Regions (CPPR) estimated that the Scottish resource budget will be £2.7 billion lower in real terms by 2017/18.[42]

86. The public sector also faces significant challenges due to demographic changes. As birth rates decline and people live longer, the number of older people is growing both in absolute terms and as a proportion of the population. Between 2009 and 2012, the number of people living in Scotland aged 65 years and over increased to 925,750. The percentage of people aged over 65 is projected to increase from 17 per cent of the population in 2012 to 25 per cent by 2035.[43] This trend is likely to continue for the foreseeable future and it will result in increased demand for health and social care and for pensions and benefits. It will place further pressure on public finances and services.

87. Our previous report on *Scotland's public finances* noted that public bodies faced financial pressures from capital investment programmes, backlogs of maintenance and repairs, and environmental pressures arising from increased energy costs and emission targets. All these pressures continue to apply.[44]

Only 58 of 80 public bodies were able to forecast workforce numbers and costs for 2014/15

88. We used our survey to collect details from public bodies on their expected staff numbers and costs in 2014/15. Not all were able to provide this information. Fieldwork bodies cited uncertainties about future budgets at service level, pay deals and new responsibilities as factors that make longer-term financial planning difficult. Our analysis of survey responses shows:

- Seventeen of the 32 councils forecast staff numbers and costs up to 2014/15. Twelve had forecast their staff costs only, and three could not forecast staff costs or staff numbers for 2014/15. We did not collect information from all councils on why they were unable to provide this information. Some were in the process of preparing these estimates and some reported that they could not make further progress until they had finalised budgets.

- Nineteen of the 22 NHS bodies provided both staff number and cost estimates up to 2014/15. One provided details of staff numbers only and two NHS bodies provided neither. NHS bodies prepare their staffing projections annually and send these to the Scottish Government Health and Social Care Directorate, which publishes the details every August.

- Twenty-two of the 26 central government bodies surveyed provided both staff numbers and staff cost estimates up to 2014/15. Two bodies had forecast their staff costs only. Two had forecast staff numbers only. Creative Scotland reported that its costs will be finalised once an agreement is reached on pay harmonisation for staff transferred to the organisation.

Overall, the 58 public bodies expect staff numbers to fall up to 2014/15, but net costs to rise

89. The 58 public bodies that forecast staff numbers and costs up to 2014/15 planned to reduce the workforce by a further 3,122 WTE. However, they expected their staff costs to rise over the two years, by £209 million in cash terms. There is variation between, and within, sectors (Exhibit 10):

- In addition to the reductions they had already made up to March 2013, 16 councils forecast that their staff numbers would fall over the next two years by almost 3,700 WTE overall (a three per cent fall compared with the number employed in 2012/13). Aberdeenshire Council forecast no change in its staff numbers. Despite reducing the size of their workforces, these 17 councils forecast that staff costs would increase by £24 million (one per cent).

- Nineteen NHS bodies forecast that staff numbers would increase overall by 327 WTE, and net staff costs would increase by £159 million (four per cent). Healthcare Improvement Scotland expects to make the biggest relative increase in its workforce; it will employ 30 extra staff (11 per cent more than the current workforce) by 2014/15, to help deliver new responsibilities. Overall, it expects staff costs to increase by £2 million (19 per cent). NHS Health Scotland is the only NHS body expecting costs to fall; it expects staff numbers to remain unchanged over the two years with costs decreasing by £31,000 (0.3 per cent).

- Twenty-two central government bodies forecast staff numbers would increase by just under 250 WTE (one per cent) but net costs would increase by £27 million (four per cent). Loch Lomond and Trossachs National Park Authority expects no significant change in the number of WTE posts over the two years, but forecasts a reduction in staff costs of 11 per cent. Scottish Enterprise will increase staff numbers by 28 WTE posts (three per cent) and forecasts overall staff costs will increase by £3 million (six per cent).

Exhibit 10

Forecast change in staff numbers and costs between 2012/13 and 2014/15

Councils expect to reduce staff numbers although, in all three sectors, staff costs are expected to rise.

	Numbers (WTE)	Per cent change from 2012/13 (WTE)	Staff costs (£)	Per cent change from 2012/13 (£)
17 councils[1]	- 3,698	- 2.9 per cent	+ £24 million	+ 0.6 per cent
19 NHS boards	+ 327	+ 0.3 per cent	+ £159 million	+ 3.7 per cent
22 central government bodies	+ 249	+ 1.2 per cent	+ £27 million	+ 3.8 per cent
Overall net change	**- 3,122**	**- 1.2 per cent**	**+ £209 million**	**+ 2.2 per cent**

Note 1: Fife Council transferred staff to the Scottish Police Authority and the Scottish Fire and Rescue Service in April 2013. We have excluded these transfers from the figures quoted to be consistent with data from other councils.

Source: Audit Scotland

90. Overall, nine councils, 18 NHS and 18 central government bodies expected staff costs to rise by 2014/15, while eight councils, one NHS and four central government bodies expected costs to fall. Report supplement 2 (PDF) shows the forecast change in staff costs between 2012/13 and 2014/15 for all survey bodies.

Staff costs are likely to increase

91. In the absence of other data, we used our survey to gather information on estimated staff costs for 2012/13 and to forecast staff costs for 2013/14 and 2014/15. Public bodies expect staff costs to increase due to a combination of pay increases, pay progression and as they continue to implement the Scottish Government's living wage and settle equal pay claims. Assuming no change in the number or structure of workforces from the 2012/13 position, we estimate that total staff costs for our 80 survey bodies will be £13.8 billion in 2014/15.[45] This is an increase of £433 million (three per cent) from 2012/13. This figure is in cash prices taking into account inflationary and other staff cost increases (Exhibit 11).

Exhibit 11

Estimated staff costs changes, if workforce size and structure remain unchanged

Public bodies expect staff costs to rise.

Estimated staff costs at 2014/15 (cash prices)	Councils	NHS	Central government bodies	Total
Staff costs 2012/13[1]	£6,826 million[2]	£5,547 million	£972 million[3]	£13,345 million
Per cent increase (2013/14 - 2014/15) due to:				
• pay progression	0.55 per cent	0.99 per cent	3.82 per cent	£130 million
• inflation	2.26 per cent	2.02 per cent	1.63 per cent	£283 million
• living wage	0.25 per cent	0.05 per cent	0.01 per cent	£20 million
Estimated increase	£210 million	£170 million	£53 million	**£433 million**

Notes:
1. 2012/13 figures as reported by public bodies (not audited). Where data not provided for 2012/13, we have estimated based on 2011/12 staff costs.
2. 2012/13 council staff cost figures are drawn from bodies' own estimates and may not be comparable with the LFR data used to estimate council staff costs in Part 1 of the report.
3. Based on 26 central government bodies. Cannot be compared with the data for central government staff costs in Part 1 which was based on the accounts of 66 public bodies.

Source: Audit Scotland

92. The one-year pay freeze, implemented as part of the Scottish Government's 2011/12 budget announcement, was extended to 2012/13 by many bodies. This is now ending. All but two survey bodies planned to give staff a pay increase in 2013/14 of one per cent on average. We estimate that, if the public sector workforce remains unchanged, these increases would add at least £283 million to the staff costs of councils, the NHS, the Scottish Government and other central government bodies by 2014/15.

93. Assuming the workforce remains the same, staff costs will also increase up to 2014/15 due to:

- Pay progression schemes. These allow employees to move through a pay band as they gain additional experience or skills, or due to their performance at work. We estimate that pay progression would add at least £130 million to staff costs for councils, the NHS, the Scottish Government and other central government bodies.

- Central government bodies, councils and the NHS adopting the new living wage. The Scottish Government announced it was adopting a living wage of £7.45 an hour, for all staff on lower incomes, from 1 April 2013. It estimated that this would benefit around 3,300 public sector workers in the NHS and central government. We estimate that implementing the living wage would increase public bodies' staff costs by at least £20 million.

- Public bodies meeting equal pay claims. Under equal pay legislation, employers must ensure that men and women doing similar work receive the same pay. Collectively, councils spent £25.6 million on equal pay claims in 2011/12 and have spent a total of £475 million on it between March 2010 and 2012.[46] We do not have information on the impact of equal pay claims in the NHS and central government.

94. Based on these calculations, staff pay costs will increase in all three sectors between 2012/13 and 2014/15:

- Council staff costs would rise by at least three per cent (£210 million) to £7 billion. However, councils expect to reduce staff numbers up to 2014/15.

- Staff costs in NHS bodies would rise by at least three per cent (£170 million), to £5.7 billion in cash terms.

- For central government bodies we do not have staff cost information for the whole sector. Based on our 26 surveyed bodies, costs are likely to increase by £53 million. However, numbers in the sector are growing; they rose by 800 WTE in 2012/13 (paragraph 17) and 22 of our survey bodies forecast an increase of just under 250 WTE in 2013/14 and 2014/15 (paragraph 89).

Public bodies need to consider alternative options to achieve the cost reductions needed while identifying and maintaining priority services

95. The scale and duration of the financial challenges the public sector is facing present difficult choices for public bodies and their workforces. Councils face the biggest challenge, although all public bodies need to manage resources effectively. To help deliver the workforce changes needed, public bodies may need to consider:

- Changes to working patterns. This can offer flexibility to both staff and to organisations and secure greater economy and efficiency from existing assets.

- Making use of the flexibility available to them, to tailor early departure schemes to their own circumstances. Where the flexibility is insufficient, bodies may need to seek guidance from the Scottish Government or COSLA.

- How to use no-compulsory-redundancy policies to negotiate agreements on workforce flexibilities and efficiencies.[47]

- Further restrictions on pay increases, pay cuts and longer working hours. Such approaches should be balanced against the potential effects on staff performance and morale.

- Targeting recruitment campaigns and building links with education providers to help manage ageing workforces and counter the impact of retirements on the capacity and capabilities of their workforce.

96. Public bodies will continue reviewing workforces to reduce costs. However, some options that have worked to date may no longer provide the savings necessary. For example, 31 councils, nine NHS bodies and ten central government bodies intend using early departure schemes in 2013/14 and 2014/15. Our analysis suggests that where bodies have used departure schemes over a number of years, the schemes are attracting fewer applicants each time (Exhibit 3, page 15). There is a risk, therefore, that early departure schemes will not attract enough applicants to produce the savings needed.

97. Public bodies need to think differently to find new ways to make savings, some of which go beyond focusing on reducing workforce numbers. Public bodies also need to consider:

- more cross-organisation and cross-sector working

- making more use of service redesign

- reviewing which services they continue to provide

- helping communities to provide services for themselves

- increasing income from service charging by increasing charges on existing services or introducing new charges.

98. Public bodies are already beginning to work together across and within sectors to improve the services they deliver. Organisations have opportunities to plan collaboratively how they can provide services more efficiently and effectively. Examples of where these opportunities arise include integrating health and social care services, and the increased emphasis on the role of community planning partnerships. There are examples of councils collaborating to provide services and there may be opportunities for councils to do this more often. For example, Clackmannanshire Council had difficulty delivering its trading standards service cost effectively. It set up a joint-working arrangement with Stirling Council, resulting in a cost saving. Our work on community planning partnerships highlighted that there was little evidence of CPPs jointly planning how to use money, workforces and buildings. We did identify some examples of effective joint-working. We recommended that CPPs should make sure they learn from and make more use of their experiences of working together on specific initiatives to better plan the use of resources. CPPs should consider the opportunities and implications for individual partner workforces when planning to share resources.[48]

99. Service redesign requires a detailed review of how organisations currently provide services, and innovative thinking to provide them in different ways. An example is the NHS Forth Valley's Pharmacy Services redesign project in 2012. The health board bought three robotics units to help distribute and dispense medicines. These units reduced the floor space required to hold stock, cut labelling errors and wasted stock, and released specialist staff from routine work. This in turn meant that a full clinical service was available seven days a week rather than five. NHS Forth Valley also reported a one-off saving of £700,000 from reducing the amount of stock it needed to hold.

100. Boards and elected members may also need to prioritise services, and identify if service cuts are necessary. There is some evidence of public bodies reviewing service priorities already, but service cuts to date have been small-scale. For example, Glasgow Council reduced the frequency of grass cutting, and Aberdeenshire Council reduced museum opening hours. As we noted in *Scotland's public finances: addressing the challenges*, priority-based budgeting is one way to take this forward.[49]

101. Although the Scottish Government has not yet introduced the Community Empowerment and Renewal Bill, its consultation placed significant emphasis on communities playing their part in identifying and meeting their own needs. Public bodies should consider whether communities should have a greater role in services that the public sector currently provides. This includes whether communities could help to provide services directly.

102. Councils and some central government bodies charge for some of the services they provide. Some councils have already included proposals for increasing existing charges within their latest budget agreements. More generally, public bodies may need to consider increasing charges for some services or introducing charges for other services. If bodies decide to introduce or increase charges they should do so only after they have completed detailed analyses of the current costs of delivering the services, to ensure they are providing them as efficiently and economically as possible and used scenario planning to consider the effect of changes. Our report, *Charging for services: are you getting it right?,* includes a guide to managing charges.[50]

103. The Scottish Government and public bodies will need to consider the potential effects of further workforce changes on the wider economy. Some communities are highly dependent on public sector jobs. For example, in March 2013, island councils and health boards employed a significant percentage of the local workforce. The average for Scotland is 11 per cent but the figures for Shetland, Orkney and the Western Isles are 30 per cent, 23 per cent and 21 per cent respectively.

104. Workforce planning in the NHS is more joined up across the sector than we found in other sectors. The NHS has, for example, set up regional workforce planning groups helping NHS bodies to identify where they can share specialist staff who work across board areas. Also, the SGHSCD aggregates this information for key professions and uses it to work out the demand for and supply of workers nationally. For example, the number of training places available for nursing and midwifery reflect NHS boards' combined workforce projections and other considerations such as staff turnover and age. However, the SGHSCD has been less successful at planning for other professions. It is currently reviewing its strategy for Reshaping the Medical Workforce in Scotland in the light of a shortage of junior doctors.

105. There is potential for public bodies to share learning and experiences. We identified some examples of sharing good practice in workforce planning:

- In 2012 the Scottish Leadership Forum brought forward four initiatives as part of its review of workforce development. It identified these as: collaborative learning, employee engagement, shared educational resources and community asset workforce development.
- The Scottish Government has helped develop a network of heads of HR from agencies and non-departmental public bodies to share practice on workforce management. The heads of HR meet quarterly.
- The SGHSCD established a similar networking group for NHS workforce planners under its 'Pan-Scotland workforce planning' initiative.
- The Improvement Service provided money to help Aberdeenshire Council develop its workforce planning toolkit. This is now available to all Scottish councils (Report supplement 3: Aberdeenshire Council's workforce planning toolkit and NHS six steps methodology) (PDF).

Recommendations

The Scottish Government and the Convention of Scottish Local Authorities (COSLA) should work with public bodies to:

- provide strategic guidance on how bodies can redesign services and work better together to jointly plan and deliver services
- improve strategic planning of public sector workforces to identify and plan for future skills needs, gaps and challenges across the public sector
- collect and share information on the mix of approaches that bodies use to manage workforces.

Where they have not already done so, councils, the NHS, the Scottish Government and central government bodies should:

- forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary
- make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces
- monitor the age of their staff, to prepare for peaks in departures resulting from people leaving when they reach retirement age.

Endnotes

1 In this audit, staff in the devolved public sector includes staff working directly for councils, the NHS, the Scottish Government and other central government bodies but excludes staff employed in the police and fire service, higher and further education and arm's-length external and other non-public sector bodies. Central government bodies include the Scottish Government agencies, NDPBs, non-ministerial departments and public corporations.

2 *Managing early departures from the Scottish public sector* (PDF) Audit Scotland, May 2013.

3 The revenue budget is the amount that organisations can spend on the day-to-day costs of running services.

4 The remainder is raised from service fees, charges, other revenue, government grants and housing rents. Estimate of 70 per cent based on 2011/12 data from *Responding to challenges and change: An overview of local government in Scotland 2013* (PDF) Audit Scotland, March 2013.

5 *The Scottish Budget, Draft Budget 2014-15*, the Scottish Government, September 2013. We have removed higher and further education colleges and police and fire and rescue service funding from central government and council figures over the period from 2009/10 to 2012/13. All cost figures quoted at paragraph 4 are in real terms to take account of inflation. They are based on 2012/13 prices.

6 The fieldwork sites were Aberdeenshire, Glasgow City and South Lanarkshire Councils, NHS Forth Valley, NHS Lanarkshire and the Scottish Ambulance Service, the Scottish Court Service, the Scottish Environment Protection Agency and the Scottish Government.

7 We gathered data from all 32 councils, all 22 NHS boards and a sample of 26 central government bodies including the Scottish Government (Appendix 1).

8 The Scottish Agricultural College and the James Hutton Institute are included within government employment figures for the central government sector for 2009–2013. We do not have details of the number of staff they employ. As such they are included in our analysis of trends in staff numbers in this sector, but excluded from the rest of our analysis.

9 A pay freeze was applied to most staff, and related to inflationary increases only. Staff on the lowest salaries were provided with a small uplift. Some councils also applied pay restraint.

10 *Managing early departures from the Scottish public sector* (PDF) Audit Scotland, May 2013.

11 *Public sector employment statistics*, Scottish Government, June 2013. Figures exclude colleges, police and fire and rescue services.

12 *Public sector employment statistics*, Scottish Government, June 2013.

13 In 2012, NHS Education for Scotland assumed the role of employer for GP medical trainees when they undertake the practice component of their training. This accounts for the additional 450 WTE staff recorded.

14 Three of the central government bodies in our survey did not exist in 2009 – the Care Inspectorate, Children's Hearings Scotland and Creative Scotland.

15 The nine health boards are NHS Ayrshire and Arran, NHS Dumfries and Galloway, NHS Forth Valley, NHS Grampian, NHS Greater Glasgow and Clyde, NHS Highland, NHS Lanarkshire, NHS Lothian and NHS Tayside.

16 SERCO is a public limited company that provides services to the UK Government and other public bodies.

17 Headcount refers to the number of people working in an organisation. It includes both full and part-time staff and does not take account of differences in the hours they work.

18 When staff are seconded in or out of an organisation, their post continues to exist with the employer from which they have been seconded. It will show as a reduction in headcount for that employer until the employee returns from secondment.

19 *Public Sector Employment web tables – Q1 2013*, Scottish Government and ONS, March 2013. Not all executive NDPBs or public corporations are included in the figures. Figures that we report are headcount.

20 Public bodies are required to collect data on the ethnic make-up of their workforce under the Race Relations Act 1976 (as amended by the Race Relations (Amendment) Act 2000). We found, however, that published data are incomplete with a large proportion of the workforce of 'unknown' ethnic origin, because individuals do not report this information.

21 In the Scottish Government, senior posts are those at Deputy Director level and above.

22 In the NHS, senior managers include some who are on higher Agenda for Change bands. Boards have discretion to exclude some clinical staff and include administrative staff on higher Agenda for Change bands that they class as senior managers.

23 *Responding to challenges and change: An overview of local government in Scotland* (PDF) Audit Scotland, March 2013.

24 NHS Scotland workforce data tables, Information Services Division, May 2013.

25 Civil Service Statistics tables, Civil Service employment; responsibility level by government department, 2009 and 2012. Figures are for the Scottish Government and its agencies.

26 *Protecting consumers* (PDF) Audit Scotland, January 2013 and *Modernising the planning system* (PDF) Audit Scotland, September 2011.

27 We do not have figures for 2012/13 and so our analysis of costs is based on a three-year period. Cost decreases are based on 2011/12 prices.

28 Depending on the terms of the transfer or outsourcing arrangement, public bodies may retain some responsibility for any redundancy costs for staff made voluntarily or compulsorily redundant by the arm's-length or private sector organisation.

29 LFRs are submitted to the Scottish Government by local authority bodies. LFRs provide final outturn expenditure statistics for each council. Councils submit them annually to the Scottish Government who use them to help make policy decisions and in assessing the allocation of funding across the 32 councils. LFR data is not audited.

30 Sources of good practice guidance included internal materials prepared by the National Audit Office for its work on managing early departures in central government, CIPD, Improvement Service and Employers Organisation *Guide to workforce planning in local authorities*, July 2003.

31 In the Scottish Court Service plans are produced for each sheriffdom rather than individual services. Also, some bodies plan at a departmental level.

32 The ‘six steps’ is a workforce planning approach used by the NHS. Aberdeenshire Council's workforce planning toolkit approaches workforce planning in a similar way.

33 Normal pay progression arrangements remained in place. Support for lower paid staff was also provided over this period.

34 *Independent Budget Review*: *The Report of Scotland’s Independent Budget Review Panel,* July 2010. This figure included colleges, and police, fire and rescue services.

35 This applies to staff employed on Agenda for Change conditions. The relevant protection is set out in *MEL 99/7 (1999)*, The Scottish Office Department of Health, 29 January 1999, which specifies that staff will not suffer any detriment to their income and earning levels because of organisational change. Employers should offer or bring to the attention of staff on protected earnings suitable posts on the appropriate grade/terms and conditions of service. If staff refuse a reasonable offer, then pay protection ends.

36 The Scottish Ambulance Service has not run an early departure scheme.

37 Most bodies met the costs of their early departure schemes from their own funds. However, ten bodies in our survey obtained loans or additional funding from the Scottish Government.

38 *Managing early departures from the Scottish public sector* (PDF) Audit Scotland, May 2013.

39 *Learning the lessons of public body mergers* (PDF) Audit Scotland, June 2012 and *Managing early departures from the Scottish public sector* (PDF) Audit Scotland, May 2013.

40 All figures are revenue from the Scottish Government. Council figures include income from council tax payments and business rates. We have adapted the Information to take account of changes in police and fire and rescue service funding, using *The Scottish Budget, Draft Budget 2014-15*, The Scottish Government, 2013. Figures for 2014/15 are from the draft budget and figures for 2015/16 are planned. Figures calculated at 2012/13 cash prices.

41 *Responding to challenges and change: an overview of local government in Scotland* (PDF) Audit Scotland, March 2013.

42 *CPPR Briefing Note: UK Spending Review 2013 & the Scottish Government’s budget* Centre for Public Policy for Regions, August 2013.

43 *Population projections for Scottish areas (2010)* National Records of Scotland, February 2012.

44 *Scotland’s public finances: Addressing the challenges* (PDF) Audit Scotland, August 2011.

45 Council figures for 2012/13 exclude police and fire staff employed by Fife Council.

46 *Responding to challenges and change: An overview of local government in Scotland* (PDF) Audit Scotland, March 2013.

47 *Public Sector Pay Policy for Staff Pay Remits 2014-15* Scottish Government, 2013.

48 *Improving Community Planning in Scotland* (PDF) Audit Scotland, March 2013.

49 A priority-based budgeting approach focuses on the delivery of priority outcomes and allocates money to those services or areas which make the greatest contribution to delivering these outcomes. The process requires an effective understanding of which services contribute most and least to the organisation’s priorities. This approach means services or activities which contribute least to outcomes may be reduced or withdrawn. *Scotland’s public finances: Addressing the challenges* (PDF) Audit Scotland, August 2011.

50 *How councils work: Charging for services* (PDF) Audit Scotland, October 2013.

Appendix 1

Audit approach

Our audit had four main components:

- Desk research and analysis – we reviewed existing information including:
  - employee data published by the Scottish Government, NHS Information Services Division Scotland and the Office for National Statistics
  - reviews, reports and relevant work carried out by the NAO, Chartered Institute of Personnel and Development, Improvement Service, Local Government Association
  - the audited accounts of 66 central government bodies to help determine staff costs, local financial returns (LFRs) and Whole of Government Accounts.
  - current information on UK and Scottish Government policies and policy initiatives.

- Survey – we issued a data return to all 32 councils, all 22 special and territorial health boards and a sample of 26 central government bodies in May 2013. We asked for information on their workforce, the approaches they used to manage workforce costs, their use of early departure schemes, and their future staff numbers and costs. We tailored the data request for each body so that we asked only for information that we could not get from other sources. Our survey included the following sample of central government bodies:

Central government bodies' sample			
Architecture Design Scotland	Care Inspectorate	Children's Hearings Scotland	Creative Scotland
Crown Office and Procurator Fiscal Service	Highlands and Islands Airports Ltd	Highlands and Islands Enterprise	Historic Scotland
Loch Lomond and Trossachs National Park Authority	National Library of Scotland	Registers of Scotland	Royal Botanic Garden Edinburgh
Scottish Children's Reporter Administration	Scottish Court Service	Scottish Enterprise	Scottish Environmental Protection Agency
Scottish Further and Higher Education Funding Council	Scottish Government	Scottish Legal Aid Board	Scottish Natural Heritage
Scottish Prison Service	Scottish Qualifications Authority	Scottish Social Services Council	Scottish Water
Skills Development Scotland	VisitScotland		

- Wherever possible, we have used WTE figures in our report. However, when WTE figures were not available, we converted headcount figures to WTEs. If we have converted staff numbers to WTE we say this.

- Fieldwork – we undertook fieldwork at nine public bodies in March and April 2013: Aberdeenshire Council, Glasgow City Council, South Lanarkshire Council, NHS Forth Valley, NHS Lanarkshire, Scottish Ambulance Service, Scottish Environment Protection Agency, Scottish Court Service and the Scottish Government. This involved:

  - A review of plans and documents on workforce planning at an organisational level, and for up to three services at each fieldwork site.

  - Interviews with:
    - the chief executive
    - the head of finance or appropriate colleague
    - the head of HR
    - heads of a sample of services that had been through workforce change
    - trade union representatives
    - other appropriate officers.

- Interviews with other stakeholders – we interviewed representatives from organisations including The British Medical Association, The Royal College of Nursing, the Convention of Scottish Local Authorities (COSLA), Society of Local Authority Chief Executives (SOLACE), Scottish Social Services Council, and chief executives and HR leads from a sample of NDPBs.

Appendix 2

Membership of the advisory group

Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Barbara Allison	Scottish Government
Professor James Buchan	Queen Margaret University
Dot McLaughlin	Improvement Service
Lindsay Montgomery	Scottish Legal Aid Board
Kate O'Hagan	South Ayrshire Council
Dave Watson	Unison

Note: Members of the advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Scotland's public sector workforce

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www.audit-scotland.gov.uk

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AUDIT SCOTLAND

Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	21 January 2014
BY:	Depute Chief Executive (Resources and People Services)
SUBJECT:	Charging for Services (Audit Scotland, October 2013)

4

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1 PURPOSE

1.1 To provide Audit and Governance Committee with a summary of the Audit Scotland report, '*Charging for Services: Are you getting it right?'* and the actions being taken by the Council in response to the report's recommendations.

2 RECOMMENDATIONS

2.1 It is recommended that the Committee notes the Audit Scotland report and the actions that East Lothian Council is taking in response to the report's recommendations (Para 3.14).

3 BACKGROUND

3.1 ***Charging for Services: are you getting it right?'*** (Oct 2013) is the latest in the Audit Scotland series of 'How Councils Work' reports for councillors and officers. The report is in three parts:

Part 1 looks at the types of services that Councils can charge for and the contribution that charges make to a Council's overall budget. This includes information about charging practice, variations in charges and the extent to which councils have clear policies for charging.

Part 2 looks at examples of good practice including understanding costs and getting the view of people who use services.

Part 3 provides a one-page guide to managing charges.

3.2 The Audit Scotland report highlights that charges are an important source of income but that they are also a means to help councils achieve their objectives. Councils have discretion over their charging policy and variations in charges can be expected. Councils with a clear basis for their charges are better placed to explain their charging decisions to the public and service users.

3.3 Charges are subject to legislation and national guidelines. Exhibit 1 in the report (p.9) usefully illustrates the types of services that are subject to legislation that prohibits charging (e.g. Free Personal Care and children's education); services for which there is statutory guidelines about the level of charging (e.g. Planning fees and commercial waste); and thirdly, those services where there is local discretion as to whether a charge is made and the level of the charge (e.g. sports facilities, car parking and public toilets).

3.4 According to Audit Scotland the income that councils raise from charges has risen over the last decade and is now estimated to total around £1.3billion, which is approximately seven per cent of overall local government expenditure.

3.5 The report shows that the proportion of council income (the average across all 32 local authorities) raised from sales, fees and charges as a proportion of income raised from the Council Tax has increased from 42% in 2006/07 to 54% in 2007/08. In 2011/12 it had reached 57% (Exhibit 2, p.10).

3.6 Comparison across the 32 local authorities shows that the proportion of income raised from sales, fees and charges varies from as low as 22% in East Dunbartonshire to a high of over 500% in the Shetland Islands. For East Lothian the figure stands at 31.2% (£468 Council Tax and £146 income from fees, charges and rents per head of population). By comparison the figure for two neighbouring comparator authorities, Midlothian Council and Scottish Borders Council are, 53.9% and 78.6% respectively.

3.7 Benchmarking will be required to identify the reasons for these differences. How much is due to accounting differences (e.g. the income from sports and swimming centres will not appear in the East Lothian Council total as they are accounted for by Enjoy Leisure) and how much is due to charging for different services or to differential levels of charges?

3.8 Across Scottish local authorities income from charges for Social Work services such as home care, residential homes and adult day care centres account for about a quarter of the total income raised from sales, charges and fees. The next highest income earners are roads and transport (16%) and central services such as licensing fees (13%).

3.9 The level of charges for all types of services varies considerably between councils. Exhibit 5 (p.13) illustrates the variations; for example, the charge for adult swim session varies from £2.40 - £4.80; the charge for an hour of home care varies from £8.56 to £23.70; and adult day care varies from being a free service to carrying a charge of £34.98 per day.

3.10 Audit Scotland strongly recommends that councils should have a clear basis for their charges and that charges should be part of a council's financial and resource planning. Charges should be monitored and reviewed regularly and any unintended consequences identified. Importantly, charges should be based on a structured approach with clear overall objectives set in the context of guiding principles.

3.11 The report highlights that common principles behind charging policies are that charges should be reasonable, take account of the service user's ability to pay, and should not exceed the cost of providing the service.

3.12 The report provides a framework for managing charges. This is not intended to be a prescriptive process for councils to follow, but sets out some of the important stages that councils are applying in practice.

- Ensure councillors take a lead role in setting aims and priorities for charges and concessions.
- Adopt clear corporate principles and service objectives for how charges and concessions are applied.
- Understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.
- Consult service users, community planning partners, residents and other stakeholders over proposed charges.
- Keep services under review to ensure that charges are appropriate and align with service and corporate objectives.
- Design charges to take into account the views of users and the potential impact on uptake and income.
- Design concessions that target priority groups and are consistently applied across services.

3.13 The report includes several examples of good practice including Clackmannanshire Council's simple explanation of the three categories of its charging policy (p.14); Sandwell Council's guiding principles for setting fees and charges (p.20); and East Renfrewshire Council's service charge review programme (p.24).

3.14 The Council Management Team has considered the report, its findings and recommendations. It has noted the findings in relation to the differential levels of income raised from fees, charges and rents, and that the Council does not have a charges Policy and a consistent approach to concessions. Therefore, it has instigated a benchmarking exercise to compare the services for which charges are levied and the level of fees and charges (see paras 3.7 & 3.8 above). Work has also begun on developing a charges policy using the examples of good practice and the framework provided in the Audit Scotland report. The review of charges and concessions for Enjoy Leisure services that was carried out in 2013 will be a useful starting point. The draft charges policy will be presented for approval to Council in 2014 and will be used as the basis for a rolling programme of reviewing all Council charges.

4 POLICY IMPLICATIONS

4.1 The Audit Scotland report has highlighted that the Council does not have a corporate approach to charging and no guiding policy. It has also highlighted that the Council raises significantly less from charges, fees and rents than most other Councils and that many of the charges for Council services are below the Scottish average. The benchmarking exercise initiated by the Council Management Team will identify the reasons for the lower level of income and the differences in services for which charges are levied and the variations in the level of charges. The establishment of a Council charges policy and a rolling programme of reviews of charges will provide a more structured approach to charges which ensures that charging is part of the Council's overall financial management and that subsidy and concessions are applied consistently and are targeted to priority areas.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required. However, it is recognised that the charges policy and reviews of charges carried out by the Council will be subject to consultation and Impact Assessments.

6 RESOURCE IMPLICATIONS

6.1 Financial – none. Any financial implications arising from the charges policy and review of charges will be reported to Council either as part of the budget setting process or in reports to Cabinet.

6.2 Personnel – none.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 *Charging for Services: are you getting it right*? Audit Scotland, Oct 2013

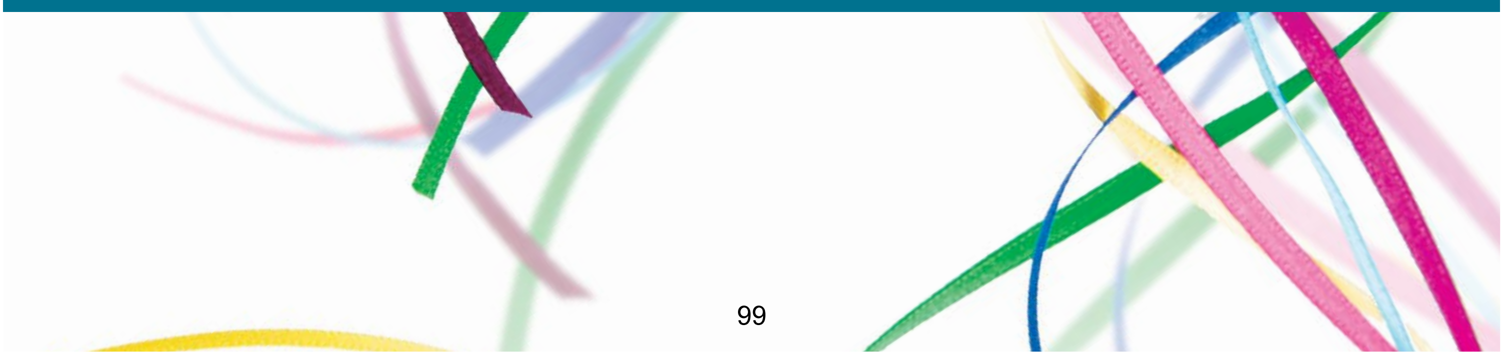
AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Service Manger (Corporate Policy and Improvement)
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	6th January 2014

How councils work:
an improvement series for councillors and officers

Charging for services: are you getting it right?

ACCOUNTS COMMISSION

Prepared by Audit Scotland
October 2013



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**

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.

Contents

Exhibit data

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

Summary

Key facts

75 per cent

Three-quarters of councils are reviewing their use of charges, but less than half have corporate policies in place

£1.3 billion

Raised from charges and fees by councils each year

£££

Charges vary according to council policy from free to hundreds of pounds per year

7 per cent

Total funding councils receive from charges and fees

54 per cent

Proportion of income from social work, roads and transport, and 'central services' charges such as licensing.

57 per cent

Income from charges relative to council tax take

Background

About our report

1. The Accounts Commission seeks to support developments in Best Value and how to manage resources such as people and finance. We recognise these as components vital to successfully delivering council services. Our 'how councils work' series of reports aims to stimulate change and help councils continue improving their performance. We select topics based on the recurring themes and issues from our Best Value and performance audit work, the work of local auditors and our annual overview report. All our reports are available on our website: www.audit-scotland.gov.uk Topics to date have included:

- the roles, responsibilities and working relationships of councillors and council officers
- councils' use of arm's-length external organisations (ALEOs)
- the management of costs
- performance management and improvement
- capital project management.

2. Local authority charging is an important issue. While charges for services make up a relatively small part of a council's income, they can be very significant to people who use services. Charges are one of the few ways that are within councils' control to raise income locally.

charges are an important source of income over which councils have control or influence

3. In Part 1 we look more closely at the types of services that councils can charge for. We also look at the contribution charges make to a council's overall budget. This includes information about current practice including variations in charges, and the extent to which councils have clear policies for charging.

4. Charges can influence how people choose to use services. In Part 2 we look at examples of good practice including understanding costs and getting the views of people who use services.

5. Part 3 includes a guide to managing charges, and Appendix 1 and Appendix 2 include checklists for councillors and officers to help them apply good practice.

6. We are grateful to all the councils who responded to our survey, and also to other organisations who we worked with to develop this report including the Convention of Scottish Local Authorities (COSLA), the Improvement Service, and the Society of Local Authority Chief Executives (SOLACE).

Key messages

1 Councils should have clear policies in place for charges and concessions. They should regularly review charges to ensure that they are appropriate and meet their intended objectives.

2 Councillors should take a lead role in determining charging policies. They should be involved and consulted over the design of charges and concessions.

3 Charges can be used to influence behaviour to help meet councils' objectives. They should not be seen solely as a means to generate income.

4 Councils should improve their use of cost information, including unit costs. This is essential for councils to design charges and understand the extent to which they will recover costs.

5 Charges for services vary markedly between councils, reflecting local circumstances and policy priorities. This may be appropriate but councils should be aware of any significant differences in their charges. They should be transparent in how they set charges and be able to explain their charging decisions to the public.

6 Councils should consider charging as part of their overall financial management. Councils should understand the contribution that charges make to their overall financial position, and the extent to which individual services are subsidised. This can help councils to target subsidy to priority areas.

7 Many factors must be taken into account when designing charges. To assist in this, councils should follow the good practice set out in this report. This includes identifying charging options, assessing their impact on services and the people that use them, and making comparisons with other providers.

Part 1

Why charges are important

Key messages

1 Charges are an important source of income and are a means to help councils achieve their objectives.

2 Councils have discretion over their charging policy and variations in charges can be expected. Councils with a clear basis for their charges are better placed to explain their charging decisions.

3 The income that councils raise from charges has risen over the last decade and is estimated at some £1.3 billion, or approximately seven per cent of a council's overall expenditure.

Councils use charges to help them meet their policy aims

7. Charges serve a variety of purposes. They bring in a vital source of income to councils and can be used to help councils to deliver services and their policy aims. Councils charge the users of their services through a variety of means. These include:

- charges at the point of sale or admission, eg gyms, galleries, school meals and museums
- fees paid up front for receiving services, eg meals on wheels, licence applications, parking permits, gym membership schemes
- services billed for after they have been provided, eg pest control, statutory repairs
- services where a contribution is paid by the user depending on their eligibility or ability to pay, eg non-residential care services

charges should be made clear to the public

8. The term 'charging' in this report refers to all these charging methods used by councils. Our report does not specifically refer to housing rents, or to fines issued by councils, although similar principles apply in these areas.

9. Councils use charges to influence behaviours – for example, low gym charges can be used to encourage exercise or car park charges can be introduced to discourage the use of cars in city centres.

10. Councils work with limited resources and face continuing financial pressures through increasing costs and demands on services. The Scottish Government funding settlement to local authorities for 2013/14 is £9.9 billion, a decrease of about 2.2 per cent in real terms.[1] Councils are predicting increasing funding gaps. There is therefore an increasing need for councils to examine potential sources of income, including charging more for their services.

11. Charges can be a means to sustain and improve services. They can also be used to bring in new sources of income or be used to help a council to improve the services it offers. In setting charges, councils must take into account the impact on the service user. They must also understand the contribution charges make to their council's overall financial position. Councils should consider charging within their overall plans for how they manage their resources.

12. Our assessment of the Scottish Government local financial returns shows that councils raise over £1.3 billion through charges,[2] equivalent to over 50 per cent of the amount they raise through council tax.

13. We have used information reported by councils in their local financial returns to the Scottish Government to illustrate broad trends in income from charges. These returns do not provide an accurate figure for the amount that councils raise through direct charges to service users. However, they allow us to compare data over time on a reasonably consistent basis. This information is reported by councils as their total income from sales, fees and charges.

14. The majority of income in this category comes from charges to service users, but it may include other income sources such as charges for services provided on behalf of other councils, or sales of discontinued equipment. It is not possible to separate these miscellaneous sources of income from the figures. The figures do not include income for services provided through trusts or arm's-length companies, as these are treated as separate organisations for accounting purposes. Such organisations are used by councils to different extents in areas such as leisure, property services and, more recently, social care services.

15. We emphasise that the financial information available to us on income from charges is limited. An important message from this report is that councils themselves must ensure that they have good financial information to manage their charges effectively.

Councils must provide some services free of charge, but have discretion to set charges in many areas

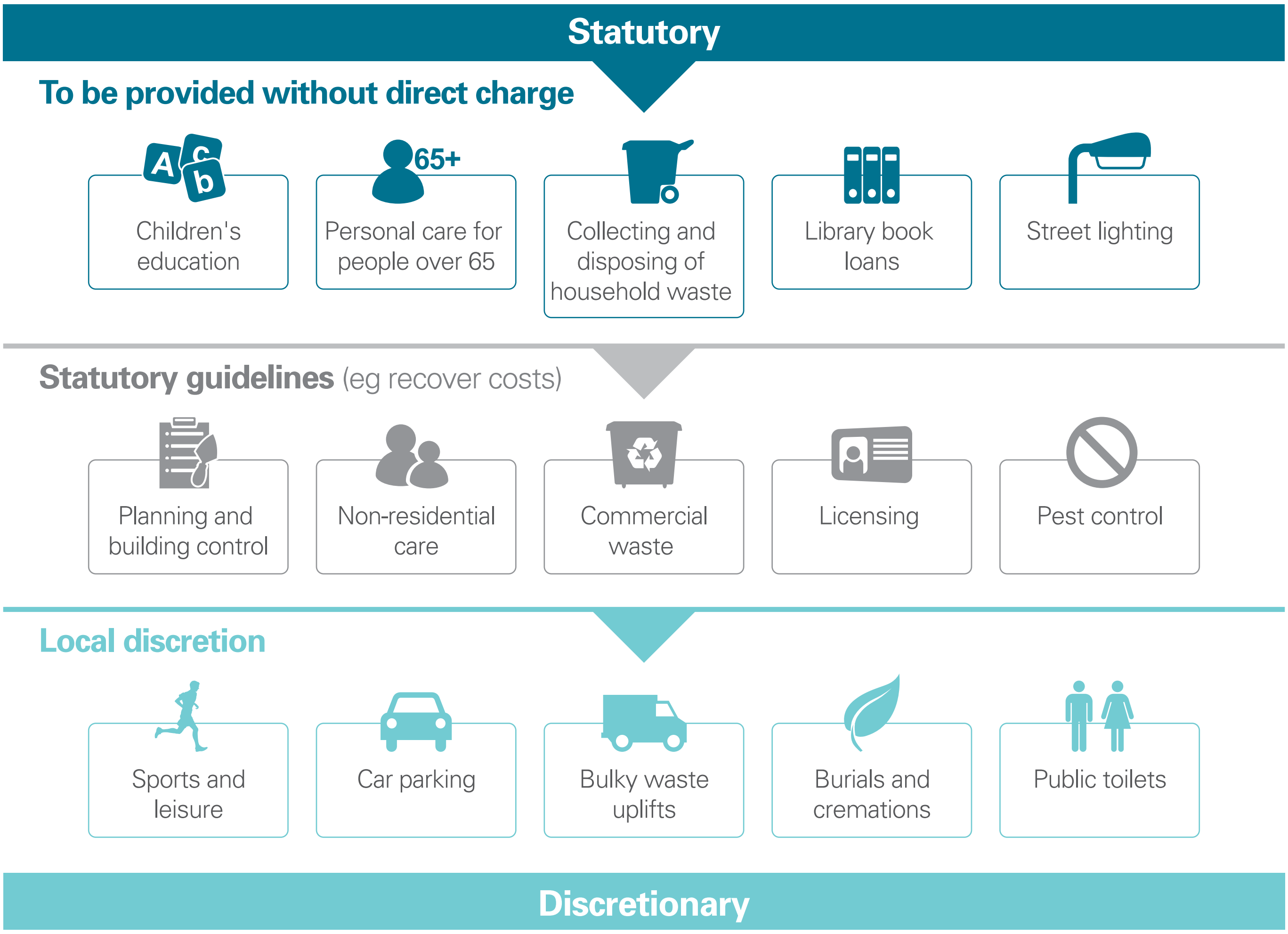
16. Councils do not have complete freedom to charge for services. Many council services are provided with no direct charge to the service user. Examples include children's education and street cleaning. Services such as these are funded mainly through taxes.

17. Councils do however have discretion to charge for other services. For example, the service user typically pays for services such as planning consents and building control certificates, the use of sports facilities, licensing and burials and cremations. Councils may also offer price concessions to certain service users based on, for example, their age, employment or financial circumstances.

18. Charges are an important area of income over which councils can have direct control. This report focuses on areas where councils have discretion to apply charges.

19. Charges in many areas are subject to legislation and national guidelines. Common principles behind these are that charges should be reasonable, take account of the service user's ability to pay, and should not exceed the cost of providing the service. Examples of how charging legislation applies to different services are shown in Exhibit 1.

Exhibit 1
Examples of charging regimes for services
Charging requirements and legislation vary for different services.



Source: Audit Scotland

20. Legislation and guidelines for charging should be kept under review. This is an area the Scottish Government may wish to consider to ensure that statutory charges remain appropriate for the environment in which councils operate.

21. Councils have discretion to subsidise services. Where a service is subsidised public money is used to make a contribution to part of the costs of providing the service. Subsidy applies to the service as a whole and is not targeted to a particular social group. Councils can also apply concessions through reduced fees and charges to certain groups, for example to encourage equal access to services.

22. Charges for public sector services generally cover the costs of providing them and are not intended to generate income. Where charges generate a profit or surplus, this is normally reinvested in the service. Parking is an example of this, where any surplus income from charges and fines is reinvested in related services. In the case of charitable trusts, any surplus is reinvested in the activities of the trust.

23. In certain circumstances, councils and their associated organisations may be able to trade in the open market, applying commercial rates to generate some profit. For example, many councils have set up arm's-length companies to undertake activities such as property development and facilities management services.

Councils generated over £1.3 billion from charges in 2012/13

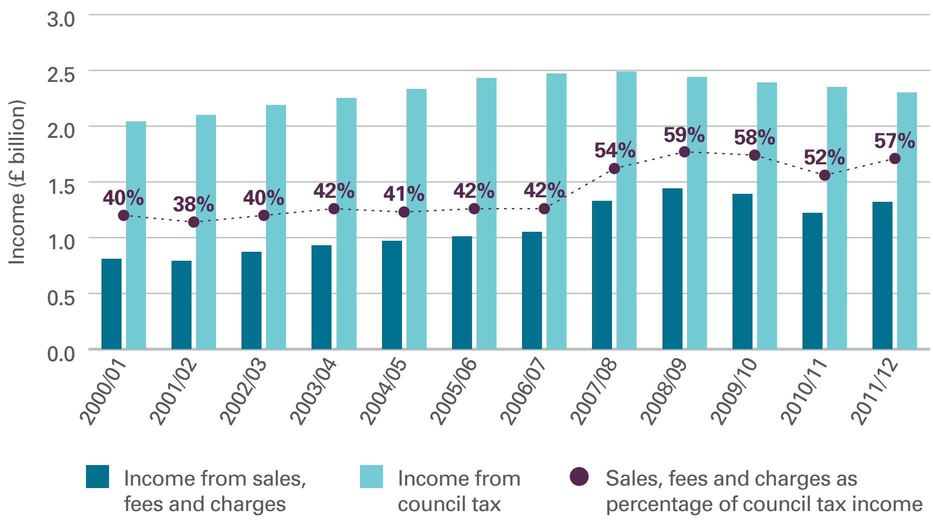
24. Information reported by councils in their annual Scottish Government financial returns indicates that they raise over £1.3 billion a year through charges, accounting for 7.4 per cent of councils' total revenue. The proportion of income from charges rose from 5.6 per cent in 2003/04[3] to 7.4 per cent in 2013. The implementation of the council tax freeze in 2007/08 altered the relative proportion of councils' income from charges.

25. Income from charges now equates to over half of the income raised through council tax, having risen from about 40 per cent in 2003 to 57 per cent in 2013. Exhibit 2 shows how this proportion has changed over the last ten years.

Exhibit 2

Income from sales, fees and charges compared to income from council tax (shown in 2011/12 prices)

Income from charges is increasing, while income from council tax has declined in real terms.



Note: Figures adjusted in real terms to 2012.

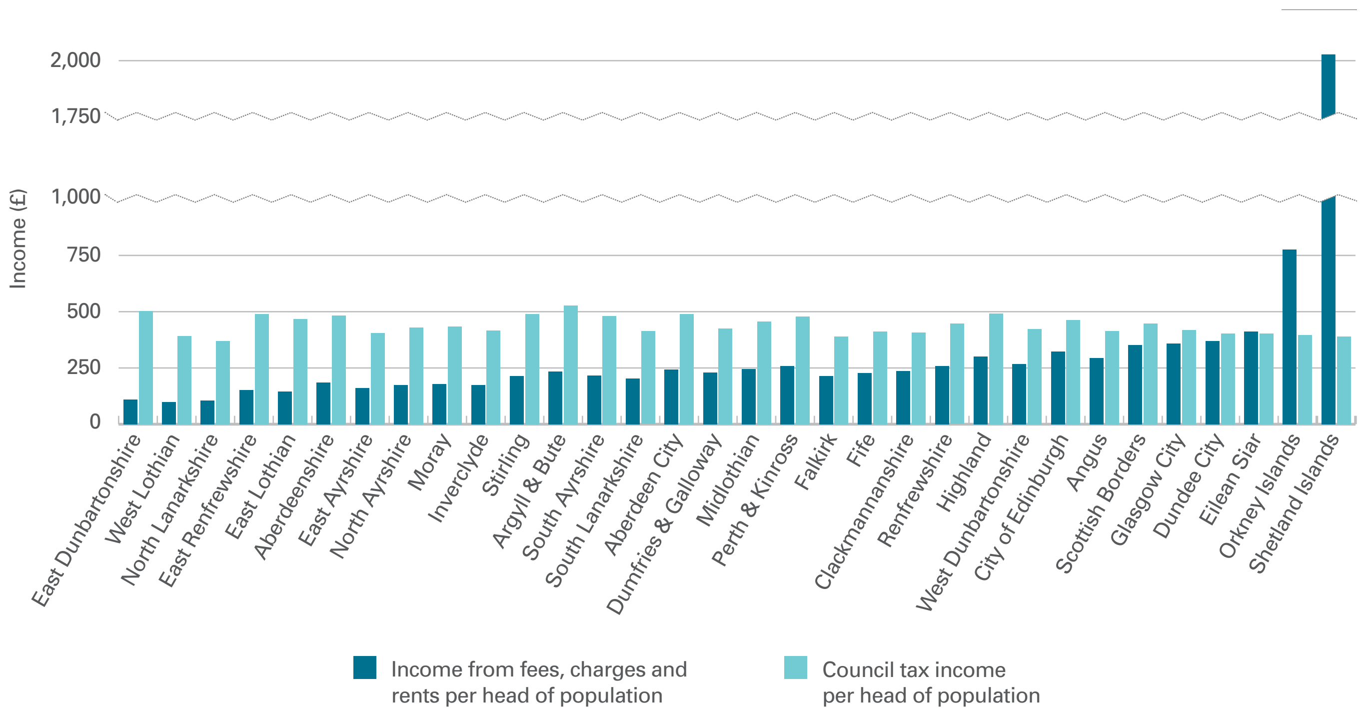
Source: Audit Scotland and Scottish Government Local Financial Returns

26. Exhibit 3 compares income from sales, fees and charges with income raised through council tax. This shows a large variation in the amount that councils raise from charges. Income from charges as a proportion of council tax ranges from a low of 22 per cent in East Dunbartonshire to a high of over 500 per cent in the Shetland Islands.

Exhibit 3

Councils' per capita income from sales, fees and charges, compared to income from council tax

The amount councils raise through charges varies significantly.



Source: Audit Scotland and Scottish Government Local Financial Returns

27. Councils are therefore using charges to supplement the income they raise locally through council tax to varying degrees. The reasons for this variation are not clear, and there is no clear relationship between the levels of council tax and charges levied by councils. The variations are likely to be due to a combination of councils' charging policies and other local factors. For example, cities may be able to raise more charges from their business and tourism base. Similarly, Shetland Islands Council and, to a lesser extent, Orkney Islands Council and Comhairle nan Eilean Siar (Western Isles Council), generate significant private sector income from their harbour activities including essential ferry services and in the case of Shetland, oil-related revenue. This results in their comparatively high income levels from charges.

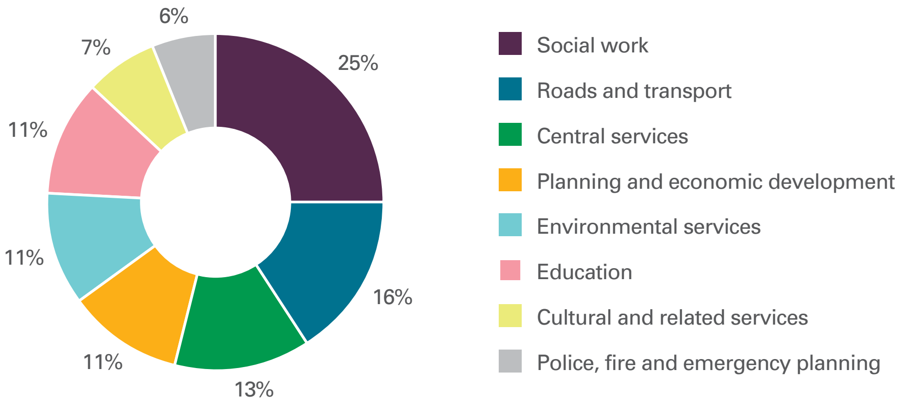
28. As part of good financial management and planning, councils should understand the contribution that charges make to their overall financial position. They should also be aware of how this compares with other councils.

29. Councils apply charges across a wide range of services. Exhibit 4 shows the services that generate most income from charges. Social work, roads and transportation, and central services make up the highest levels of income. Within social work, older peoples' services make up the majority of income, followed by services for people with learning disabilities. Income from roads and transport charges comes mainly from parking, and roads maintenance work. Within central services, charging income comes from activities such as licensing and registering births, deaths and marriages.

Exhibit 4

Income from sales, fees and charges by service area

Social work, roads and transport, and central services (such as licensing) together raise over 50 per cent of income from charges.



Source: Audit Scotland

Charges vary between councils

30. Legislation and guidance sets out how councils can apply charges, but councils have discretion to set charges in many areas. Legislation prohibits charging altogether in certain areas such as children's education. In other areas, legislation sets out broad principles but its application may vary between councils, for example in the way councils determine what constitutes a reasonable charge. Local differences such as the nature of the services provided and the actual costs involved in providing them will also affect councils' charges.

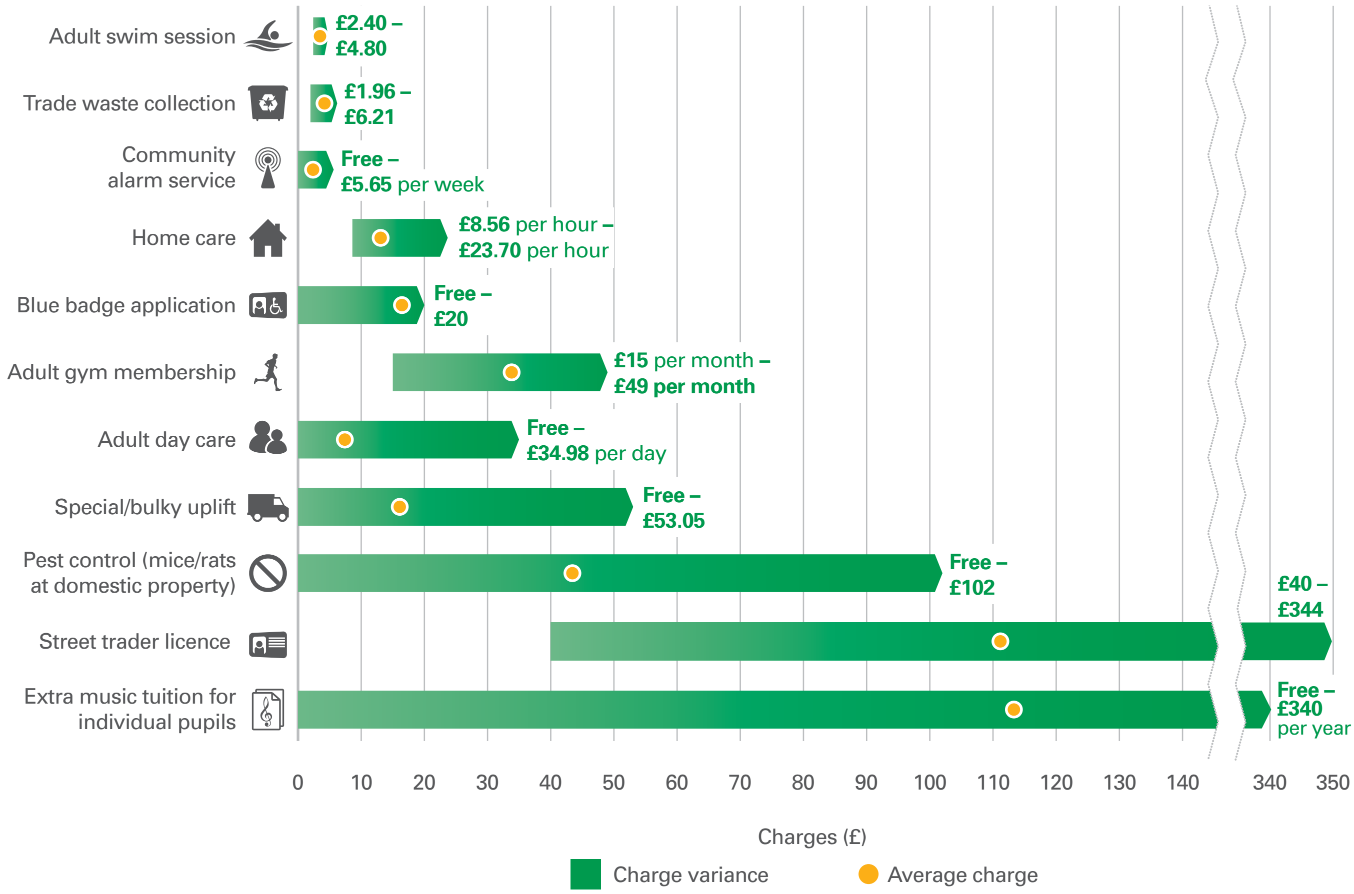
31. As locally elected bodies it can be expected that councils' charging policies will differ. Service users, however may perceive variations in charges for similar services as inconsistent, confusing, or unfair. This may be particularly the case where some councils charge for a service and others do not. Also, the public may be less assured about charges with no clear basis or that are simply set at historical levels.

32. Some users will be more aware of differences in charges. Businesses, for example, may deal with several councils and find different approaches for commonly used services such as commercial waste disposal, scaffold permits and licensing. Exhibit 5 (page 13) shows how charges vary between councils across a sample of services.

Exhibit 5

Variation in charges for a sample of services provided by councils

Charges vary significantly across councils.



Note: Shows range of charges across sample sizes ranging from 16 to all 32 councils. Charges reflect, as far as possible, similar terms of service and exclude concessions and off-peak reductions. In areas where means testing applies, such as adult social care, the charge shown is the total service charge and does not necessarily reflect the amount any individual service user will pay.

Source: Audit Scotland

33. There can be significant variation in charges. The cumulative effect of these on a household receiving a variety of services could be significant and amount to hundreds of pounds a year. However, it is often difficult to compare charges across councils. The variation in charges between different councils is not always clear from simply looking at the stated prices.

34. For example, Exhibit 5 shows that the charge for individual music tuition[4] varies from being provided free (Dundee City Council, City of Edinburgh Council, Comhairle nan Eilean Siar, Glasgow City Council, Orkney Islands Council, South Ayrshire Council and West Lothian Council) to £340 per year (Aberdeen City Council). However, the service being provided also varies between councils, with the number of lessons ranging from 28 to 40; lesson duration ranging from 25 minutes to an hour; and some councils providing free use of equipment while others charge a hire fee. The Scottish Government published a review of school music tuition in June 2013.[5]

35. The variation in costs for adult day care services is also more complex than the difference in the core fee suggests. For example, some councils include costs for meals and transportation while others charge an extra cost to the user.

36. Councils should be transparent in their use of charges. It is good practice for councils to set out clear charging schedules so that the public are aware of what services they need to pay for and how much they will cost. Some councils make such information clearly available on their websites and also at the point of service delivery, for example through customer service standards and leaflets. Exhibit 6 shows how Clackmannanshire Council gives a clear overview of its overall policy for community care charges.

Exhibit 6
Community care charging policy
Charges fall into one of three categories.

FREE

Free services

- Personal care over age 65
- Minor adaptations
- Equipment to assist with daily living
- Mobile emergency care service
- Day care
- All services to children are currently free

Services charged according to ability to pay

- Homecare
- Residential care
- Nursing homecare
- Major adaptations to property

Fixed charge services

- Meals provided at home and at day centres
- Respite care

Source: Clackmannanshire Council website, Community Care Charging Policy, adapted by Audit Scotland.

Councils should have a clear basis for their charges

37. Ultimately, each council must set its charges in the context of its wider service objectives. However, councils should be aware of practice elsewhere to help set their charges. They should compare their charges with other providers and make use of national and other benchmarking approaches. This does not mean simply mirroring charges elsewhere, because local circumstances may vary. However, councils should be aware of any unexplained inconsistencies and be able to explain why their charging policy differs.

38. We found that most councils use benchmarking to compare their charges across services and with other councils and providers. This allows them to identify any significant variations and take these into account when setting their charges. Councils should be able to explain any significant variations in charging, for example because of differences in costs, service quality or policy.

39. At a national level, organisations including the Association of Public Sector Excellence (APSE), The Chartered Institute of Public Finance and Accountancy (CIPFA), COSLA, the Improvement Service, and SOLACE are all involved in benchmarking charges for services. Our survey found that councils also use the COSLA/Association of Directors of Social Work (ADSW) non-residential social care charging survey which is completed annually and circulated around all authorities.

40. Benchmarking is often triggered by the annual budget process or individual service reviews. We found some councils had undertaken major, one-off reviews of charging or income across the council. Some were using benchmarking to identify charges that were significantly lower than those elsewhere as part of initiatives to identify new sources of income.

41. Councils have found benchmarking difficult because of the wide range of charges applied, and variations in the services delivered. Some also reported that the range of different providers also makes benchmarking difficult. For example, sports and leisure is often provided through diverse organisations including councils, charitable trusts, arm's-length companies and the private sector. However, it is important that councils find ways to benchmark their charges. We found that some councils had compared charges across public, private and third sector providers in areas such as crematoria, social care, waste management, and sports and leisure.

Part 2

Managing charges

Key messages

1 Charges for services should be consistent with councils' overall policy aims. Few councils have corporate policies specifying the circumstances in which charges and concessions should be applied, but most have policies in place for individual services.

2 Councillors approve charges through the budget-setting process, but should take a stronger role in determining policies for charges and concessions.

3 Councils have tended to review charging as part of their annual budget-setting cycle, but are beginning to undertake more strategic reviews of charging.

4 Good financial information is essential to manage charges effectively. The availability of cost information in councils is limited. Many factors must be taken into account when designing charges. Councils must also understand the views of people who use services, including their ability to pay.

councillors have a lead role, and should be aware of costs, comparisons, and the views of service users

Charges should be part of a council's financial and resource planning

42. Many factors must be taken into account when deciding how to apply charges. In some councils, charging decisions have been made late in their budget-setting process. With a more structured approach, however, councils are better able to take informed decisions on charges that are consistent with their policy aims.

43. Councils should be clear on their overall objectives for charging and have guiding principles in place. They should also understand the legislative context, the views of users and other stakeholders, and the likely impact of charges on service uptake and income. Councils should consider how to introduce new or increased charges. It is often prudent to phase in charges over a period.

44. It is important to monitor and review the impact of charging decisions. Where pricing aims to achieve a policy aim it is important to monitor whether this has been achieved in practice. This should include identifying any unintended consequences of pricing decisions such as people withdrawing from services. For example, initiatives to increase participation in exercise or to encourage healthy eating for school children could be affected by price increases.

45. Councils should periodically review their overall approach to charging and concessions. As part of this they should assess the impact of charging arrangements and ensure that service charges comply with corporate guidelines.

46. The following bullets set out a framework for managing charges. This is not intended to be a prescriptive process for councils to follow, but sets out some of the important stages that councils are applying in practice. The following sections of this report expand on the main elements within this framework.

- Ensure councillors take a lead role in setting aims and priorities for charges and concessions.
- Adopt clear corporate principles and service objectives for how charges and concessions are applied.
- Understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.
- Consult service users, community planning partners, residents and other stakeholders over proposed charges.
- Keep services under review to ensure that charges are appropriate and align with service and corporate objectives.
- Design charges to take into account the views of users and the potential impact on uptake and income.
- Design concessions that target priority groups and are consistently applied across services.

47. Part 3 includes an overall cycle for managing charges exhibit and Appendix 1 and Appendix 2 provide supporting checklists for councillors and officers.

Councillors should take a lead role in setting charges

48. Charges are an important means for councils to sustain services and to help meet their policy aims. Councillors should provide strong leadership and direction over charges. They should be aware of the impact of charges on the services they are responsible for, and be actively involved in charging decisions. Councillors have an important role in representing their constituents and should be consulted over charges along with users and other stakeholders.

49. Officers should provide councillors with clear financial information on the contribution charges make to a service. Councillors should also be made aware of the sensitivities of how pricing influences service uptake in particular services.

50. Councillors should be aware of their council's overall financial position. This requires a clear understanding of costs, subsidy levels and the contribution of charges. Councils have limited money to subsidise services. By having a clear understanding of the costs of services and the extent to which they are subsidised, councillors can ensure that any subsidy is channelled to priority areas.

51. Without this, there is a risk that councils are subsidising services where it would be reasonable to charge the service user more. Alternatively they may not be targeting subsidy to areas where people are struggling to afford services that are essential to them.

52. Typically councillors are involved in charging decisions through the budget-setting process and through service committees. This tends to be mostly where there are proposed changes to charges or charging policies.

53. There is scope for councils to involve councillors more closely in setting charges. We found limited evidence of councillors being involved in charging outside of committee. By involving councillors, charging proposals can be closely aligned with the council's priorities. For example, North Lanarkshire Council had involved councillors in an option appraisal and challenge process with senior officers. This was used to assess charging proposals, including their impact on services, client groups, savings targets and strategic priorities.

Charges should be set within a clear corporate policy framework

54. Charges should not be set in isolation. Any decision to vary or introduce charges should take into account the council's priorities and financial objectives. Councils can benefit from having a systematic approach to setting charges. This means having clear policies for how and when charges are to be used. These include corporate policies setting out council-wide principles for charging, and also departmental policies setting out objectives for individual services.

55. Some councils have developed registers of charges setting out current charges, the annual adjustments to the charge, and their charging basis, for example to recover costs. These help councils to monitor their overall approach to charging and take a consistent approach across services. Councils should consider concessions as part of their charging schemes. Policies for charging and for concessions should be consistent and integrated.

56. Councils should decide what services it is appropriate to charge for and what the objective of the charge is. Where services benefit the entire community, councils tend to fund them principally through taxation. This is often more efficient than attempting to charge service users directly. Councils are more likely to apply charges where services provide direct benefits to identifiable groups. Here services will typically be funded jointly through taxation and user charges.

57. Some councils apply punitive charges or fines where they need to provide services in response to behaviours that cause negative effects to the community or individuals. Here, charges are funded as much as possible from users. Dog control is an example of this.

58. What we found – 1 (page 19) indicates how the Highland Council applies its charging principles across all services. The policy helps to ensure that charging reviews as part of the council's budget-setting process reflect common corporate principles. The council's finance service is responsible for managing the application of this policy.

59. What we found – 2 (page 20) shows how a West Midlands council has set out a wide range of charging requirements under three guiding principles of viability, fairness and consistency. This illustrates the link between a council's policies for charging and concessions.

What we found – 1

Highland Council – corporate charging policy excerpt

The policy sets out fundamental principles for charging:

- All services must adhere to this policy and the principles outlined here. Any exceptions must have committee approval.
- The Corporate Charging Policy is designed to create a consistent approach to charging across council services and each service director is responsible for applying it.
- How fees and charges are used can have a positive impact on service delivery and therefore should not be automatically considered detrimental or controversial.
- The reason for levying a charge, and the basis on which the charge should be levied, should be transparent and must be considered against the council's corporate objectives. Charges should first and foremost be in accordance with legislative or regulatory requirements and be set to deliver policy objectives. Where appropriate, they may also be used as a means to generate income.

Source: The Highland Council

Most councils only have charging policies for individual services

60. Corporate charging guidelines would make councils better placed to make charging decisions that are consistent with their policy aims. In 1998 the Accounts Commission found that less than one-quarter of Scottish councils had established corporate principles for charges.[6] Our 2013 survey of Scottish councils indicates only a slight improvement.[7] Only nine out of 23 councils who responded to our survey said they had a corporate or council-wide policy in place for charging.

61. We found that most councils do, however, have charging policies for individual services. These were often approved by the relevant committees, with service directors being responsible for ensuring that they are followed. Clackmannanshire Council's community care charging policy is an example, as noted in Exhibit 6 (page 14).

Councils should be able to provide clear information on service costs and subsidies

62. Setting charges for services can be a complex exercise and needs to take into account many factors. Most crucially, councils should understand the full costs involved in delivering the service, including overhead costs and the costs of related services. Only then can they understand the contribution that charges are likely to make in recovering these costs.

63. For some services, charges may be set at historical levels and may not have been reviewed for some time. In other areas, councils may have reviewed charges to reflect the actual costs of providing the service, or to reflect market rates. Councils should also take into account the public perceptions of what makes a reasonable charge.

What we found – 2

Sandwell Council – guiding principles for setting fees and charges

This council sets its core principles for charging as viability, fairness and consistency.

Viability	Fairness	Consistency
The council will aim to achieve an appropriate level of income from fees and charges by ensuring that charges to users reflect the full cost of the service provision, unless otherwise required.	Fees and charges should be set at a level that is fair to users and council tax payers. Services received by commercial organisations should always pay the full cost, unless otherwise required, and concessions should be available to groups determined by the council as being unable to pay the full charge.	Concessions for target groups should be consistent across the authority's services in terms of who is eligible.
The decision to subsidise a service by either not charging for it at all or by charging at less than full cost should be a conscious choice, not an accident of history.	Significant price increases should be phased in over time to reduce the impact on service users.	Charges for similar services or activities should be consistent across the authority.
Charging levels should take account of market demand, competition from other service providers and comparisons with charges made by other comparable local authorities.	A tough stance should be taken on fee dodging so that other users do not pay more to compensate for non-payers.	Decisions about whether and how much to charge should be consistent with the achievement of customer outcomes and council strategies.

Source: Sandwell Council

64. Councils will also need to consider what costs charges are intended to cover. This may vary from full cost recovery to a percentage of costs, or marginal costs.[8]

65. Councils need to consider which pricing structures to apply. Three broad approaches are set out below. These should all be considered before deciding how to design a charge.

- Cost-based pricing – to recover all or a proportion of the costs of providing the service.
- Competition-based pricing – to reflect market rates.
- Demand-based pricing – to promote, or to control and limit uptake.

66. The basis for calculating costs may vary between councils, for example, the extent to which they include overhead costs such as building costs and central services such as information technology and human resources. Councils must identify and include all relevant costs. This is particularly important to help councils compare their costs and to report financial information publicly.

67. By identifying the full costs involved in delivering services, councils can then understand the extent to which charges recover costs. This is important if councils are to demonstrate that charges are reasonable and reflect the actual costs of delivery. It also allows them to understand the extent to which public money is used to subsidise services.

68. Good financial management is essential for councils to get charging right. Our 'how councils work' report on using cost information stressed the importance of management accounting.[9] Financial accounting tends to focus on the past and is used mainly to prepare annual financial statements. Management accounting is more forward-looking. It involves using current financial information to plan and manage services. This is the type of information that is important to understand and manage the impact of charges on services.

69. We have found that the use of cost information is relatively underdeveloped across councils. For example, performance management reports to committees often focus on service quality or uptake, but lack cost information. This can make it difficult for councillors to make informed decisions as to what level to set charges. It also makes it difficult for them to take strategic decisions on how they should make the best use of their limited resources to subsidise services.

70. Our 2012 'how councils work' report on using cost information emphasises the need to understand 'unit costs'. Unit costs are particularly useful when setting charges as they can help to identify the costs of the discrete activities the service user is paying for. Calculating unit costs involves identifying a suitable costing basis such as the cost per transaction, or the cost per visit. As part of this, overheads and other 'fixed' costs such as building costs need to be factored in, as do 'variable' costs such as staff time, materials and other expenses. Costs are then apportioned to the activity in question.

71. Stirling Council examined its burial and crematorium costs. This involved detailed task analysis and cost calculations to establish full-cost recovery for this service, What we found – 3.

What we found – 3

Stirling Council used activity-based costing to identify the full costs of the service

Stirling Council examined the income it receives from fees and charges as part of its financial planning process. It reviewed its burial service charges as part of this. The council's charges for this service had been set at historic levels and had not been reviewed for some time.

The council allocates all services for which it charges into categories: no charge, subsidised, full-cost recovery, income generating or statutory charges. The burials service is categorised as a full-cost recovery service.

The council used activity-based costing to understand the actual cost of providing the service. This showed that the council was subsidising the service significantly more than it had anticipated.

Activity-based costing involved identifying all the key steps involved and their associated costs. To cost activities, the council identified direct costs, such as staff time, and indirect costs, such as property costs, management costs, and support functions such as IT. The council used time-recording information, transactions and uptake data, and meetings with staff to gather the cost information. The activity-based costing exercise also highlighted activities not previously recognised as part of the service such as permit costs for stone masons.

The review gave councillors clear information on the service costs, charges, and how these compared to other providers. This allowed them to fully understand the financial implications of charging options. The council decided to move to full-cost recovery for most aspects of the service. The new charges were to be phased in to manage the impact on residents.

Source: Audit Scotland and Stirling Council

It is vital to understand the views of people who use services

72. Consultation is vital to understand the particular needs of service users. This includes talking to service users and other stakeholders such as residents and tax payers. Councils are consulting residents over charges as part of their annual budget-setting, and are inviting customer-satisfaction feedback, including complaints. Councils with good processes for monitoring service uptake and customer satisfaction have a valuable source of information to support their charging decisions.

73. We found that councils are using a variety of means to talk to the users. For example, in social care services, councils are consulting both service users and staff to gather their views on the service, their ability to pay, and the likely impact of welfare reform Exhibit 8 (page 29). Equalities-impact assessments should be considered as part of any significant charging decision to gauge how charges are likely to affect minority or disadvantaged groups.

74. Councillors, community councils, and voluntary or third sector organisations provide a useful sounding board for the likely impact of charges. It is also important that councils take into account the perspective of businesses, especially where private sector companies use services across different council areas.

75. Councils should also gather benchmarking information and comparisons with charges elsewhere. In some cases councils have realised that people are prepared to pay more for better services, such as secure car parking, or improved sports facilities. Councils can make more effective charging decisions when they consult with service users. For example, East Renfrewshire Council had consulted a theatre users' group over its charges for theatre lets. This group was not able to pay in advance so the council agreed to take payment once the theatre group had received its ticket sales income.

76. Councils are increasingly delivering services in partnership through community planning and other joint working across organisations. There is scope for councils and their partners to make greater use of community planning as a means to discuss and develop charging proposals.

Councils are reviewing how they use charges

77. We were encouraged to find that about three-quarters of councils who responded to our survey had conducted reviews of charging across their organisation. This shows that they recognise charging as an important area in its own right. What we found – 4 (page 24) summarises some of the types of corporate review activity we found.

78. Some have undertaken corporate reviews to help set a consistent approach to charging across services. In many cases the annual budget process has triggered reviews of charges. This is of course a practical consideration where councils face financial pressures. But it is important that decisions on charges are not taken in isolation.

79. Most councils have also reviewed charges in specific services within the last three years. Some councils have a systematic approach to doing this. East Renfrewshire Council has a rolling programme to review significant charging areas Case study 1 (page 24).

80. Councils' overall objectives for individual reviews into charging varied. Many cited generating income from new or increased charges as their main objective. Councils often applied wider aims where services are essential to people's wellbeing. Here cost recovery was seen to be a more appropriate aim than generating income. Examples of such services include social care and burials and cremations. In the case of social care, the ability of the service user to pay was an important factor in designing charges and concessions. What we found – 5 (page 25) summarises some of the service areas councils have examined, including the review objectives.

Many factors must be taken into account when setting charges

81. As well as contributing to income, charges are used to encourage certain behaviours to help meet service and corporate objectives – for example, to encourage equal access to services such as sports facilities, or to ensure that those who can afford to pay for services do so. Where charges are used to influence behaviours it is important to monitor whether this has been achieved in practice. Some charges may result in unintended consequences. As an example, charges for special or bulky waste uplifts may lead to more fly tipping causing environmental damage and clear-up costs for councils.

What we found – 4

Progress in corporate reviews of charging

Our survey of Scottish councils found the following:

- Council-wide reviews to set a framework for charging to identify the extent of cost recovery or income generation across all services.
- Joint reviews with other councils to allow comparisons and consistency in charging practice.
- Reviews of individual services to check compliance against existing corporate charging policy.
- Prioritisation exercises to target reviews in certain service areas.
- Overall income reviews as part of the annual budget process.
- A basic annual uplift of charges as part of the budget process.
- Council-wide reviews of concessions to ensure their consistent application.

Source: Audit Scotland

Case study 1

The service charge review programme in East Renfrewshire

Example of a structured approach to reviews.

The council has a rolling three-year programme of service charge reviews. This requires major charging areas to fully cost the services they provide at least once in each three-year period. Charges are calculated on an appropriate basis such as full-cost recovery, part-cost recovery, or contribution to revenue. This allows councillors to consider levels of service subsidy. In the interim two years, charges are adjusted according to the annual uprating guidance issued by the director of finance. This includes taking into account the impact of price changes on demand levels and competitor prices.

Source: East Renfrewshire Council

What we found – 5

Councils' reviews of charges and their objectives

The objectives of reviews depends on the services in question.

Charging review area	Main objectives cited by councils
Aids and adaptations	Remove charges Increase uptake
Bulky waste uplifts	Reduce subsidy Encourage efficient use of the service
Cemeteries and burials	Reduce subsidy Achieve full-cost recovery Improve facilities
Childcare	Increase income Create parity with other public provision
Ferry services, licensing, school buses, trade waste, pest control	Generate income
Individual music tuition	Expand and invest in the service Increase income
Non-residential social care (see Exhibit 8)	Fairness, consistency, transparency Reduce subsidy Consider impact of Welfare Reform and Self-Directed Support
Parking charges	Support the transport strategy Generate income
School meals	Cost recovery (to cover increased food costs) Generate income
Special schools	Benchmark charges
Sports and leisure	Generate income Increase uptake/target user groups Standardise charges and concessions

Source: Audit Scotland survey of Scottish councils 2013

82. It is good practice to monitor the impact of charges both on the uptake of the service, and on the overall financial position of the service. When designing charges many factors must be taken into account. Exhibit 7 highlights a range of issues that councils should consider.

Exhibit 7
Issues to consider when designing charges

Collect and analyse service information including:

- Who uses the service/who is the service targeted at?
- What charges and concessions apply?
- What is the financial position, including subsidy?
- What are the unit costs?
- What is the uptake, and service standards?
- When is the service used – peaks and troughs?
- How satisfied are service users?
- Is there scope to generate further income?
- What is the alternative to charging?
- What has been the impact of previous charging decisions?

Examine options for different levels of charging and concessions, referring to corporate guidelines, including:

- Assess the impact on service users and uptake, considering the sustainability of the proposals.
- Forecast demand and income.
- Assess the impact around equalities and accessibility.

Source: Audit Scotland

83. As an alternative to increasing charges, councils should also consider whether there is scope to reduce the costs of delivering the service, for example by redesigning or re-tendering aspects of it. A council that continuously reviews its activities will be better placed to find efficiencies without having to pass costs on to the end user.

84. Case study 2 (page 27) gives an example of how the Comhairle nam Eilean Siar (Western Isles Council) examined charges for its sports and leisure service. By reducing prices the council managed to increase income and at the same time support its policy aim to encourage people's participation in exercise.

Councils are making greater use of charges to offset financial pressures

85. In planning their budgets, councils are considering various options to reduce costs or generate income. As part of this work, some councils have stated that some free-of-charge services are no longer viable.

86. At the time of our survey in July 2013, a number of respondents were reviewing non-residential social work charges. This is a complex area and many factors must be taken into account. Demographic changes are leading to growing demand for services such as older peoples' care.[10] At the same time councils are facing continuing financial pressures. Budget and demand pressures have led some councils to introduce charges for services that were previously delivered free of charge.

Case study 2

Comhairle nan Eilean Siar (Western Isles Council): Slàinte Mhath Scheme

Reducing charges can increase service uptake and generate more income.

Slàinte Mhath, which is Gaelic for 'good health', is a reduced price access scheme for the comhairle's sports facilities. Launched in January 2010, the scheme gives members access to all sports facilities, including pools and classes, across the islands.

Before the scheme started, the cost of membership was more than double its current price. Individual and corporate memberships were available but their cost meant low uptake. The comhairle had identified that sports participation levels were decreasing and that some health indicators, especially heart disease and obesity levels, were worsening.

The comhairle launched the scheme with the aim of increasing participation in physical activities and supporting long-term health improvements. The scheme aims to make membership attractive to the local population while keeping prices reasonable for the casual user or visitor.

Memberships are available in two main categories: families at £20 per month and individuals at £15 per month. There are also concession rates available for those over 60, in full-time education and those receiving qualifying benefits (£10 per month for individuals and £15 for families). Pay-as-you-go prices have increased but still remain within sportscotland's national guidelines.

By March 2013, the scheme had about 5,000 individual participants. This is about 30 per cent of the island's population under 70 years of age. The scheme resulted in a 30 per cent increase in the use of sports facilities. There has also been a similar percentage increase in the income generated. Since the launch of the scheme, income has increased by about £100,000, reducing the overall service cost to the comhairle.

Source: Audit Scotland and Comhairle nan Eilean Siar

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87. Many councils are looking at options to increase income from charges. There is a danger, however, that by increasing charges, councils may actually lose income by pricing people out of the market.

88. Councils must consider the ability and willingness of service users to pay. This is particularly important for services that people rely on as part of their daily lives, such as homecare for people with disabilities, and meals on wheels.

89. Many councils have reviewed their non-residential care charging policies or are planning to do so. Almost 40 per cent of councils' social care spending is non-residential services for adults and older people. This includes homecare, day care, meals on wheels and community alarms.

90. With a projected 82 per cent increase in the population aged over 75 between 2010 and 2035, this is an area facing particular pressures, including rising demand and pressure on capacity. Current policy changes, will also significantly impact on this service area. These include the integration of health and social care services, welfare reform, the move to greater personalisation of services, which includes self-directed support, and the focus on earlier and more localised provision of care.

91. Some of the councils we spoke to are planning to carry out wider financial assessments of service users and have already put planning groups in place to progress this. This is partly in response to legislative changes that could have a potential impact on people's disposable income such as welfare reform. Exhibit 8 (page 29) outlines some of the challenges faced by councils in this important area.

Concessions are an important part of charging

92. Concessions are a means for councils to offer discounted fees and prices to particular individuals or groups, without having to limit standard charges. This can help councils to achieve their policy aims, for example to promote social inclusion by encouraging minority or harder-to-reach groups to use services. Charging and concessions should be considered together when designing pricing structures for a service.

93. Some groups are widely recognised by service providers nationally as being eligible for concessions. These include children, people over 60 years, adults on low income, people with a disability and students. Councils have local discretion to set concessions in line with their pricing structures for these groups, and for other groups or service users that they identify as a priority. Examples include the discounted hire of council facilities for various community groups, or the award of concessions to service veterans.

94. There are national schemes in place to improve the management of concessions. Universal benefits cards such as the national entitlement card allow a common means to identify eligibility for benefits. Councils use these schemes to varying degrees for services such as schools catering, libraries and public transport.

95. It is important that councils have a coherent and coordinated approach to concessions. From the user perspective this allows consistency; and from a council perspective it allows subsidy funding to be targeted to priority groups. To achieve this, councils should have corporate principles setting out how they will apply concessions. A good concessions policy will require services to observe applicable legislation and guidance, and to consider the impact of the concessions. Policies for charging and for concessions should be consistent and integrated. As part of a more strategic approach, councils should also consider how service-users access welfare and other related benefits.

Exhibit 8

Reviewing charges for non-residential social care

Councils face a challenge in balancing the need for financial contributions from clients, with ensuring their welfare and quality of life.

Councils have identified that:

- Charges are increasingly important to sustain social care services.
- They need a clearer understanding of the cost of services and the financial contribution made by service users.
- They need to understand the impact of charging policies on all service user groups.

Examples of review activity we have found include:

- Identifying further areas for service charges. This includes examining the costs of collecting any additional charges, and the likely impact on the take-up of the service.
- Service and finance teams working together to understand service costs including benchmarking how much clients are expected to contribute to their care costs.
- Assessing the impact of any changes through one-to-one meetings with service users, workshops with service users groups, and discussing proposed changes with front-line staff.

Source: Audit Scotland

96. Councils need to develop stronger corporate management of concessions. In the majority of councils concessions were determined by individual service departments. Only five respondents indicated that they had a corporate process and criteria for concessions that is shared across services. There is a risk otherwise that eligibility criteria can be inconsistent and confusing to the person seeking the concession.

97. Dundee City Council had reviewed its overall approach to concessions as part of the implementation of its Dundee Fairness Strategy. This resulted in simplified criteria for income-related concessions. The council also had a mechanism in place to recognise eligibility for concessions. Here, a resident's entitlement to a council tax reduction also confirmed their eligibility to receive concessions across services. Case study 3 (page 30) gives a further example of how North Lanarkshire Council used concessions in partnership with its leisure provider to support its aim to increase participation in exercise.

Case study 3

Example of how North Lanarkshire uses concessions to help meet its outcomes

North Lanarkshire Council has used concessions to support its Single Outcome Agreement aim to 'increase the number of people enjoying a physically active life'. The council's social care service has worked with North Lanarkshire Leisure to encourage residents to take part in sport and be more physically active. The main focus was on those in the community who are harder to reach and who suffer disadvantage and deprivation. Some of the concessions introduced include:

- Kids Klub free of charge programme in the school holidays.
- Free swimming lessons during school holiday periods.
- Saturday Sports Scene project which offers free access to ten to 17 year olds on a Saturday night to a range of sports, coached activities and guidance on healthy lifestyle choices.

Source: North Lanarkshire Council

98. The Equality Act 2010 requires public authorities to have regard to the need to eliminate discrimination, advance equality, and foster good relations across a range of protected characteristics. These are defined as age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex and sexual orientation. In assessing the impact of their charging proposals, councils should also consider the impact on these characteristic groups to avoid or manage any detrimental effects.

99. Councils should also consider wider issues around access and affordability. For example, the children of people on low incomes may not be directly eligible for concessions. As such they may not be able to afford services that would benefit them such as swimming.

100. Councils' policies for charging and concessions should be consistent with their overall approach to equal opportunities. It is good practice for councils to carry out equality impact assessments for concessions. Some councils involved staff in their diversity and equal opportunities functions in the design of concessions.

101. Examples of measures councils have taken to apply concessions more consistently are set out below. Practice such as this is a good way for councils to make sure they are aware of the impact of charges, particularly on the vulnerable or income deprived.

- East Ayrshire Council used its budget-setting process to give an overview of all charges. By taking a corporate view it identified service users who would be affected by multiple charges from different services. As part of this, the council carried out equality-impact assessments to help maintain equity and fairness, particularly where new or increased charges were proposed.

- West Lothian Council was developing a council-wide concessions policy. This took into account the impact of welfare reform on eligibility for concessions. The aim of the policy is to put in place a fair and equitable range of concessions, to create greater awareness of concessions in the community, and to increase the uptake of concessionary services.

The costs of collecting charges should not be overlooked

102. One factor that should not be overlooked is how charges should be collected. Councils should make sure that they consider the costs of collection, and also the risks and benefits of various options for collecting charges.

103. It may not be worthwhile to charge for services when collecting them would be onerous or expensive. Highland Council's corporate charging policy stated that charging would either be limited or not applicable where charges were not cost effective to collect. Similarly, it stated that if it was likely that charges would frequently be waived depending on the service users' circumstances, then charges may not be appropriate.

104. The two main approaches to collecting charges are collection at the point of service delivery, and billing. The former involves collecting money up-front from the customer and requires administration such as cashiers and banking services. An example of this is admission to sports centres. Billing involves sending invoices to the recipient for the service provided, for example parking permits and building control certificates.

105. There are a range of direct and indirect costs involved in collecting a charge. Direct costs include front-line administration, ticketing and equipment to collect charges. Indirect costs include pursuing arrears, bad debts, and possible fraud costs where money may be misappropriated. Collection through taxation, such as through council tax, is a more efficient method. However, this cannot be used where it is necessary to charge specific service users.

106. Where money is collected at source, the risk of internal fraud is higher because of the need for money handling. Where service charges are billed, the risk of such fraud is reduced, but there is a greater risk of incurring bad debts which can then require expensive recovery processes.

107. Technology can be put to good effect to improve payment security and reduce transaction costs. Innovative ways to pay for services include payment via council's websites, payment using mobile phones, for example to pay for ticketless parking, and the cashless payment for services such as school meals using smartcards.

108. The use of technology such as smartcards is not yet well established in councils. Some are piloting new approaches, and the use of smartcards, for example, is not yet widespread or integrated across services or client groups.

Arm's-length companies and trusts may be directly responsible for setting charges

109. Our 'how councils work' report on the use of ALEOs[11] looked at how councils use companies, trusts and other forms of organisations to deliver services. Where a council uses delivery models such as these, its control over the services in question may be affected. This will be determined by the particular governance arrangements in place.

110. We found that many leisure trusts, as independent bodies, have control over setting prices for admission to sports and leisure centres. Some councils had arrangements in place to mutually agree charges with ALEOs. These included boards of leisure trusts being required to negotiate amendments to charges with the council as part of a services agreement.

111. Councillors and officers must take into account the implications of different delivery models on the way services are governed. Where an ALEO has delegated responsibility for setting prices there is a risk that its charges and concessions may differ from the policy aims of the council. This risk can be reduced where prices are mutually agreed, and endorsed by the appropriate council committee. However, such arrangements must recognise the independent status of organisations such as charitable trusts.

Want to know more?

Further information on charging for services can be found in these publications:

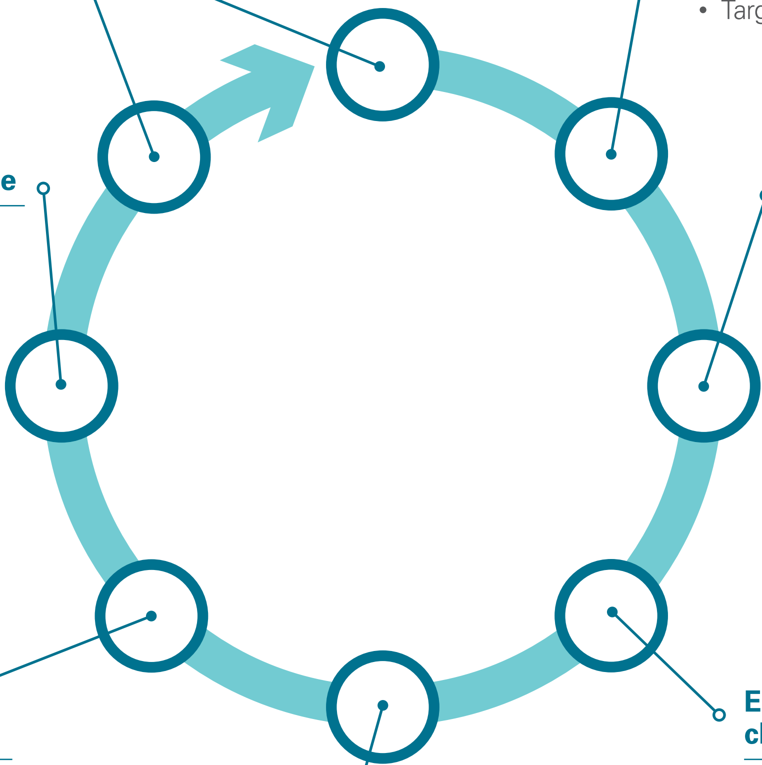
- *How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?*, Accounts Commission, May 2012
- *How councils work: an improvement series for councillors and officers – Arm's-length external organisations (ALEOs): are you getting it right?*, Accounts Commission, June 2011
- *The challenge of charging – Bulletin March 1998*, Accounts Commission, March 1998
- *Positively Charged, Maximising the benefits of local public service charges*, Audit Commission 2008
- *The Price is Right?, charges for council services,* Audit Commission 1999

Legislation – examples of Acts that contain charging legislation:

- Local Government in Scotland Act 2003 specifies areas that must be provided without charge.
- Community Care and Health (Scotland) Act 2002 covers areas of charging for social care.
- Environmental Protection Act (1990) covers trade refuse.
- Civic Government (Scotland) Act 1982 covers licensing.

Part 3

Cycle for managing charges



Identify which charges should be reviewed

Things to consider:

- Service user feedback
- Financial pressures and opportunities
- Alignment with corporate objectives

Assess constraints and understand the legislation

Things to consider:

- National guidance
- Users' ability to pay
- Use of surpluses
- Target service user groups

Collect and analyse information

Things to consider:

- Service uptake and user profile
- Customer satisfaction
- Other providers
- Unit costs, and cost recovery
- Impact of previous charging decisions

Examine options for charges and concessions

Things to consider:

- Impact on service users including minority groups
- Forecast demand and income
- Concessions
- Impact on other services, and local businesses
- Consistency with corporate guidelines

Consult on proposals

Things to consider:

- Workshops with service users
- Residents' surveys
- Sessions with councillors
- Staff feedback

Revisit options as appropriate

Things to consider:

- Adjust options as required
- Appraise all options
- Councillors to approve selected option

Implement the new charge

Things to consider:

- Timing and phasing
- Communication of changes
- Monitoring arrangements (eg setting targets)

Monitor and review the impact

Things to consider:

- Were the intended aims met?
- Impact on uptake and income
- Unintended consequences

Endnotes

1 *Local Government Funding: Provisional Allocations for 2013-14*, Scottish Parliament Information Centre (SPICe), December 2012.

2 Total income from sales, fees and charges by all councils in 2011/12 as reported by councils in the Scottish Government's local financial returns. It is not possible to get accurate income data which only includes direct user charges. The majority of income in this category comes from direct user charges, but it may include other external income sources. It is this financial data, which we refer to throughout this report as charges.

3 This is the first year in which the source data is included in the Scottish Government local financial returns.

4 This relates to individual music tuition provided to pupils who wish to study a particular instrument. It does not include general music tuition provided in classroom settings.

5 *Instrumental Music Tuition in Scotland: a report by the Scottish Government's Instrumental Music Group*, Scottish Government, June 2013, which is available at www.scotland.gov.uk

6 *The challenge of charging – Bulletin March 1998* (PDF) Accounts Commission for Scotland, March 1998.

7 In June-July 2013, we asked Scottish councils to update us on their charging practice and areas of good practice. Approximately three-quarters of councils completed the survey.

8 The extra cost of providing each additional unit of service.

9 *How councils work: Using cost information to improve performance* (PDF) Audit Scotland, May 2012.

10 The Accounts Commission and Auditor General for Scotland will be publishing a performance audit on reshaping care for older people in early 2014. This will be available on the Audit Scotland website www.audit-scotland.gov.uk

11 *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* (PDF) Audit Scotland, June 2011.

Appendix 1

Questions for councillors

Issue	Yes/No	Action
• Do you give strong direction over aims and priorities for charges (in areas where the council has discretion)? • Do you understand the non-financial contribution of charges, eg to behaviours and service uptake? • Do you get good information on costs including the costs of providing services and the contribution made from charges? • Do you know the extent to which services are subsidised across the council? • Are charges and concessions pitched at an appropriate level for people and businesses that use services? • Do you know where charges are used to generate extra income? • Are concessions taken up by the people they are aimed at? • Do officers provide you with sufficient guidance on options for using charges? • Do you understand the views of service-users and residents, and consult them over charges? • Are there areas where charges need to be reviewed?		

Appendix 2

Questions for officers

Issue	Yes/No	Action
Charging policy • Do councillors give you a clear direction over charging priorities? • Do you have clear policies in place for how charges should be applied – do these recognise the constraints and legislation that apply? • Are corporate policy and guidelines adhered to by service directors/ service providers? • Is charging practice in arm's-length providers and contracted services consistent with the council's policy?		
Financial management • Do you understand the contribution that charges make to the financial position of the council? • Do you understand how your charging practice compares with other councils? • Do you understand unit costs, the extent to which costs are recovered by charges, and patterns of income from charges? • Do you understand how services are subsidised and the extent to which charges recover costs? • Do you have a register of charges across the council to help manage charges consistently?		
Setting charges • Do you fully assess charging options, in line with the good practice set out in this report? • Do you have clear objectives for charging, such as to influence behaviour and service uptake, or to recover costs? • Do you understand customer views and the likely impact of charges on service uptake and income overall? • Is there evidence that charges are adversely affecting uptake or impacting on service users?		

Issue	Yes/No	Action
Reviewing charges • Have you reviewed the council's overall approach to charging – what issues need to be addressed? • Are there any charges that should be reviewed, eg that are inconsistent with other providers? • Is there scope to generate more income from charges, for example by raising charges in line with the market? • Have you consulted service users and council tax payers over charging? • Do you make good use of available technology to make charging and concessions more efficient and user-friendly?		
Concessions • Do you have corporate guidelines on how concessions should be applied? • Are these consistent with and linked to overall charging policies? • Are concessions applied consistently across services? • Is eligibility for concessions managed efficiently and shared across services? • Are concessions and the use of subsidy managed to ensure that services are financially viable?		

Charging for services: are you getting it right?

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

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AUDIT SCOTLAND

Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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Audit and Governance Committee Annual Work Plan 2013/14

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Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
21/01/14	East Lothian Investments Ltd Scottish Welfare Fund National Fraud Initiative Internal Audit Progress Report 2013/14	Presentation of Audit Strategy and Plan: Interim report	Scotland's Public Sector Workforce: Report by the Accounts Commission Charging for Services: Report by Audit Scotland		
18/03/14	Contracts Audit Investigation into Work Notices Housing Allocations Modernisation Programme Community Care Finance Unit (CCFU) Follow-up Report Internal Audit Plan 2014/15 Internal Audit Progress Report 2013/14	Presentation of Audit Strategy and Plan Auditor's Interim Report		Efficient Workforce Management Update	
20/05/14	Mobile Payment Devices Residential Units for Young People Creditors			2014 Corporate Governance Self-evaluation/ Annual Governance Statement 2013/14 Treasury	Corporate Risk Register

	Housing Revenue Account Journal Processing Trading Operations Procurement – Scheme of Delegation Controls Assurance Statement 2013/14 Internal Audit Progress Report 2013/14			Management Report	
15/07/14				Draft 2013/14 Annual Accounts	

REPORT TO:	Audit and Governance Committee
MEETING DATE:	21 January 2014
BY:	Depute Chief Executive (Resources & People Services)
SUBJECT:	Internal Audit Report – Scottish Welfare Fund

6

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Scottish Welfare Fund.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the Scottish Welfare Fund.

3 BACKGROUND

3.1 A review of the Scottish Welfare Fund was undertaken as part of the audit plan for 2013/14.

3.2 From 1 April 2013, the Scottish Welfare Fund replaced Crisis Loans and Social Fund Grants which had previously been administered by the DWP. The Scottish Welfare Fund is a discretionary scheme which is being delivered by Scottish Local Authorities initially on an interim basis.

3.3 The Scottish Welfare Fund has two types of grants:

- Crisis Grants – grants for short term living expenses if there is an emergency, or items if there is a disaster. The aim is to provide a safety net in an emergency, where there is an immediate threat to health and safety.
- Community Care Grants – grants for items or expenses to enable independent living or continued independent living, preventing the need for institutional care. Community Care Grants can also be provided to assist families facing exceptional pressure.

3.4 The main objective of the audit was to ensure that the internal controls in place for administering the Scottish Welfare Fund were operating effectively.

3.5 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	9 January 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
SCOTTISH WELFARE FUND

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of the arrangements in place for the administration of the Scottish Welfare Fund.

1.2 Areas where Expected Controls were Met

- The Council has appropriate arrangements in place for the administration of the Scottish Welfare Fund.
- Guidance is available to staff processing applications for both Community Care Grants and Crisis Grants.
- A clear audit trail exists for all Scottish Welfare Fund applications received, decisions made and grants awarded.
- Arrangements are in place for the issuing of cash payments and vouchers to applicants.
- For household items provided to applicants as part of Community Care Grant awards, appropriate ordering, approval, delivery and payment arrangements are in place.
- Where applicants are unhappy with the initial decision and request a review, the review is undertaken by a person independent of the initial decision maker as set out in the Guidance.

1.3 Areas with Scope for Improvement

- In some cases, there was insufficient information on file outlining how applicants' Crisis Grant awards had been calculated. *Risk – failure to adopt a consistent approach.*
- In some cases, decision letters sent out to applicants did not contain all the relevant information required by the Guidance. *Risk – failure to provide all relevant information to applicants.*
- The existing arrangements for the operation of the Scottish Welfare Fund petty cash imprest require review. *Risk – the approach adopted may be inefficient.*
- There was a lack of regular reconciliations between Scottish Welfare Fund payments recorded on the Capita System and the Council's General Ledger. *Risk – errors and irregularities may arise and remain undetected.*

1.4 Summary

Our review of the Scottish Welfare Fund has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager **January 2014**

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
SCOTTISH WELFARE FUND

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	Management should ensure that all applications are date stamped on receipt.	Medium	Service Manager Benefits	Agreed		January 2014
3.4.1	Management should ensure that the decision form contains all relevant information and explanations to demonstrate that eligibility requirements and conditions have been met by the applicant, prior to a grant being awarded.	Medium	Service Manager Benefits	Agreed		January 2014
3.5.1	Management should ensure that a consistent approach is taken to the calculation of all Crisis Grant awards made. Decision makers should provide details on the 'recording your decision form' of how the grant award was calculated.	Medium	Service Manager Benefits	Agreed		January 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	Management should explore the possibility of additional checks being undertaken, where Community Care Grant applications are received requesting a large number of household items.	Medium	Service Manager Benefits	Agreed		February 2014
3.6.1	Management should ensure that decision letters sent out to applicants contain all relevant information as required by the Guidance.	Medium	Service Manager Benefits	Agreed		January 2014
3.7.1	Where an initial decision is changed following a review, Management should ensure that that the revised decision is consistent with the Guidance issued.	Medium	Service Manager Benefits	Agreed		January 2014
3.8.1	The existing arrangements for the operation of the petty cash imprest require review.	Medium	Service Manager Benefits	Agreed		February 2014
	Management should explore the possibility of using the Council's Income Management System for the processing of all Scottish Welfare Fund cash payments.	Medium	Team Leader – Systems Development and Business Support	Agreed		January 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.2	Appropriate arrangements should be put in place to ensure that regular reconciliations are undertaken between Scottish Welfare Fund payments on the Capita system and the Council's general ledger.	Medium	Service Manager Benefits	Agreed		January 2014
3.9.2	Management should ensure that all sums transferred to Allpay are reimbursed to the Council.	Medium	Service Manager Benefits	Agreed		March 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 21 January 2014

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – National Fraud Initiative

7

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the work undertaken on the 2012/13 National Fraud Initiative.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the report.

3 BACKGROUND

3.1 The National Fraud Initiative (NFI) is a data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data (e.g. names, addresses, Dates of Birth, National Insurance Numbers), both within and between participating bodies, to detect fraud and overpayments.

3.2 East Lothian Council, along with other local authorities and public sector bodies, participates in the NFI data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Audit Commission on behalf of Audit Scotland.

3.3 As part of the 2012/13 NFI exercise, the data submitted to the Audit Commission for data matching purposes included the following:

- Payroll Information
- Housing Benefit Claimants
- Council Tax Benefit Claimants
- Housing Tenancy Details
- Payments to Private Residential Care Homes
- Right to Buy Information
- Blue Badges and Resident Parking Permits
- Creditors Information
- Insurance Information

3.4 The output of the data matching process (i.e. reports of data matches) is returned to the Council for consideration and investigation. Data matches do not in themselves indicate fraud, but rather identify cases, which may require further investigation.

3.5 In East Lothian Council, staff within Revenues have responsibility for investigating matches involving Housing or Council Tax Benefit. In addition, other areas within the Council also review matches on specific areas e.g. Blue Badges and Resident Parking Permits.

3.6 This report outlines the outcome of the investigations undertaken in respect of NFI matches. The Audit Commission identifies recommended matches – matches that are most likely to indicate possible fraud or overpayments.

3.7 As part of the audit plan, we have reviewed the following reports. The findings from our audit work are outlined below:

Report Number	Report Title	Total Matches	Recommended Matches
80/81	Payroll to Creditors	38	25
102/103	Housing Tenants to Housing Tenants	13	10
111/113	Housing Tenants to Housing Benefit Claimants	26	14
156	Right to Buy to Housing Benefit Claimants	3	3
173	Private Residential Care Homes to DWP Deceased	77	3
180.5	Insurance Claimants to Insurance Claimants	4	1
708	Duplicate records by amount and creditor reference	1,773	160
709	VAT overpaid	4	1
711	Duplicate records by invoice number and amount but different creditor reference and name	86	8
713	Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date	15	2

Payroll to Creditors

3.8 We examined 2 reports in this category – the matches identify instances where a Council employee and creditor are linked by the same bank account or the same address The purpose of the reports was to identify undeclared interests, possible procurement corruption and creditor accounts being set up to receive unauthorised payments.

3.9 We reviewed the 25 recommended matches and found that adequate explanations were available – in two cases employees had provided services on a self-employed basis before being employed by the Council. For one of these cases further investigation is currently in progress. In the remaining 23 cases satisfactory explanations were obtained.

Housing Tenants to Housing Tenants

3.10 We examined 2 reports in this category – the reports identify individuals who appear to be resident at 2 different addresses suggesting possible cases of subletting or dual tenancies.

3.11 Of the 10 recommended matches, we found that satisfactory explanations were obtained in 7 cases – for the remaining 3 cases we are awaiting clarification from other Local Authorities.

Housing Tenants to Housing Benefit Claimants

3.12 We examined the 14 recommended matches and found that no further investigation was required in 12 cases where the National Insurance Number did not match, indicating that the matches were from different claimants. Of the remaining 2 cases, we found that in one case no National Insurance Number was available, for the other case the Date of Birth and National Insurance Number were a direct match – for both these cases further enquiries are being carried out to obtain additional information.

Right to Buy to Housing Benefit Claimants

3.13 This match sought to identify cases where a person appeared to have disposed of a right to buy property as they were now claiming housing benefit or were living at a different address.

3.14 We examined the 3 recommended matches and found that in one case the Right to Buy application did not proceed. For the remaining 2 cases, we note that the person who had purchased the property is the current occupier and is no longer claiming housing benefit.

Private Residential Care Homes to DWP Deceased

3.15 This report matched payments made by the Council to private residential care homes with DWP deceased records. The report sought to highlight cases where a resident had died, but the Council may have continued to make payments to the care home.

3.16 Although the report recommended 3 matches for investigation we have examined all 77 matches identified in this category. We found that in 73 cases no overpayments had occurred and the Council had paid residential care charges for the correct period. However in the remaining 4 cases, we found that overpayments had occurred – the total overpayments identified were approximately £7,900.

3.17 Where overpayments were identified, the residential home was contacted and a credit note was requested for the amount of the overpayment. We note that in all cases the overpayments have now been recovered.

Insurance Claimants to Insurance Claimants

3.18 The purpose of the report was to identify serial claimants either within or between authorities.

3.19 We examined all 4 matches in this report and found that in 2 cases no insurance payments were made. For the remaining 2 cases we found that in 1 case the claim related to both a motor claim and a personal injury claim. In the remaining case, 2 claims were made by members of the same household – both claims were settled but related to different incidents.

Duplicate records by amount and creditor reference

3.20 This report highlights possible duplicate payments that may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.

3.21 A total of 1,773 matches were identified of which 160 were recommended matches. We are currently reviewing the matches highlighted in this report.

Duplicate records by invoice number and amount but different creditor reference and name

3.22 This match highlighted possible duplicate payments for the same goods/services but to creditors with different creditor reference numbers and names.

3.23 The report highlighted 86 matches of which 8 were recommended matches. In 4 cases, we found that the same amount of grant had been paid to separate organisations and the payments were not duplicate payments. We are currently reviewing the remaining 4 cases.

Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date

3.24 This report highlights possible duplicate payments for the same goods/services but to creditors with different reference numbers, which may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.

3.25 We investigated the 2 recommended matches and found that adequate explanations were available in respect of both matches identified.

VAT overpaid

3.26 This report identifies instances where VAT may have been overpaid. This is based on the information provided within the NFI invoice history data submission and the output includes the level and scale of overpaid VAT.

3.27 We examined the one recommended match in this category and found that an input error resulted in an overpayment being recorded on the ledger system (the VAT amount was input as £63,110.26 rather than £6,311.26). We found that the input error was promptly identified and corrected by the department before the payment was made and that the VAT ledger code was adjusted appropriately.

Blue Badge Parking Permit /Resident Parking Permit

3.28 The following reports relate to Blue Badge Parking Permits and Resident Parking Permits and have been matched to DWP deceased records – the reports identify cases where the permit holder has died, but the Council may not have been notified.

Report Number	Report Title	Total Matches	Recommended Matches
172.1	Blue Badge Parking Permit to DWP Deceased	276	241
172.3	Resident Parking Permit to DWP Deceased	17	17

3.29 The Council's Transportation Section have been provided with both reports and are reviewing all the matches to ensure that appropriate action has been taken.

Housing Benefits

3.30 All reports identifying matches relating to housing benefit claimants are investigated by the Council's Revenues Section. This includes matches relating to student loans, payroll, pensions, market traders, taxi drivers and holders of personal alcohol licences.

3.31 At the time of writing our report a number of cases were in progress and were being investigated – 1 case was being referred to the Procurator Fiscal and in a further case the claimant was being interviewed under caution.

3.32 The amount of any fraud or overpayments identified will be quantified and entered on the NFI website on conclusion of the cases.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	9 January 2014

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	21 January 2014
BY:	Depute Chief Executive (Resources & People Services)
SUBJECT:	Internal Audit Progress Report 2013/14

8

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1 PURPOSE

1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2013/14.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2013/14.

3 BACKGROUND

3.1 This report measures progress against the annual audit plan, to assist the Committee in their remit to evaluate Internal Audit's work and identify where reports are outstanding.

3.2 The progress made to date is outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	9 January 2014

INTERNAL AUDIT PROGRESS REPORT 2013/14

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Gifts and Hospitality Policy	We will review the arrangements in place within departments for compliance with the Council's Policy on Acceptance by Employees of offers of Gifts and Hospitality.	August 2013	Completed
Tyne Esk LEADER Programme	A review will be undertaken of the systems and processes in place for administering the Tyne Esk LEADER Programme.	August 2013	Completed
Review of Statutory Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Statutory Performance Indicators.	August 2013	Completed
Payments to Scottish Water	The Council is required by law to bill and collect Scottish Water charges along with Council Tax. We will examine the controls in place in respect of payments made by the Council to Scottish Water.	August 2013	Completed
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	August 2013	Completed
Law and Licensing	We will examine the internal controls in place surrounding the receipt of licence fees.	October 2013	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools Audit	We will examine the financial procedures in place at one school to ensure that internal controls are operating effectively.	October 2013	Completed
Insurance and Claims	The Council's insurance arrangements will be reviewed, including the processing of and accounting for claims.	October 2013	Completed
Housing Repairs and Maintenance	The audit will review the arrangements in place for repairs and maintenance carried out by the Council's Property Maintenance section.	October 2013	Completed
Contracts Audit	We will review contracts awarded by the Council to ensure compliance with Standing Orders and Corporate Procurement Procedures.	October 2013	Completed
East Lothian Investments Ltd	We will examine the internal controls and procedures operating within East Lothian Investments Ltd.	December 2013	Completed
Welfare Reform	We will review the arrangements in place within the Council for the administration of the Scottish Welfare Fund.	December 2013	Completed
National Fraud Initiative	Internal Audit participates in the National Fraud Initiative, which is coordinated for Scottish Local Authorities by Audit Scotland. This initiative seeks to identify potential frauds and overpayments by matching data held within the Council to that held by other bodies.	December 2013	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Housing Allocations	We will review the arrangements in place for Housing Allocations to ensure compliance with the Council's Policy.	February 2014	
Modernisation Programme	We will review the Modernisation/Extensions (Existing Stock) Programme which forms part of the Council's Housing Capital Investment Plan.	February 2014	
Community Care Finance Unit (CCFU)	We will examine the operating arrangements in place for the delivery of services currently undertaken by the CCFU.	February 2014	
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	February 2014	
Creditors	The Councils spends significant sums on goods and services. We will review the ordering, receipting and payment procedures in place.	April 2014	
Housing Revenue Account	We will examine the controls in place for reconciliations undertaken in respect of the Housing Revenue Account.	April 2014	
Journal Processing	We will review the arrangements in place for the authorisation and processing of journal entries.	April 2014	

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Trading Operations	The Council has a number of trading operations and we will review the arrangements in place to ensure compliance with statutory requirements.	April 2014	
Procurement – Scheme of Delegation	We will examine the scheme of delegation to ensure that all procurement activity is undertaken by relevant officers with delegated authority.	April 2014	
Mobile Payment Devices	We will review the internal controls in place for the use of mobile chip and PIN payment devices recently introduced by the Council's Revenues section.	April 2014	
Residential Units for Young People	We will examine the IT arrangements operating within the Council's Residential Units for Young People to ensure compliance with Council policies and procedures.	April 2014	