









**ACCOUNTS COMMISSION**

**MEETING 17 FEBRUARY 2011**

**MINUTES OF PREVIOUS MEETING**

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Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 20 January 2011, at 10am

PRESENT: John Baillie (Chair)  
Michael Ash  
Alan Campbell  
James King  
Bill McQueen  
Christine May  
Colin Peebles  
Linda Pollock  
Graham Sharp  
Douglas Sinclair (Deputy Chair)

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement  
Fiona Kordiak, Director of Audit Services  
Mark Brough, Secretary & Business Manager  
Andrew Laing, HMICS [Item 10]  
Jerry Pearson, HMICS [Item 10]  
Martin Walker, Assistant Director, Best Value and Scrutiny Improvement [Items 10 and 11]  
Fiona Mitchell-Knight, Assistant Director, Audit Services Group [Item 11]  
Gordon Smail, Portfolio Manager, Best Value and Scrutiny Improvement [Item 12]  
Paul Reilly, Portfolio Manager, Best Value and Scrutiny Improvement [Item 12]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 9 December 2010
5.	Minutes of meeting of the Performance Audit Committee of 9 December 2010
6.	Chair's introduction
7.	Update report by the Controller of Audit
8.	Public Services Reform (Scotland) Act 2010
9.	Scottish Government Spending Plans and Draft Budget 2011/12
10.	Grampian Police and Grampian Joint Police Board – Best Value Audit and Inspection
11.	Shetland Islands Council
12.	2010 Local Government Overview















may wish to note that it includes submissions from CIPFA [page 165 of the document], the Local Government Association [page 174], the Audit Commission [page 189], and Audit Scotland [page 201]). The document can be found at: <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmcomloc/writev/audit/audit.pdf>

In response to a parliamentary question on **Common Good** from Robert Brown (Glasgow) (LD), John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth, said: “The Scottish Government is not considering a legal duty on local authorities to compile and maintain a record of common good assets. Guidance issued by the Local Authority Scotland Accounts Advisory Committee (LASAAC) makes a clear requirement for local authorities to have in place Common Good Asset Registers. Audit Scotland reported that local authorities have generally taken reasonable steps to comply with the guidance. Audit Scotland will continue to monitor progress as part of their annual audit process.”

## **News summary 12 Jan – 7 Feb**

### **Accounts Commission Local Government Overview report**

Articles in the Herald and Scotsman, the Guardian’s Public magazine and some other outlets conveyed the report’s key messages. Footage from broadcast interviews was used by STV and a few local radio stations. Many other news items led on pensions – a topic that had not been highlighted in the findings.

COSLA and political parties commented on the report. COSLA welcomed the report and press release, particularly the recognition that councils are working hard to address difficult challenges and making good progress with best value.

### **Accounts Commission / Auditor General Edinburgh trams report.**

There has been intense and sustained interest in this report. A variety of angles were covered ahead of publication, including new claims for money from the contractor; Transport Scotland grant funding; and a preview of our report in the Evening News with quotes from a “project source”. The report was referred to as “long-awaited” and “key”. The Auditor General recorded broadcast interviews. All main news outlets in Scotland covered the story and we also had interest from England. Many politicians and others commented on the report. The Herald and Sunday Herald followed up their main coverage with articles about aspects of the report, questioning Audit Scotland’s judgement on two aspects of the report.

### **Workforce issues**

Article investigating how different councils are dealing with job retention and reductions on top of service cuts to balance the books. Cosla has set up a new unit to examine how **terms and conditions of employment** can be altered to save money without job losses, such as reduced sick pay, shorter working weeks and cracking down on absenteeism. Early indications show around £70million a year could be saved by reduced absenteeism alone. Councils hope to introduce a living wage of £7 per hour in return for employees accepting changed conditions. At the heart of the work is a score card enabling local authorities to see how their terms and conditions compare with others. Changes are unlikely to be implemented in the next year. Unison said any changes would require local negotiation. Sunday Herald



















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## Foreword

This paper sets out the Accounts Commission's initial analysis of the responses received to its consultation on the proposed extension of the Best Value audit to fire and rescue, and the key points that were raised at our meeting with joint board conveners and chief fire officers. It also sets out the actions that we plan to take in response to the points made by those who responded.

We are encouraged by the broad support for the overall direction of travel set out in our initial proposals:

- Our ambition to produce a national summary of Best Value in fire and rescue, based on focused BV audit work at all eight.
- Our conclusion that some form of peer support should be incorporated within the audit process.

On behalf of the Commission I would like to thank everyone who took the time to respond to this consultation exercise and to attend the recent consultation meeting. This valuable feedback will help shape our thoughts about the possible extension of the Best Value audit to fire and rescue services and joint boards. We are testing our initial proposals through development work at Lothian and Borders Fire and Rescue and will continue to engage with key stakeholders such the Chief Fire Officers Association and Fire and Rescue convenors throughout the ongoing development of the audit approach.

This paper on the progress of our proposals to date will be placed on the Audit Scotland website and we shall announce our final decisions about the Best Value audit approach for fire and rescue services in early spring 2011.



**John Baillie**  
Chair, Accounts Commission for Scotland

## Introduction

Local authorities in Scotland have a statutory duty to deliver best value and continuous improvement in their services. We have now completed audits of Best Value and Community Planning in every council in Scotland and have now started a programme of work with Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) to cover all police authorities and forces. These audits have helped to improve performance and accountability in local government and have brought unsatisfactory performance to the public's attention report to the public.

Fire and rescue forms a vital part of emergency response and community safety services. Some aspects of Best Value have been covered in earlier audit exercises undertaken by Audit Scotland on behalf of the Commission, particularly the national 'Review of service reform in Scottish fire and rescue authorities', carried out in 2007. So far, however, we have not carried out any dedicated audit, covering all key aspects of Best Value in fire and rescue.

There is, therefore, a case for now extending the audit of Best Value to fire and rescue. However, we are conscious of the financial pressures currently facing fire and rescue and the potential restructuring of the service. Therefore, before making any decisions about the introduction of Best Value audits of Scottish fire and rescue, the Accounts Commission wanted to consider comments on our proposals from members and officers in fire and rescue authorities and services, representatives of partner organisations and other interested parties such as consumer groups and the Scottish Government.

In the period following our consultation on the audit of Best Value, the Scottish Government has made it clear that there will be some form of structural change in fire and rescue. On 12<sup>th</sup> January, the Justice Secretary, Kenny MacAskill announced that the current structure is no longer tenable and that he thought there was a compelling case to move to a single fire and rescue service for Scotland. The Scottish Government is now consulting on three reform options - eight separate boards with enhanced collaboration; a regional structure with fewer boards; or a single service. Following this consultation, it is expected that clear proposals will be developed by May and legislation progressed by summer 2011. It is envisaged that a shadow authority or authorities could be set up in mid-2012, with a view to a formal transfer of authority in 2013.

A wide range of organisations (see Exhibit 1 below) responded to our consultation. About a third of responses were from fire and rescue services and boards, a third from councils and the remainder from other bodies with an interest in fire and rescue services.

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### Exhibit 1

#### BV2 Consultation respondents

Respondent type	Number	%
Fire services and authorities	7	35
Councils	6	30
Police	3	15
Staff representative bodies	2	10
Scottish Government	1	5

Consumer groups	1	5
<i>Total</i>	<i>20</i>	<i>100</i>

*Source: Audit Scotland*

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In addition to inviting written responses, a consultation meeting was held in Edinburgh on the 29th October. This was attended by the Chair of the Accounts Commission, staff from Audit Scotland, and chief fire officers and conveners from all eight Scottish fire and rescue services and authorities.

The matters raised at this meeting are summarised in Appendix 3 and these have been taken into account by the Commission in considering the extension of the Best Value audit to fire and rescue.

The remainder of this document sets out the issues raised in response to the consultation document and at the consultation meeting.

Where we are able to indicate our settled position on the issues raised, the response is set out here. However, in a number of areas final decisions will need to wait until audit development work at Lothian and Borders fire and rescue is concluded and has been evaluated in early 2011.



## Overview of responses

The consultation on the potential extension of the Best Value audit to fire and rescue invited responses to 8 questions about the Commission's proposals. Our analysis of the responses and the questions themselves are set out at Appendix 2.

The consultation posed questions about our proposals (e.g. 'Do you think that some form of peer support should be built into the audit process?') and requested views on specific aspects of our proposals (e.g. 'Where do you think this peer involvement should be drawn from?'). The analysis includes, where appropriate, a quantitative breakdown of the responses for each question (agree, disagree, neither agree nor disagree, or no response); and describes issues and comments raised by respondents with some indication of the numbers of respondents making each point.

### Main options for the audit of Best Value

We consulted on three main options for auditing Best Value in fire and rescue:

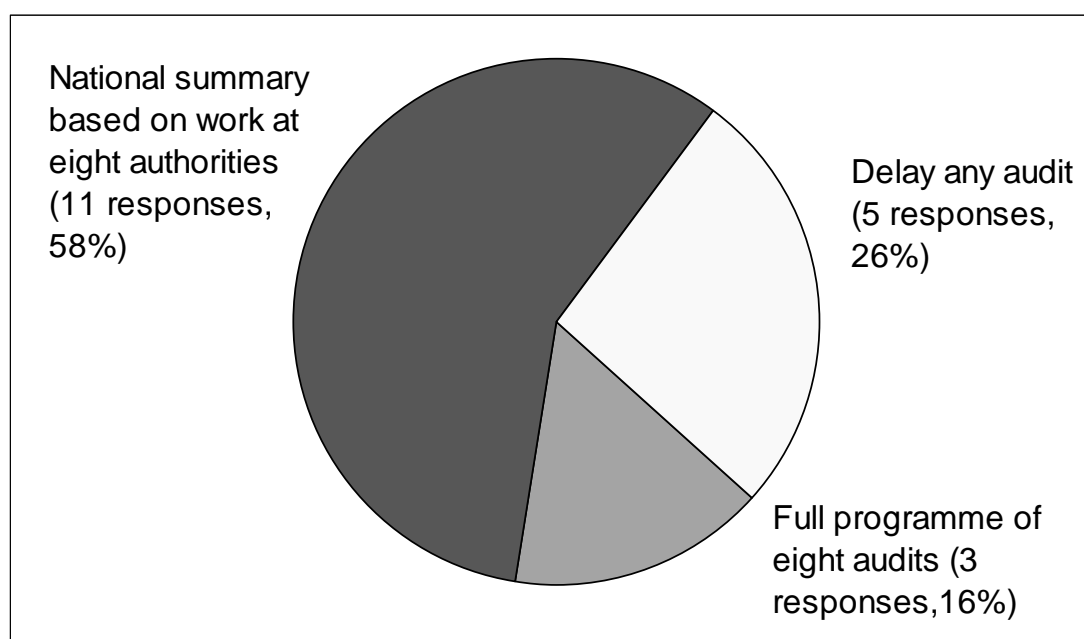
- Option 1 – carrying out a full programme of Best Value audits at all eight authorities and fire and rescue services
- Option 2 – produce a national summary of Best Value in fire and rescue, based on focused BV audit work at all eight authorities and fire and rescue services (this was presented as the preferred option of the Accounts Commission)
- Option 3 – delay any specific fire and rescue Best Value audit work.

Almost two-thirds of respondents supported the Commission's preferred option to produce a national report informed by targeted work at all eight fire and rescue services and authorities (see Exhibit 2).

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### Exhibit 2

#### Support for the main options in applying the Best Value audit to fire and rescue



Note: 20 responses received, but one did not state a clear preference.

Source: Audit Scotland

There was though a significant difference between the responses from fire and rescue services and authorities and other respondents. Almost all of the responses from other public organisations, such as councils and police authorities, favoured Options 1 or 2. In contrast, about half of the responses from fire and rescue services and authorities supported Option 3 and a delay in any audit of Best Value. While they were supportive of the audit in principle, they argued that it should not be carried out until there was more certainty about the future structure of the Scottish fire service and a national performance framework had been established. However, one of these fire and rescue services thought that Option 2 could be viable if it was properly designed. Two fire and rescue services and authorities supported Option 2, while another supported Option 1.

On balance, we think that there is a strong case to follow Option 2 and publish a national report, informed by targeted fieldwork at all eight fire and rescue services and authorities. This option was supported by almost two-thirds of respondents. In our view, this will help identify the current areas of strength which need to be retained within fire and rescue and also those areas which need to be further developed. This could be used to help inform the future governance arrangements, whatever decisions are subsequently taken by Scottish Government on the structure of fire and rescue within Scotland.

### **Corporate assessment**

As part of our consultation we set out a series of draft characteristics of a Best Value fire and rescue service and authority. There was almost universal support these. Many respondents recognised their close relation to the characteristics described for councils and police authorities. While no-one disagreed with the characteristics that were set out, some additions were suggested, as set out below.

Two respondents (10%) observed that the characteristics are heavily focused on management arrangements and suggested that they need to place more emphasis on service performance. While it is accepted that these characteristics do focus on management arrangements, they are only part of the proposed audit framework. As in the Best Value audits of councils and police, the assessment of service performance and outcomes will form an important part of the audit. It is through assessing both elements that judgements can be reached on the extent to which a public body is meeting its obligations under the Best Value legislation.

One respondent commented that the characteristics largely referred to the role of board members, rather than service managers. It is agreed that clearer references to the role of service managers need to be added to these corporate characteristics.

Another respondent also suggested that a specific reference to integrated risk management and planning (IRMP) should be added to the section dealing with the use of resources. While there are broader references to risk management in these draft characteristics, it is agreed that a reference to IRMP would make them more directly relevant to fire and rescue.

## **Key aspects of Best Value in fire and rescue**

There were few suggestions on the specific aspects of Best Value that should feature in any audit of fire and rescue. All respondents recognised the relevance of Best Value to fire and rescue and listed almost all of the criteria set out in the statutory guidance that underpins the 2003 Act. Many respondents listed broad aspects, such as the importance of service outcomes and the use of resources. Others referred in broad terms to the Best Value criteria as set out in the statutory guidance.

However, two respondents referred to the statutory responsibilities set out in the Fire (Scotland) Act 2005, highlighting that these needed to be included in any assessment of performance. It is agreed that the preventative role of fire and rescue needs to be reflected in any audit of Best Value in fire and rescue.

## **Service performance assessment**

A key challenge for the audit will be assessing service performance. As many respondents have commented, sound management arrangements are not an end in themselves but simply a way of delivering high standards of performance and effective outcomes for local communities. However, in the absence of a national performance framework, there was a wide range of suggestions on the existing sources of performance information. While some respondents thought that the current draft performance framework could be used, others pointed to existing local and national performance indicators, as well as targets set out in local Single Outcome Agreements.

In general, the performance measures suggested by respondents covered issues such as the number of fires and road traffic collisions and associated deaths and injuries, the impact of preventative work, and unit costs.

It is proposed that the audit will draw on the performance measures that are currently being used by individual fire and rescue authorities and services. These are based on a series of local performance indicators (LPis) approved by the Chief Fire Officers Association of Scotland (CFOAS). The audit will draw on these established LPis but will also seek to include cost comparisons and to place an emphasis on measures of output and impact, rather than simply measures of activity.

## **Peer involvement**

There was almost universal support (95%) for the use of peers in supporting the audit. While there were some concerns about the potential threat to the independence of the audit, almost all respondents saw it as a good way of building fire and rescue knowledge and experience into the audit process. Of those that responded to this question, only one did not think that peers should be involved in the audit. They were supportive of the principle of peer review, but thought that it should form part of ongoing self-evaluations carried out by fire and rescue services and authorities rather than form part of an external audit process.

There was less unanimity about the specific role of peers in supporting the audit. About two-thirds of respondents suggested that their role should be one of supporting the audit team, rather than being part of it. They saw the peers as helping to scope the audits, providing a source of advice and guidance for the audit team, and providing a source of independent challenge as part of the quality control process. One respondent specifically expressed a concern that direct peer involvement in the fieldwork could be seen as threatening the independence of the audit.

About a third of respondents, however, supported the use of peers as part of the audit team, particularly in helping assess service performance and the use of resources.

There was also a wide range of suggestions on the sources of peer recruitment. The most common suggestion was the secondment of a serving fire and rescue officer within Scotland. Others similarly suggested using a serving officer from a fire and rescue service outside Scotland or making use of a recently-retired officer.

Other respondents, including the Scottish Fire and Rescue Advisory Unit (SFRAU) itself, thought that SFRAU could play a useful role in providing peer support for the audit. However, it was clear from SFRAU's response that it saw its role in providing advice and guidance rather than being part of the audit team.

One fire and rescue service suggested that we could make use of the pool of peers that has been established by the Chief Fire Officers Association (CFOA) in England and Wales. It was argued that this would help protect the independence of the audit.

Two respondents also supported the involvement of staff from the Audit Commission who were experienced in the audit of fire and rescue services in England and Wales. In sharp contrast, however, the response from the Fire Brigades Union specifically stated that they did not think that the Audit Commission should be involved as they disagreed with earlier recommendations from the Commission on the scope for efficiency savings.

We propose to introduce peer support as part of the audit of Best Value in fire and rescue, both as part of the audit team and as part of the quality review process. While there are a range of options, we will seek to work alongside SFRAU and to recruiting peers from within Scottish fire and rescue services.

### **Other issues**

Three other significant issues were raised in written responses or at our consultation meeting. These were:

- The impact of cuts in public expenditure on service performance and outcomes
- The role of the Scottish Government (in particular Scottish Resilience)
- The absence of a national performance framework for fire and rescue services in Scotland

Some concern was expressed at the concept of 'continuous improvement', which is central to duty of Best Value. It was argued that, at a time of recession and cuts in public expenditure, it would be difficult for fire and rescue services to improve or even maintain service performance standards. We recognise the realities created by the current financial environment within which public bodies are operating. The audit will assess the concept of continuous improvement within this context, paying particular attention to the matching of resources to priorities and progress in achieving efficiency savings.

The responses from two chief fire officers suggested that the scope of the audit should include the role of Scottish Government and, in particular, Scottish Resilience (the department that supports the frontline agencies that deliver fire and rescue services and emergency planning and response across Scotland and provides advice to Scottish Ministers on all aspects of fire and rescue services and civil contingencies). It was argued that they play an important role in helping shape the policy context within which fire and rescue services operate. In addition, it was also suggested that the use of central resources, such as the national fire and rescue college, needed to be included within the audit if a comprehensive picture of fire and

rescue expenditure and performance is to be achieved. It is recognised that the audit could usefully review some aspects of Scottish Resilience particularly in relation to its impact at individual fire and rescue service level. We will also give consideration, in consultation with the Auditor General for Scotland, as to how the role of the Scottish Government departments might be reflected in a national report on Best Value in fire and rescue.

Two respondents also argued that, instead of carrying out a Best Value audit at present, the audit resources should be used to help establish a national performance framework for fire and rescue services. It was also argued that, in the absence of such a framework, it would not be possible to assess service performance. There is no national performance framework for local government, but this has not acted as an impediment to undertaking Best Value audit work in that sector where the performance of individual councils is assessed against its own local performance priorities. On that basis, we are confident that it will be possible to form service performance assessments in fire and rescue in the absence of a national framework by assessing the performance management arrangements and associated local service performance and outcome data that should already be in place within individual fire and rescue services

In addition, given the fundamental principle of audit independence, we do not think it is appropriate for auditors to be directly involved in developing management arrangements such as a performance framework which they would then be expected to independently audit.

Whilst recognising the fundamental importance of audit independence we are though confident that the audit can contribute to the successful development of a national performance framework for fire and rescue which is a matter for the Scottish Government and fire and rescue services and authorities, by highlighting strengths and weaknesses and identifying gaps in the current arrangements.

## Appendix 1: List of Respondents to the BV2 Consultation

Respondent	Organisational type
Clackmannanshire	Council
North Ayrshire	Council
Orkney	Council
Perth and Kinross	Council
South Lanarkshire	Council
West Dunbartonshire	Council
Dumfries and Galloway	Fire and Rescue Service and Board
Fife	Fire and Rescue Service and Board
Grampian	Fire and Rescue Service and Board
Highlands and Islands	Fire and Rescue Service and Board
Lothian and Borders	Fire and Rescue Service and Board
Tayside	Fire and Rescue Service and Board
Strathclyde	Fire and Rescue Service and Board
Lothian and Borders	Police authority
Tayside	Police service
Scottish Fire & Rescue Advisory Unit (SFRAU)	Scottish Government
Association of Chief Police Officers (Scotland)	Staff representative body
Fire Brigades Union	Staff representative body
Fire Officers Association	Staff representative body
Consumer Focus Scotland	Consumer watchdog

## Appendix 2:

### Summary of BV2 Consultation Responses

The consultation posed questions about our proposals (e.g. do you think that some form of peer support should be built into the audit process?) and requested views on specific aspects of these proposals (e.g. Where do you think this peer involvement should be drawn from?). The information below is based on our analysis of the responses. It includes a quantitative breakdown of the responses for some questions (agree, disagree, neither agree nor disagree, or no response); and describes issues and comments raised by respondents with some indication of the numbers of respondents making that point.

The categories used in the quantitative analysis are as follows

- *agree* include responses ranging from 'broadly agree' to 'full support'
- *neither agree nor disagree* means that responses were non committal
- *disagree* refers to responses which actively disagreed with the proposed approach
- *no response* describes where no response has been made to a specific question.

	Consultation Responses	Issues, comments & common themes
<p><b>1. Which of the three main options do you favour for applying the audit of Best Value to Scottish fire and rescue, and why?</b></p>	<p><b>Option 1</b> Full programme of eight audits</p>	<p>3 responses (16%)</p> <p>One fire and rescue service and authority supported this option.</p>
	<p><b>Option 2</b> National summary with fieldwork at all eight authorities</p>	<p>11 responses (58%)</p> <ul style="list-style-type: none"> <li>Two fire and rescue services and authorities supported this option.</li> <li>Another respondent from the police service supported Option 2 but wanted further clarification on how this would differ from Option 1.</li> </ul>
	<p><b>Option 3</b> Delay any audit.</p>	<p>5 responses (26%)</p> <ul style="list-style-type: none"> <li>Four fire and rescue services and authorities argued that the audit of Best Value should not be carried out until there was more certainty about the future structure of the Scottish fire service and a national performance framework had been established. This view was shared by one council CEO. However, one of these fire and rescue services thought that Option 2 could be viable if it was properly designed.</li> </ul>
<p><b>2. How do you view the proposed characteristics of a Best Value fire and rescue authority, as set out in Exhibit 2 and, in more detail, at Appendix 1?</b></p>	<p>Agree (18) 90% Disagree 0% No response (2) 10%</p>	<ul style="list-style-type: none"> <li>Needs to be more emphasis on service performance, rather than simply management processes (2)</li> <li>Too much emphasis on role of board members, also need to reflect role of officers (2).</li> <li>Expectations need to take account of the limited time available to members (1)</li> <li>Add reference to IRMP in the section dealing with the use of resources (1).</li> <li>Add sources for characteristics described (such as the 2003 Act etc.).</li> </ul>
<p><b>3. What do you think are the key aspects of Best Value in fire and rescue, nationally as well as locally, that should be the focus of an audit?</b></p>		<p>Many respondents listed broad aspects, such as the importance of service outcomes and the use of resources. Others referred in broad terms to the Best Value criteria as set out in the statutory guidance. Some other specific suggestions were made:</p> <ul style="list-style-type: none"> <li>User feedback (2)</li> <li>Meeting statutory responsibilities of 2005 Fire (Scotland) Act (2)</li> </ul>



			<ul style="list-style-type: none"> <li>Health and safety (1)</li> </ul>											
<p><b>4. What do you think are the main measures of performance that should be used to assess fire and rescue services ?</b></p>		<p>Most respondents referred to broad criteria, such as outcomes and resources, rather than specific measures of performance. However, several specific suggestions were made:</p> <ul style="list-style-type: none"> <li>Costs (4)</li> <li>Local KPIs and SOA reporting (3)</li> <li>National PIs (2)</li> <li>User feedback (2)</li> <li>Effectiveness of preventative work (2)</li> <li>The draft performance framework (2)</li> <li>The costs of fire loss and damage (as a way of helping assess VFM) (2)</li> <li>IRMP (1)</li> <li>Service standards (1)</li> </ul>												
<p><b>5. Do you think that some form of peer support should be built into the audit process?</b></p>	<p>Agree (17) 85% Disagree (1) 5% No response (2) 10%</p>	<ul style="list-style-type: none"> <li>One respondent did not think that peer support should be part of an audit team and argued that fire and rescue services should voluntarily use peer review themselves and make the results available to the audit. (1)</li> </ul>												
<p><b>6. What are the main ways in which peer support could be used to help add value to the audits</b></p>	<table border="1"> <tr> <td>Advice / consultancy for team (6 responses)</td> <td>33%</td> </tr> <tr> <td>Quality assurance (4)</td> <td>22%</td> </tr> <tr> <td>Help carry out fieldwork (3)</td> <td>16%</td> </tr> <tr> <td>Help assess service performance (2)</td> <td>11%</td> </tr> <tr> <td>Help at scoping stage (2)</td> <td>11%</td> </tr> <tr> <td>Help assess use of resources (1)</td> <td>5%</td> </tr> </table>	Advice / consultancy for team (6 responses)	33%	Quality assurance (4)	22%	Help carry out fieldwork (3)	16%	Help assess service performance (2)	11%	Help at scoping stage (2)	11%	Help assess use of resources (1)	5%	<ul style="list-style-type: none"> <li>One respondent, while supportive of the involvement of peers, did not think they should be part of the audit team as this might compromise the independence of the audit.</li> </ul>
Advice / consultancy for team (6 responses)	33%													
Quality assurance (4)	22%													
Help carry out fieldwork (3)	16%													
Help assess service performance (2)	11%													
Help at scoping stage (2)	11%													
Help assess use of resources (1)	5%													
<p><b>7. Where do you think this peer involvement should be drawn from?</b></p>	<table border="1"> <tr> <td>Serving officer from Scottish fire and rescue service (9 responses)</td> <td>39%</td> </tr> <tr> <td>SFRAU (4)</td> <td>17%</td> </tr> </table>	Serving officer from Scottish fire and rescue service (9 responses)	39%	SFRAU (4)	17%	<ul style="list-style-type: none"> <li>Some respondents were concerned at the potential threat to the independence of the audit. One said specifically that existing Chief Fire Officers or conveners should not be used</li> </ul>								
Serving officer from Scottish fire and rescue service (9 responses)	39%													
SFRAU (4)	17%													

	Recently retired officer from fire and rescue service (3)	13%	<p>as peer support. Another suggested that the audit could use the pool of peers established by CFOA in England and Wales.</p> <ul style="list-style-type: none"> <li>One respondent specifically did not want the Audit Commission to be used as peer support as they disagreed with some of their findings in earlier reports.</li> </ul>
	Serving officer from fire and rescue service outside (2)Scotland	9%	
	Audit Commission (2)	9%	
	CFOA's pool of peers (1)	4%	
	Local government (1)	4%	
	FBU (1)	4%	
Members as well as officers (1)	4%		
<p><b>8. Are there any other issues that you would like to raise about the proposed approach to the audit of Best Value in Scottish fire and rescue?</b></p>		<ul style="list-style-type: none"> <li>Two respondents thought that the role of Scottish Government and, in particular, Scottish Resilience needed to be included within the scope of the audit.</li> <li>Two respondents also argued that, instead of carrying out a Best Value audit at present, the audit resources should be used to help establish a national performance framework for fire and rescue services.</li> </ul>	

### **Appendix 3: Issues and Themes from Consultation Meeting**

- While the relevance of Best Value to fire and rescue is fully acknowledged, there is a need to recognise that in times of budget cuts continuous improvement in services is unlikely to be achieved.
- There is a need for a national performance framework. Without this, it may be difficult for any audit to properly assess service performance. There was, therefore, an argument that any audit of Best Value should be further delayed.
- The resources that could be currently used for an audit of Best Value in fire and rescue could instead be used to help develop a national performance framework. However, it was recognised that this could compromise the independence of any subsequent audit.
- The scope of the audit needs to include the role of Scottish Resilience and to consider the use of national resources such as the fire and rescue training college.
- There was broad support for the use of peers to support the audit process.

## **ACCOUNTS COMMISSION**

**MEETING 17 FEBRUARY 2011**

### **REPORT BY DIRECTOR OF BEST VALUE AND SCRUTINY IMPROVEMENT**

#### **BEST VALUE IN FIRE AND RESCUE SERVICES**

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##### **Purpose**

1. This paper invites the Commission to approve the attached report on its response to the recent consultation on Best Value audit in fire and rescue, and to consider how it wishes to proceed on Best Value audit of fire and rescue services.

##### **Background**

2. Now that the Commission has completed the first round of council Best Value audits and five BV2 Pathfinders, and Police BV audits are being rolled, out the Commission is now ready to take forward its long standing commitment to introducing BV audits into fire and rescue services.
3. In line with its past approaches to introducing BV audits into other sectors (local government and police) the Commission has been consulting key stakeholders on its approach to BV auditing in fire and rescue. This consultation exercise was particularly significant given the consideration that was being given by Scottish Ministers at that time to the restructuring of fire and rescue services.

##### **Recent ministerial announcements**

4. On 12 January 2011, the Cabinet Secretary for Justice, Kenny MacAskill MSP, announced that the Scottish Government's position is that the current structure is no longer tenable and that there is a compelling case to move to a single fire and rescue service for Scotland. While he made it clear that no decision has yet been made and that a consultation will be carried out to discuss three reform options - eight separate boards with enhanced collaboration; a regional structure with fewer boards; or a single service - the basis on which the consultation is taking place is on a presumption that a single service is the best option for the future. This consultation is expected to be carried out in February and March, with clear proposals developed by May and legislation progressed by summer 2011. At present, it is expected that a shadow authority or authorities could be set up in mid-2012, with a view to a formal transfer of authority in 2013.
5. The Scottish Government's announcement that its preferred option is for a single fire and rescue service for Scotland has raised questions about governance arrangements and local accountability. COSLA, for example, has expressed some concerns that this might set a precedent for the transfer of other local authority services to central government.

##### **Consultation results**

6. The Commission issued its fire and rescue BV consultation paper on 25 October to 74 stakeholders. The consultation period ended on 3 December. 20 responses were received to the consultation paper. In addition, the Chair of the Commission attended a consultation meeting with all chief fire officers and conveners in Edinburgh on 29 October.

7. The Commission agreed that the consultation would include a statement that it was minded to pursue Option 2, producing a national summary of Best Value in fire and rescue, based on focused BV audit work at all eight authorities. Overall the consultation responses supported the Commission's proposed direction of travel, with six out of ten respondents supporting Option 2. However, responses from about half of the fire and rescue services and authorities although supportive in principle of the BV audit argued that it should not be carried out until there was more certainty about the future structure of the Scottish Fire Service. There is now a significantly higher degree of clarity about the likely structural change moving forward.
8. While there is some logic to delaying an audit of Best Value, given the recent ministerial announcements, there are strong reasons favouring the Accounts Commission's preferred Option 2. If any Best Value audit was to be delayed until after any restructuring, it is unlikely that it could be carried out until 2014. This would leave a long gap in terms of public accountability, given that only limited reviews of Best Value have been carried out in fire and rescue since 2003. More importantly, perhaps, the planned timing of Option 2 would mean that the results of the audit would be available to help inform shadow arrangements and the formal establishment of a new structure for fire and rescue.
9. The attached paper provides a detailed analysis of the responses to the consultation exercise and sets out a proposed position on the issues raised.

### **Recommendation**

10. The Commission is invited to:
  - consider the attached report which, once approved by the Commission, will be issued to stakeholders and placed on the Accounts Commission webpage;
  - consider and agree whether, in the light of the consultation responses and recent developments, it wishes to confirm that it will proceed with Option 2.
  - agree to receive a report in March setting out more detailed proposals for the roll-out of the BV audit in Fire and Rescue.

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION  
UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973  
THE HIGHLAND COUNCIL: CAITHNESS HEAT AND POWER – FOLLOW-UP REPORT**

**Summary**

1. This report is in response to the Accounts Commission's direction to the Controller of Audit for further investigations into The Highland Council's involvement in the Caithness Heat and Power (CHaP) project. The investigation involved careful consideration of the role of key individuals in the governance of the project and has provided a fuller understanding of the context in which key decisions concerning the project were made.
2. In summary, I have concluded that:
  - In the period between project approval in October 2004 and May 2008 when the significant problems were identified, only three reports were made to the Council. In each case these were when the CHaP company was urgently seeking funds.
  - The Council failed to establish effective governance for its interests in CHaP. As a result, it was not well placed to deal with key issues as they emerged and only became aware of the full significance of the company's decision in 2006 to procure high risk gasification technology two years later.
  - The former Chief Executive was aware of governance concerns and initiated actions but did not follow through to ensure these actions were effective. For his part, the Director of Finance should have been more forthright in pursuing his concerns about project governance.
  - The elected member on the CHaP company board could have done more at key stages to ensure the Council was aware of the position. The dissolution of the area committee structure and the associated departure of locally based officers meant that he became increasingly isolated.
3. Overall, there was a lack of a co-ordinated, corporate response to governance and ultimately the project, service users and council finances were left exposed. The project is ongoing but it seems likely that it will not achieve all its objectives and that service users will not receive the full benefits anticipated. It is also unlikely that full value for public money will be achieved. However, because the project is ongoing I am not in a position at this stage to identify overall costs or to quantify any losses that may have been, or will be, incurred.

4. I understand from the Council that currently its total commitment to CHaP including provisions stands at £13.77 million and that the total amount spent by it on CHaP is £10.5 million. However, the Council has indicated that this is a moving picture and that it will be required to advance more funds to CHaP soon to keep the company's overdraft within its current approved £0.25 million limit.

### **Introduction and audit approach**

5. In February 2009, the Council considered a report on Caithness Heat and Power (CHaP) and was informed that its internal auditors were undertaking an audit of the project. Internal audit reported to the Council in January 2010, having carried out a detailed, desk-based review of reports, email and other documentation covering the period from August 2002 when the idea for the project first came to light to August 2008 when the Council took direct control of the project.
6. The external auditors' annual audit report to the Council and the Controller of Audit in October 2009 referred to CHaP and highlighted a range of technological, financial and governance problems. In view of the serious nature of the issues the Controller decided to report<sup>1</sup> to the Accounts Commission.
7. The purpose of that report was to highlight to the Commission and the public the serious and wide-ranging deficiencies in the Council's dealings with CHaP and the problems which can occur when councils do not observe the 'following the public pound' principles<sup>2</sup>, which apply when councils decide to deliver projects or services through arms-length external organisations (ALEOs). As such, it was a high level report drawing together the findings from the audit work to date, principally the key issues identified by internal audit. The Controller's initial report was dated 7 June 2010 and is attached as Appendix 2.
8. The Commission considered the Controller of Audit's report at its meeting on 17 June 2010. The Commission directed the Controller to carry out further investigations<sup>3</sup> and to report back on project governance and accountability, particularly the roles of the Council's statutory officers and the elected member who represented the Council on the CHaP company board.

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<sup>1</sup> The Highland Council: Caithness Heat and Power, report by Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973, 7 June 2010

<sup>2</sup> Code of Guidance on Funding External Bodies and Following the Public Pound, Accounts Commission/COSLA 1996

<sup>3</sup> Direction by the Accounts Commission under section 3(1)(a) of the Local Government in Scotland Act 2003

9. The further investigation therefore focussed on senior individuals' involvement in the Council's governance of the CHaP project, between 2002 and 2008. In particular, we interviewed:
- the current Chief Executive (who until July 2007 was the Director of Corporate Services & Depute Chief Executive and the Council's monitoring officer)
  - the current Depute Chief Executive & Director of Finance (who was and remains the Council's proper officer for finance)
  - the former Chief Executive (who retired on 11 July 2007 and was the Council's head of paid service)
  - the elected member who represented the Council on the CHaP company board.
10. Subsequently, in view of his central role in monitoring the Council's interest in CHaP, we also interviewed the Council's current Corporate Manager. He held the role of Caithness Area Manager between October 2002 and April 2007 at which point he was appointed and remains Corporate Manager. As Area Manager he reported directly to the former Chief Executive.
11. Taken together with evidence gathered by internal audit and further information obtained from the Council as part of this investigation, these interviews helped me gain a fuller understanding of the context in which key decisions concerning the project were made and individuals' roles in the governance of the project. The individuals interviewed have had the opportunity to comment on a draft of this report and I am grateful to them and other Council officers for their co-operation in the follow-up audit investigation.
12. My report first considers the background to the project and the reports made to the Council between 2004 and 2008. I then review the steps taken to establish governance over the Council's interests in the project and then the roles of the Council's statutory officers and the elected member who represented the Council on the CHaP company board. Throughout, the focus is on the Council and its interaction with the project and the CHaP company; governance within the CHaP company is outwith the scope of this report.



## Project background and reporting to the Council

*In the period between project approval in October 2004 and May 2008 when the significant problems were identified, only three reports were made to the Council. In each case these were when the CHaP company was urgently seeking funds.*

13. The decentralised area committee structures in place at the time of the inception of the CHaP project in 2002 provided the environment for the project to gain substantial momentum. The Caithness Area Committee envisaged a district heating system fuelled by woodchip that would provide benefits for local housing and business. Centrally, the Council was aware of the initiation of the project, viewing it as a relatively straightforward development financed by monies set aside to improve council housing and consistent with corporate priorities relating to renewable energy and sustainability.
14. The Council's decentralised structure was highlighted in a Best Value audit report<sup>4</sup> in April 2006. It noted the rationale for these arrangements but concluded that the associated management structures were complex and difficult for officers and elected members to understand and access. The report also noted that the decentralised structures promoted an environment where local priorities predominated.
15. The relationship between the Caithness area and the Council's Headquarters in Inverness (HQ) provides important context to the CHaP project. The Area Committee, and subsequently the CHaP company board, was supported by Council officers based locally who focussed on the project and the benefits it could bring to the area. Officers at HQ observed the decentralised structure, implemented decisions by local elected members and were keen to support local initiatives.
16. When the Council approved the CHaP project and the formation of a company to deliver it in October 2004, it was on the basis that it would involve a free-standing, wood-fuelled plant and waste heat from the local distillery. The report by the Director of Planning and Development noted the prospect of future phases involving gasification<sup>5</sup> to generate electricity as well as heat. Assurances were provided that each phase would be self-contained and fully funded. In November 2005, the Council committed £1.6 million from housing budgets to support the district heating system. The report, by the Caithness Area Manager, again assured the Council that the project involved distinct phases, with later phases requiring no financial input from the Council.

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<sup>4</sup> Highland Council – the Audit of Best Value and Community Planning, Audit Scotland, April 2006

<sup>5</sup> Gasification is the reaction of carbon based materials with oxygen and/or steam to produce gas which is itself a fuel. It is potentially more efficient than direct combustion of the original materials.

17. Faced with steeply rising woodchip prices, locally based Council officers advised the CHaP company board to combine project phasing and to proceed with gasification, despite the previous assurances to the Council. The company advertised the contract late in 2005 and considered tenders in April 2006.
18. The Council's £1.6 million commitment in November 2005 was based on its understanding that the project involved a relatively straightforward district heating system. Developments soon after that, involving gasification, should have been reported to the Council so it was aware of the shift and to allow it to reconsider its position.
19. It was not until October 2006 that the Council received its next report on CHaP and this referred to the fact that the phases of the project had blended into one. The report, by the Director of Finance, noted a risk with gasification but that the company's heating consultant was confident the technology would provide heat and power as anticipated. The Council agreed to provide short term finance to the company in the form of a £0.55 million loan facility, to meet cash flow requirements until Energy Saving Trust grant instalments were received and bank loan finance secured.
20. In April 2007, the former Chief Executive reported to the Council that the company's bank was pressing for further safeguards relative to the loan it was providing to part-fund the project. To secure funding for the project he had exercised emergency powers<sup>6</sup> to extend existing guarantees, firstly the period over which the Council would guarantee the Company's £3 million bank loan and secondly the ongoing guarantee of the Company's overdraft facility to £1 million for the year to July 2008. As was the case in October 2006, the report referred to gasification and the possibility that the equipment would not meet expectations and in the extreme case might fail. However, the report stated that this risk had been minimised as far as possible, for example, by the company's engagement of an acknowledged energy expert.
21. By summer 2007, the equipment was in place and it was envisaged that the project would be successfully delivered. There were delays in commissioning but there was no indication at that stage that the technology would fail.
22. In January 2008, emerging financial difficulties became apparent. In light of this, the current Chief Executive initiated work to obtain a clear understanding of the financial and technical position and this led to a report to the Council in May 2008. In that report the current Chief Executive and Depute Chief Executive & Director of Finance updated the Council on its commitments to CHaP and informed it that the Chief Executive had used

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<sup>6</sup> Emergency powers as provided for within the Council's Financial Regulations and Scheme of Delegation.

emergency powers to increase the Council's level of guarantee for the company's overdraft, from £1 million to £1.2 million. The Council agreed to this and to further increase its guarantee for the overdraft up to £1.9 million. The report highlighted problems in commissioning the gasification plant.

23. The current Chief Executive and Depute Chief Executive & Director of Finance reported again to the Council in June 2008 advising of the need for the Council to cap its financial support for CHaP and of the failure to commission the plant. These officers reported again in August 2008, at which point the Council considered options to protect its interest and agreed to take control of the company. It was only at that point, in August 2008, that the Council had the opportunity to assess full information on the technical position and the options available to it.
24. The key reporting events set out in this section are summarised in Appendix 1. In the period between project approval in October 2004 and May 2008 when the significant problems were identified, only three reports were made to the Council, in November 2005, October 2006 and April 2007. In each case these were at points when the company was urgently seeking funds. There was no reporting to the Council on attempts to commission the gasification plant or on the impact on the company finances and ultimately, the impact on the Council's finances.

### **Steps taken to establish governance**

*The Council failed to establish effective governance for its interests in CHaP. As a result, it was not well placed to deal with key issues as they emerged and only became aware of the full significance of the company's decision in 2006 to procure high risk gasification technology two years later.*

25. Governance is about clear direction and control and is central to the success of all organisations. In cases where councils decide to deliver projects and services through an arms-length organisation such as the CHaP company, it is vital to establish sound arrangements from the outset and to ensure that these are applied effectively in practice. This section of the report considers steps taken to establish governance for CHaP; the following sections consider the roles of individual statutory officers and the elected member who represented the Council on the CHaP company board.
26. In approving the CHaP project in October 2004, the Council gave the Caithness Area Manager a clear remit to ensure that the project complied with all legal, financial and contractual requirements. His role was to take an overview of the Council's involvement in the company and to maintain a watching brief to represent the Council's interests. However, he was not suitably active in this role and did not give the project sufficient

attention at key points, including at the time of the Company's decision to procure high risk gasification technology and when it became apparent that there were problems in commissioning the equipment.

27. The Council operated a Joint Ventures Board (JVB) of senior officers from across services to monitor a range of significant projects which the Council delivered with partners and this acted as a forum to bring together specialist technical, legal and financial interests.
28. At a JVB meeting in October 2004, concern was expressed regarding the lack of control over CHaP and the need for proper governance arrangements was noted. Further concerns were expressed at the JVB in December 2004 and the former Chief Executive felt there were sufficient reasons for a 'full audit' of the scheme and how it was managed. In April 2005 the JVB noted that the scheme was moving too quickly; further phases were being worked on and it was felt that the focus should be on ensuring that the first phase was a success. In June 2005, following concerns from senior staff in his service about how best to secure the governance of the project, the Director of Finance suggested a written paper should be presented to every JVB setting out on an ongoing basis progress and proposals, as a means of keeping everyone up to date and informed and to allow consideration of the implications.
29. However, following discussion at the JVB meeting in April 2005, there was no further consideration of CHaP at the JVB. We were unable to determine why this was the case. The current Chief Executive and the Director of Finance are of the view that CHaP should have remained on the JVB agenda but they were not clear why the Board lost sight of the project. The former Chief Executive, who we understand controlled the JVB agenda, is of the view that CHaP was a housing project to provide heating to council houses and that dealing with this through the usual Committee channels (other than the JVB) for such projects was consistent with the scheme of delegation. He also informed us that a project to provide a district heating system for council houses with proven technology was not the kind of project that the JVB would have taken forward given its housing purpose and then scale.
30. As indicated, in December 2004, as a result of discussion at the Joint Ventures Board, the former Chief Executive requested the Director of Finance to undertake an audit of CHaP. Early in 2005, a group of officers met to discuss the 'following the public pound' requirements set out in the Accounts Commission/COSLA Code. The former Chief Executive was informed about the outcome of those discussions in January 2005 and his advice was sought on whether he wished to proceed to a full audit of the project. However, actions were not formalised and were not addressed, no further follow-up

action was taken and the former Chief Executive did not respond to the question about a full audit.

31. At its meeting in October 2006 the Council agreed that as a condition of providing the bridging finance and/or any future guarantee, the former Chief Executive should negotiate with the company about the suitability of its governance structure. The former Chief Executive called a meeting in December 2006 to discuss governance and in advance the Director of Finance highlighted a range of issues to be addressed. Later that month the former Chief Executive set out six fundamental issues which needed to be resolved including completion of contracts between the Council and CHaP, the need to strengthen business and technical expertise on the CHaP board and the separation of Council and company interests in the role of Council officers.
32. In April 2007, the Caithness Area Manager who was responsible for overseeing the Council's interests provided assurance by email that actions had been taken across the six points raised by the former Chief Executive. Around the same time, the Director of Finance provided the former Chief Executive with a less positive picture of the outstanding governance issues by email and flagged a clear need to agree how the Council might seek to protect its interests and its exposure to the financial guarantees. The Director of Finance raised further concerns by email in May 2007 indicating that it would be useful to discuss the position on governance as he was unclear as to the position. This was not followed up by the former Chief Executive.
33. Reference was made to CHaP at a senior managers' Weekly Business Meeting early in June 2007 during discussions about the agenda for the Council meeting later that month. The Council agenda item related to an appointment to the CHaP Board resulting from the formation of the new Council following the May 2007 elections. However the Weekly Business Meeting minutes show that it was agreed the Corporate Manager (formerly the Caithness Area Manager) would review the measures taken to improve governance and provide advice to the former Chief Executive, the Depute Chief Executive and the Director of Finance before papers were sent out for the Council meeting. However, there is no evidence that any action was taken and this was not followed up.
34. Between 2004 and 2007, locally based officers became closely involved in the day to day running of the project. The Area Development Manager and the Area Finance Manager attended the majority of the Company Board meetings. In effect, they took on the role of professional managers of the project and were more aligned to the company than the Council.

35. The combined effect of inactivity on the part of the Area Manager in his role as the main link between the project and the Council, ineffective governance at HQ and the lack of appropriate separation between the role of local council officers and the CHaP company meant that at key stages the Council was not aware of developments. The fact that CHaP ceased to feature in discussions at the JVB is central. In principle, discussion at the JVB would have provided the opportunity for a coordinated, cross-service approach at the formative stage of the project, before the Council had committed substantial funds and guarantees. The JVB could also have provided or ensured effective governance over the Council's involvement in CHaP. No alternative cross-service scrutiny arrangements were put in place. Consequently, project oversight fell to the Chief Executive's service through the project monitoring and reporting responsibilities assigned to the Area Manager who was accountable to his line manager, the former Chief Executive.
36. Significantly, at the crucial point in 2006 when the company decided to take a fundamental change in direction and combine project phasing and procure high risk gasification technology, council officers did not realise the full extent of the risks involved. Even when they became aware they did not realise the full significance and the implications. It was only in 2008 that the full extent of the technical problems became apparent. At that point the Council took an informed decision that it was not in its interests to see the project fail given the serious consequences for those council tenants already connected to the part-functioning heating system and the scale of the loss the Council would incur.
37. Over the course of the Council's involvement, the Council and its officers realised that strong governance was required to protect the Council's interest in the project. Key events are set out in Appendix 1. However, despite an acknowledged need for improved governance, the Council failed at the outset and over a long period to establish effective and co-ordinated governance to monitor its interest in CHaP.
38. Strong governance would not have guaranteed the success of the project but it would have provided earlier identification of concerns and a more immediate, co-ordinated response. The Council would have been more aware and could have been given the opportunity to consider the position in more detail and reassess the extent and nature of its involvement.

## The roles of the Council's statutory officers

*The former Chief Executive was aware of governance concerns and initiated actions but did not follow through to ensure these actions were effective. For his part, the Director of Finance should have been more forthright in pursuing his concerns about project governance.*

39. Statutory officers have specific powers and responsibilities as set out in local government legislation. The Controller's June 2010 report states that senior officers should have exercised greater influence, to varying degrees, on the governance of the project through the application of their statutory roles. This section of the report builds on this by considering the statutory roles and those senior officers' wider responsibilities for the governance of CHaP.
40. The roles of head of paid service and monitoring officer are defined tightly in statute. In summary, the head of paid service is responsible to elected members for council staffing and management structures. The monitoring officer is responsible for reporting to the council if it appears that a proposal or decision is likely to contravene legislation. On those strict interpretations, there appears to have been no reason for the statutory officers to have applied their statutory roles in relation to CHaP.
41. The statutory 'section 95' proper officer role for finance is much broader, with overall responsibility for the council's financial affairs. While the role is personal, it requires supporting structures which allow oversight of all aspects of council finances, including in relation to the council's involvement in arms-length external organisations.
42. In addition to their statutory duties, senior officers have wider responsibilities. In particular, the chief executive has a central role and ultimately has responsibility for all aspects of the management of the council and for ensuring that other statutory officers have appropriate access and influence in carrying out their roles<sup>7</sup>. Senior officers also have an important role in promoting and enforcing strong corporate governance. This depends on clear roles and accountabilities and clear instructions and processes for checking implementation, including through strong staff supervision.
43. The previous section of this report shows that the former Chief Executive initiated action to establish governance arrangements for CHaP. However, there were a number of occasions on which he did not follow through to ensure these actions were effective. For example, in December 2004 following discussion at the Joint Ventures Board he requested an audit of the project. Initial work was carried out and was reported to him,

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<sup>7</sup> Roles and working relationships: are you getting it right?, Accounts Commission, August 2010

but no further action was taken. Also, in response to the actions identified by the Council in October 2006 he called a meeting to discuss governance and in December 2006 issued an email setting out the actions required. However, by that time the project was at an advanced stage and, in the event, key actions were not implemented.

44. The Director of Finance and his team raised concerns with the former Chief Executive about CHaP governance on a number of occasions. For example, the Director of Finance emailed the former Chief Executive in December 2006 and identified a range of governance issues to be addressed. In April 2007, the Director of Finance reminded the former Chief Executive by email that there was a clear need to agree how the Council might seek to protect its interests and its exposure to the financial guarantees as the project moved forward. In May 2007, the Director of Finance emailed the former Chief Executive again expressing uncertainty about the position on governance.
45. Operationally, the Caithness Area Manager reported directly to the former Chief Executive. When the project was approved in October 2004, the Council gave the Area Manager what should have been a central role in its governance arrangements for CHaP. At interview, the Area Manager reported that no steps were taken by the former Chief Executive following the Council meeting to establish what the monitoring role for CHaP involved and the reporting arrangements. It is clear that the Area Manager attached less significance to the CHaP related aspect of his role than the Council minute envisaged. Taking account of his other responsibilities and other officers' involvement, he was content to adopt a less active role.
46. The former Chief Executive initiated actions to establish and strengthen governance. However, these were not effective and he could have done more to ensure a coordinated and effective response to known governance concerns. He should also have attached more importance to the concerns raised by the Council's statutory officer for finance. Following the shift away from the Joint Ventures Board, his service carried responsibility for project monitoring and he should also have done more in terms of his line management responsibilities to ensure the Area Manager was more effective in that aspect of his role.
47. As indicated, the Director of Finance expressed concerns to the former Chief Executive in December 2006, April 2007 and May 2007 about the way matters relating to CHaP were developing. Before that, in January 2005, the Director of Finance was aware that a senior member of his team had asked the former Chief Executive whether the initial audit work should move towards a full audit and in June 2005 the Director of Finance suggested to the same member of his staff that he take concerns about governance to the forthcoming JVB. The Director of Finance was therefore aware of the need for action



and he should also have been aware when no action was taken or when the action taken was ineffective.

48. The report to the Council in October 2006 was made in his name but at interview he reported that he had been on holiday at the time the report was prepared and returned to find the report on the Council agenda. He said that his lack of involvement in either the discussion or drafting of the report prevented him contributing to the nature and style of the report submitted. Later, in spring 2007, there was discussion between the former Chief Executive and the Director of Finance about in whose name the April 2007 report to Council should be made. In the event, the report was made in the Chief Executive's name only. This was on the Director of Finance's advice, because the report concerned the former Chief Executive's personal authority in applying delegated emergency powers. However, it is apparent that the Director of Finance had misgivings about the reports to the Council in October 2006 and April 2007. In terms of the April 2007 report, it is interesting to contrast the position with the report in May 2008, when under the new management structure the report seeking ratification of the current Chief Executive's use of emergency powers was made in the joint names of the current Chief Executive and the Director of Finance.
49. Operationally, the locally based finance officer who reported indirectly to the Director of Finance was able to take on the role of CHaP company Treasurer without the knowledge of the Director, resulting in conflict of interest and blurring the boundaries between the Council's finances and those of the CHaP company. For example, in January 2006 the locally based officer was involved in the detailed financial review which concluded that the gasification technology should be pursued. If detected earlier, it would have allowed a more objective assessment of the direction the project had taken and the financial consequences for the Council as project funder and guarantor.
50. As the proper officer for finance, the Director of Finance was clearly concerned about the project and governance weaknesses. He raised concerns but did not follow these through. Ultimately, these concerns proved to be well founded. As proper officer for finance he should have been more forthright, either in discussion with the former Chief Executive or, if he felt it appropriate, through alternative channels in the Council. These may have included for example, informal and formal discussions with internal and external audit, discussions with other senior Council officers, more formal exchanges with the former Chief Executive and, ultimately, raising matters with elected members.
51. In summary, the former Chief Executive was aware of weaknesses in governance and should have done more to establish effective, corporate governance over the Council's interest in the CHaP project. Specifically, the former Chief Executive should have

attached more importance to the concerns raised by the Director of Finance and taken action. For his part, the Director of Finance was aware of governance concerns and that these were not being satisfactorily addressed. He should have been more forthright in pursuing his well founded concerns about project governance and finance.

### **The role of the elected member who represented the Council on the company board**

*The elected member on the CHaP company board could have done more at key stages to ensure the Council was aware of the position. The dissolution of the area committee structure and the associated departure of locally based officers meant that he became increasingly isolated.*

52. When appointed to the boards of companies and other arms-length external organisations (ALEOs), elected members take on additional responsibilities which sit alongside their responsibilities to the Council<sup>8</sup>. In the case of CHaP, one of the local elected members was appointed to the CHaP company board which at that time consisted of three directors i.e. representatives from the Council, the distillery and the Pultneytown People's Project (a local community group). From that point, in addition to his ongoing responsibilities as an elected member of the Council, as a Board member he had responsibilities to the company. He did his own research to understand the company director role although he also received training from the Council and had some experience from being on the Board of another Council ALEO.
53. As with others based locally, it is clear that the elected member was enthusiastic about the prospects and the potential the CHaP project offered and became one of the main drivers. The elected member was aware that combining the project phases and moving ahead with gasification was risky but took comfort from the advice he received from locally based officers and technical experts. However, the locally based officers were not sufficiently objective and the technical experts appointed by the company had by association a clear financial interest in the project. Had he had independent technical advice to hand, he would have been better equipped to question and challenge at a local level and to protect the Council's wider interests.
54. The position in terms of support for the elected member deteriorated further in summer 2007 when management restructuring took place and when the area committee arrangements ended, leaving him with significantly less Council based support. At interview, he said the project lost the support of HQ based officers at that time. Area based officers closely involved in CHaP either left the Council or took on different, wider

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<sup>8</sup> Roles and working relationships: are you getting it right?, Accounts Commission, August 2010

responsibilities and as a result the direct involvement of Council officers reduced significantly.

55. Having found himself in that position, the elected member became increasingly isolated. The monitoring and reporting arrangements he assumed were in place but in practice were neither systematic nor robust, no longer existed. The elected member had concerns about progress, particularly in the period between July and December 2007, and relied on assurances from the consultants that plant commissioning was imminent but this proved not to be the case. He informed us that during that time he contacted various officers informally to inform them about commissioning but in doing so he also indicated he was confident the problems would soon be overcome.
56. In summary, the elected member appointed to the CHaP company board was not sufficiently supported in the role, specifically in terms of independent technical advice which was essential at key stages throughout the development of the project and when the area based structure ended. His role required him to balance his responsibilities to the Council with his responsibilities to the company. At key stages, particularly as it became apparent from the summer of 2007 that there were serious problems in commissioning the plant, he could have done more to ensure that the Council had a balanced picture of the position.

## **Conclusion**

57. The CHaP project gained strong local momentum which was encouraged in the then area based structure. Corporately, the Council did not establish effective governance and as a result, when the company decided in spring 2006 to pursue gasification, the significance was missed. There was a lack of a corporate, joined-up approach and as a result there were no effective mechanisms for monitoring events as they unfolded. Actions to improve governance came too late and were not effective and, ultimately, the project, services and public funds were not subject to the degree of scrutiny and protection required.
58. As the Accounts Commission's report on roles and working relationships makes clear, statutory officers have a vital role in supporting good governance and decision making. It is particularly concerning that when the need for action aimed at establishing and improving governance for CHaP was identified and when individuals expressed concerns, these were not effectively followed through. Ultimately, the Council found itself in the position where it considered its only option was to take control of the company and the project.

59. The key test of the strength of governance arrangements is at times of pressure and tensions, such as in the case involving CHaP. In light of the information he was receiving about weaknesses in governance, including from the statutory proper officer for finance, the former Chief Executive should have done more to ensure effective and co-ordinated corporate governance. This is particularly so in a context where the only mechanism for systematic and regular review of the project rested with his department through the Area Manager, for whom he had direct line management responsibilities.
60. The Council's proper officer for finance clearly had concerns but he did not bring to bear the influence attached to the proper officer for finance role. I accept there are additional complexities in applying the proper officer role when funding is provided to an ALEO but, in my opinion, had the proper officer for finance been more forthright in that role this may have led to more effective intervention at an earlier stage.
61. The local elected member who took on additional responsibilities on the CHaP company board became a strong advocate for the project but at key stages did not fully discharge his ongoing responsibilities to the Council due in part to a lack of support and technical expertise. At key stages he should have reassessed the balance between his responsibilities locally and to the company and his corporate responsibilities to the Council as a whole.
62. It is clear that the Council has taken this matter seriously and has approached the earlier internal audit and subsequent investigations by me in an open and constructive manner, with the overall aim of learning lessons from its involvement in CHaP and seeking to avoid any recurrence. The Council is also seeking to find a solution that best protects local people and services and its overall financial position.
63. The initial report by the Controller set out steps which have been taken at the Council in terms of awareness sessions for managers and elected members on lessons learned from the Council's involvement in CHaP. Through this officers and elected members should now have a stronger sense of what is required of them in terms of governance and scrutiny. The management culture has also changed, with a more collective approach and a stronger focus on responsibilities and accountabilities.
64. The Council's approach is consistent with the most recent Best Value audit report<sup>9</sup> which found that the Council has strong managerial leadership and the current Chief Executive promotes a positive and inclusive management approach by setting out clear accountabilities and responsibilities. The report also highlighted that changed political and management arrangements have strengthened corporate working and reduced the

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<sup>9</sup> The Highland Council, Best Value 2 pathfinder audit, Audit Scotland, May 2010

inconsistency between the former district council areas while retaining a local focus and sense of identity. Overall, the audit report concluded that the Council is now demonstrating that it is 'improving well' and it is 'well placed to deliver future improvement'.

65. The Council's discussions with a new provider continue. I have requested the external auditors to monitor the position, including the action the Council is taking to protect its interests.

**FRASER McKINLAY  
CONTROLLER OF AUDIT  
9 FEBRUARY 2011**

**APPENDIX 1**

**CAITHNESS HEAT AND POWER: REPORTING, KEY EVENTS AND GOVERNANCE 2002 – 2008**

	<b>Council reports/key events</b>	<b>Governance</b>
August 2002	Locally based officers report to Caithness Area Committee proposing project. 8 reports up to August 2004	
October 2004	<b>Council</b> approves project	Council report identifies monitoring role for Area Manager JVB <sup>10</sup> – concerns expressed over lack of control, need for proper governance noted.
December 2004	CHaP company incorporated	JVB – further concerns expressed, former CE requests audit
January 2005		'Following the public pound' discussion
April 2005		JVB – noted that scheme is moving too quickly
June 2005		Director of Finance suggested papers on CHaP to future JVB meetings
November 2005	<b>Council</b> commits £1.6m from housing funds	
April 2006	CHaP considers gasification tenders and approves.	
October 2006	<b>Council</b> approves bridging finance of £0.55m - governance is a condition of financing	
December 2006		Former CE issues six point email
April 2007	<b>Council</b> homologates CE's use of emergency powers to extend guarantee (loan guarantee £3m, now for 10 years; overdraft guarantee for year to July 2008 £1m)	Area Manager provides assurances on governance. Director of Finance offers different view raising concerns in April and May 2007
June 2007		Weekly Business Meeting - Area Manager to review governance
July 2007	CHaP – first attempts to commission equipment	
January 2008	CHaP – commissioning and financial problems become apparent	Current CE initiates action, leading to operational team review and clarity on financial and technical position
May 2008	<b>Council</b> homologates CE's use of emergency powers to extend overdraft to £1.2m, agrees limit of £1.9m	
June 2008	<b>Council</b> receives update, including details on commissioning failure	
August 2008	<b>Council</b> considers options and agrees to take control of CHaP	

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<sup>10</sup> Joint Ventures Board

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION  
UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

**THE HIGHLAND COUNCIL: CAITHNESS HEAT AND POWER**

**Summary**

1. The external auditor's report on the 2008/09 audit refers to The Highland Council's involvement in the Caithness Heat and Power (CHaP) project. The company set up by the Council to deliver this innovative heating system for houses in Wick failed to deliver and experienced a range of problems.
2. The Council requested its internal auditors to investigate, covering the period from project inception in 2002 through to the formation of the company in 2004 and its takeover by the Council in 2008. Their report was presented to the Council in January 2010 and identified fundamental failings in the way in which the project was initiated and authorised, and in risk management. There were also significant weaknesses in governance. Overall, the Council failed to comply with 'following the public pound' principles which apply in cases such as this where councils decide to fund arms-length external organisations (ALEOs) to provide services.
3. The Council contributed around £6.9 million and its 2008/09 accounts included provision for a further £6.9 million to cover financial guarantees and possible repayment of grants. Overall costs and potential liabilities to date are therefore about £13.8 million; the final amount is uncertain and will depend on the outcome of current tendering aimed at securing a new provider for the heating system. However in the worst case, involving reinstatement of more traditional methods of home heating, total costs may be in the region of £16 million.
4. The Council reorganised its committee and management structures in 2007 and most of the officers involved in the project, including the former Chief Executive and several Service Directors, have left the Council's employment.
5. The Council agreed an action plan in March 2010 which sets out steps to prevent similar situations arising. Actions include training and awareness sessions for elected members and Council managers to highlight weaknesses in the governance of the project and lessons learned.
6. The purpose of my report is to bring to the attention of the Accounts Commission and the public the serious and wide ranging deficiencies in the Council's dealings with Caithness Heat and Power and to highlight matters for councils to consider in future when approving and governing projects of this nature.

## Introduction and background

7. In 2002, the Council initiated a project aimed at providing heat and hot water to 500 homes in Wick from an innovative wood-fired system. In later phases, it was envisaged that the system would provide heat and hot water to a wider community and would also generate income from the sale of electricity to the national grid. Assurances were provided to the Council that each phase of the project would be self-contained and fully funded.
8. Between 2002 and 2004, officers based locally made a series of reports on the project to the Caithness Area Committee. During that time, an officer and two local elected members visited Finland and the Shetland Islands to help establish the scope of the project. The Area Committee approved the project in principle in March 2004.
9. This decision was ratified by the Council in October 2004 at which point it agreed to establish Caithness Heat and Power Limited as a community-owned enterprise to deliver the project. However, due to significant financial and technical difficulties, the Council decided in August 2008 to take ownership of the company. The Council's aim at that point was to: improve governance and financial stewardship; maintain heat and hot water to the 247 houses connected to the system by way of a temporary oil-fired boiler; and seek a longer term solution. A high level summary of key events from project inception through to takeover by the Council is set out in Appendix 1.
10. As at January 2010, the Council's expenditure, commitments and provisions can be summarised as follows:

	<u>£ million</u>
Expenditure/commitments:	
• Committed in November 2005	1.6
• Working capital advances: currently £3.6 million, but could rise to £5 million due to ongoing commitments	5.0
• Council development and procurement costs	0.3
Provisions (per 2008/09 audited accounts):	
• Provision for potential costs from premature redemption of lease	4.0
• Provision for potential clawback of Energy Saving Trust grant	2.9
	—
Overall actual and potential costs	<u>13.8</u>



11. Potential future costs are uncertain until decisions on next steps are taken and will depend on whether the Council can secure a new provider for the heating system. Following a tendering exercise the Council is currently negotiating with two companies that have expressed an interest in taking over the project. If these negotiations are not successful the Council estimates that in the worst case, involving reinstatement of conventional heating systems in the properties, the total costs over the lifetime of the project could be of the order of £16 million.
12. The Council's internal auditors reviewed the governance of the project from its inception through to the time at which the Council took control of the company. The external auditors have reviewed internal audit's work and have informed me that in their opinion the scope of the internal audit investigation, the audit approach and the conclusions are appropriate. They have also informed me that in their opinion the Council's action plan reflects the key improvements required. I relied on these audit findings to highlight key issues in this report and provided a copy of the report to the Council's Chief Executive for comment.

**There were fundamental failings in project initiation and authorisation, and in project risk management**

13. The internal auditors' investigation identified a range of issues arising from project initiation and approval. In particular, they found:
  - Given its size and nature, it was inappropriate for the Area Committee to consider the project and to approve it in principle. Eight reports were considered between August 2002 and August 2004. Despite the potential costs and the risks associated with the use of new technology, these reports were made without recourse to a Headquarters Committee (specifically the Resources Committee within whose remit matters of this nature fell, in terms of the Council's Scheme of Delegation).
  - In relation to the locally based officer who initiated the project, internal audit questioned whether the officer had the appropriate qualifications and skills to take forward a project of this nature.
  - Although the elected member and officer visits to Finland and the Shetland Islands to inspect district heating systems were intended to inform decision making, it is not evident that the visits were of relevance. Furthermore, internal audit questioned whether the elected members and officer in attendance possessed the appropriate skills and qualifications.

- In terms of the Council's Scheme of Delegation it was inappropriate for the project to have been initiated and progressed by the Planning & Development Service when the remit lay with Property & Architectural Services, which had the technical expertise and authority to investigate and recommend projects of this nature. There is evidence that the most senior officer in Property & Architectural Services expressed concerns about the project to senior officer colleagues outwith his department in advance of the Council's approval, but it appears no effective action was taken.
- The momentum and expectation of delivery at Area level led to the application for external grant funding from the Energy Saving Trust. This was submitted by locally based officers without recourse to Council Headquarters and contained inaccuracies. The announcement in September 2004 of grant funding of £1.54 million and the perceived benefits for the Caithness area was made prior to the Council's approval of the project in October 2004.
- The Council approved the project without establishing whether it had been subject to a formal project and risk appraisal or if a sound business case existed.
- The Council approved the establishment of CHaP Limited without receiving proper assurances regarding the project and without key documentation being in place. In particular, there was no formal project appraisal, business plan or risk management plan, nor was there any detail of the proposed remit, structure, resourcing and governance of the company.

14. In relation to risk management, the internal auditors concluded that inadequate consideration was given to the various risks (technical, financial, business and legal) associated with the project, both at the outset and during the project's life. When risks were identified these were largely dismissed and were not formally recorded and managed. In addition, the measures to mitigate any risks were insufficiently considered, were inappropriate or were disregarded. Internal audit concluded that there was a drive to push ahead by certain officers irrespective of the risks identified.

**There were also significant weaknesses in governance**

15. The internal auditors identified significant weaknesses in the governance of the project. In particular, they found:

- It was not evident to internal audit that the Council's elected member on the CHaP Board had the appropriate skills or had received appropriate training to fulfil the role effectively.

- The Council acknowledged the need to strengthen the governance arrangements, before the project commenced and throughout its life, but no meaningful progress was made. Governance was exercised on an ad-hoc basis and with no clarity as to how and by whom any resultant actions would be addressed.
- Despite initial assurances from a locally based officer to the Area Committee that the company would employ professional managers, this did not happen to the extent envisaged and the Council provided a considerable resource and effectively took on the role of professional managers.
- Governance of the project was weakened by a lack of communication between Area and Headquarters staff. In particular, and at critical times before the project was agreed by the Council and over the duration of the project, Headquarters was not made aware of important issues and developments.
- Despite the risks inherent in an innovative project, following the project's approval in October 2004 reporting to the Council was infrequent and only took place when the company was urgently seeking funds. Reports also provided assurance that the project was on track when this was not the case. When key decisions were made by the company, in particular to move beyond the initial phase to include electricity generation and to merge the distinct phases of the project, despite their significance these were not brought to the attention of the Council.
- Prior to the Council approving the project, Council officers worked with the proposed company's prospective external legal and technical advisors, effectively engaging them prior to the company's incorporation. As a consequence, the Council's Contract Standing Orders were breached.
- Although a form of due diligence was undertaken by the company before it awarded the gasification tender (which extended the project to include electricity generation) in April 2006, the risks highlighted were not adequately considered by the officers involved in the project locally, or the Council-nominated Member on the CHaP Board. Furthermore, these risks were not made known to the Council when it would have been appropriate to do so given their significance. Ultimately the project failed because the company procured 'experimental' and high risk gasification technology which could not be commissioned successfully. In awarding the contract, the CHaP Board decided to procure a system which had no clear history of success elsewhere.

- Although the evaluation of the gasification tenders by the company was overseen by its external technical advisor, of considerable concern is that the advertised evaluation criteria, including the need to demonstrate proven capability, were disregarded. Instead, price and potential output became the key drivers. The company's failure to adhere to its advertised criteria represents a breach of the procurement legislation which could have exposed it to legal challenge.

16. Internal audit was of the opinion that the Joint Ventures Board of senior officers was an appropriate forum for governing the project. Although the Board considered the project in its early stages, until June 2005, the project was not on the agenda for subsequent meetings. Internal audit has not been able to establish why that was the case.

17. In relation to the statutory officers, who have specific powers and responsibilities as set out in the local government legislation, internal audit suggested that the Council's officers should have exercised greater influence, to varying degrees, on the governance of the project through the application of their statutory roles.

#### **The Council did not comply with 'following the public pound' principles**

18. Councils fund arms-length external organisations (ALEOs) as alternative ways of providing vital services and securing social benefits. To ensure that public money is used properly and achieves value for money, it must be possible to 'follow the public pound' across organisational boundaries and to establish and maintain good governance and clear accountabilities for finance and performance. The Accounts Commission/COSLA Code<sup>11</sup> sets out the principles of best practice when councils establish significant funding arrangements with ALEOs, covering crucial areas such as financial and performance monitoring, representation on the boards of ALEOs and establishing limits on the degree of involvement.

19. Internal audit's findings on CHaP point to a range of areas where the Council did not comply with the Code's requirements. As a consequence, officers were not clearly aware of their responsibilities and relevant monitoring procedures. Where specific responsibilities were assigned, including maintaining a watching brief to represent the Council's interests, there is little evidence to suggest these roles were delivered effectively.

20. The internal audit report highlighted the potential for conflict of interest arising from a lack of appropriate separation between the responsibilities of Council officers and the

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<sup>11</sup> *The Code of Guidance on Funding External Bodies and Following the Public Pound, Accounts Commission/Convention of Scottish Local Authorities 1996*

advisors to the company. For example, a locally based Council officer became involved in the financial affairs of the company and was appointed Company Treasurer.

### **Action taken by the Council**

21. The current Chief Executive and Depute Chief Executive & Director of Finance reported to the Council on five occasions between May 2008 and February 2009, informing it about technical, financial and governance problems in the company and the findings of an operational team of officers set up to support the project. In February 2009, they provided an update on the action taken since the Council took over the company in August 2008 to improve governance and financial stewardship, maintain heat and hot water to tenants and to seek a long term solution. The report also stated that internal audit would undertake an audit of the project.
22. The Council considered the internal audit report at a special meeting in January 2010 and agreed to the actions set out in the report including compulsory training for all elected members appointed by the Council to act as company director. The Council also agreed to inform the external auditors and the Scottish Government of developments.
23. In March 2010, the Council approved an action plan detailing a range of actions aimed at preventing similar situations arising along with target dates and the officers responsible. Steps include: training and awareness sessions for elected members and Council managers to highlight weaknesses in governance of the CHaP project and to share the lessons learned; and exploring the possibility of legal action against individuals and others connected with the company. There is also an action for an independent review of the possibility of a disciplinary investigation to consider whether those officers still employed by the Council failed to perform their duties in a professional and competent manner. All actions are to be addressed by 30 September 2010 and this timetable will allow the external auditors to assess and comment on progress in their report on the 2009/10 audit in October 2010.

### **Overall conclusions**

24. The purpose of my report is to bring to the attention of the Accounts Commission and the public the serious and wide ranging deficiencies in the Council's dealings with Caithness Heat and Power. The internal and external audit reports point to serious weaknesses in governance and accountability and, in particular, failure to comply with the 'following the public pound' principles.
25. I note that the Council has responded to the serious concerns in the internal audit report and that officers have implemented and continue to implement remedial action for which they are accountable to elected members. I am informed that most officers involved in

the project have left the Council and I am content to allow those thought to be responsible and still employed by the Council to be held to account through any investigatory and disciplinary process which it considers appropriate.

26. The external auditors will assess the progress made and the effectiveness of revised arrangements as part of their planned audit work and will report in the usual way. I will monitor the position and may report again in due course.

**CAROLINE GARDNER**  
**CONTROLLER OF AUDIT**  
**7 June 2010**

**THE HIGHLAND COUNCIL: CAITHNESS HEAT AND POWER  
SUMMARY OF KEY EVENTS**

August 2002	Locally based Council officers report to Caithness Area Committee proposing Community Energy Initiative
2002 – 2004	Project development, including site visits to help establish the scope of the project. Reports mainly to Area Committee
March 2004	Area Committee approves project in principle
October 2004	Council approves project, including establishment of Caithness Heat and Power Limited
December 2004	Caithness Heat and Power Limited incorporated
2004 – 2008	Requests to Council for funding: capital funding, bridging finance and, latterly, emergency finance
August 2008	Council agrees to take ownership of company due to significant financial and technical difficulties

**ACCOUNTS COMMISSION**

**MEETING 17 FEBRUARY 2011**

**COVER NOTE BY SECRETARY & BUSINESS MANAGER**

**THE HIGHLAND COUNCIL, CAITHNESS HEAT AND POWER PROJECT - REPORT BY THE CONTROLLER OF AUDIT**

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**Purpose**

1. The purpose of this report is to introduce the Controller of Audit's report on The Highland Council in respect of the Caithness Heat and Power Project.
2. This report is the product of further audit work requested by the Commission in June 2010 when it considered a previous report by the Controller of Audit on the Project.
3. The Commission is invited to consider the report and decide how it wishes to proceed.

**The report**

4. The report to the Commission is made under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
5. A copy of the report is being sent to the Council, which is obliged to supply a copy to each member and to make additional copies available for public inspection, and to other parties identified in the report. Once the Controller of Audit's report is sent to the Council and other parties it is effectively in the public domain.

**Procedure**

6. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them –
  - (a) Direct the Controller of Audit to carry out further investigations;
  - (b) Hold a hearing;
  - (c) State its findings.
7. The audit team will be present at the Commission's meeting and will be available to answer questions.

**Conclusion**

8. The Commission is invited to –
  - consider the report by the Controller of Audit on The Highland Council in respect of the Caithness Heat and Power Project; and
  - decide how it wishes to proceed.

Mark Brough  
Secretary and Business Manager  
9 February 2011



**ACCOUNTS COMMISSION**

**MEETING 17 FEBRUARY 2011**

**COVER NOTE BY SECRETARY & BUSINESS MANAGER**

**NORTH AYRSHIRE COUNCIL – BEST VALUE AUDIT REPORT**

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**Purpose**

1. The purpose of this report is to introduce the Best Value report on North Ayrshire Council. The Commission is invited to consider the report and decide how it wishes to proceed.

**The report**

2. The report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
3. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.
4. This is the first Best Value audit report submitted since the Commission reviewed the five Best Value 2 pathfinder audits. It incorporates the revised form of audit judgements agreed by the Commission.
5. After the Commission has considered and agreed its action on the report, a summary report will be prepared for publication alongside the report. This will be prepared in the style preferred by the Commission when it reviewed options as part of the evaluation of the Best Value 2 pathfinder audits. The summary report will be circulated to Commission members prior to publication.

**Procedure**

6. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them –
  - (a) Direct the Controller of Audit to carry out further investigations;
  - (b) Hold a hearing;
  - (c) State its findings.
7. Members of the audit team will be present at the Commission's meeting and will be available to answer questions.

**Conclusion**

8. The Commission is invited to –
  - consider the Best Value report by the Controller of Audit on North Ayrshire Council; and
  - decide how it wishes to proceed.

Mark Brough  
Secretary and Business Manager  
9 February 2011

# North Ayrshire Council

## Audit of Best Value and Community Planning – 2010

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# Commission findings

To be inserted

# The audit of best value

## Best Value 2

1. The statutory duty of Best Value in local government was introduced in the Local Government in Scotland Act 2003. In response, the Accounts Commission consulted on, and implemented, the audit of Best Value and Community Planning. Best Value audit reports have been published on all 32 councils in Scotland.
2. Best Value 2 (BV2) is the next phase of Best Value audit. It is carried out and reported under the same legislative framework, but the approach has moved on significantly from the 32 baseline audits. In particular, BV2 audits are:
  - More proportionate and risk-based, reflecting more closely the particular issues faced by individual councils and their partners.
  - Founded on a shared risk assessment process, conducted with colleagues from other local government inspectorates particularly Her Majesty's Inspectorate of Education (HMIE), the Social Work Inspection Agency (SWIA), the Scottish Housing Regulator (SHR) and the Care Commission.
  - More focused on impact and outcomes, and the difference the council and its partners are making for local communities.
  - Designed to provide a more rounded view of partnership working in a local area, and the difference it is making.

## North Ayrshire Council BV2 audit scope

3. BV2 is an important part of the wider scrutiny arrangements in councils in Scotland. Audit Scotland works closely with other local government inspectorates, undertaking a shared risk assessment process for all 32 local authorities, to support the delivery of well targeted, risk-based scrutiny. This process results in each council receiving an Assurance and Improvement Plan (AIP) each year which sets out the scrutiny activity that the council can expect to take place over a rolling three year period. The first AIPs, which were published in July 2010, covered the period from April 2010 – March 2013.
4. The 2010 AIP for North Ayrshire identifies a BV2 audit as a significant part of the required response to local scrutiny risks. This was primarily due to the combined risks associated with the appointment of a new Chief Executive and the introduction of an ambitious and challenging change programme against the backdrop of a difficult economic climate. It was proposed that to maximise the impact of the audit it would be undertaken in 2010 in order to feed into and support the council's evolving improvement agenda.

5. We have drawn on the shared risk assessment and a range of available information from the council and from the other scrutiny bodies to enable us to target our BV2 audit activity on those areas where it would have greatest impact.
6. In particular we have focused on testing and assessing –
  - The effectiveness of leadership at NAC and whether the council has the culture and capacity needed to take forward its ambitious change programme.
  - What progress the council has made with improvement work since the first Best Value report on North Ayrshire was published in 2005.
  - What progress the council has made in implementing the change programme, including the extent to which recent changes to the planning framework, performance management systems and self-evaluation processes are supporting improvement.
  - The impact of recent changes to local community planning arrangements.
  - How well the council, with its community planning partners, have responded to the challenges in delivering positive ‘Healthy and active’ and ‘Working and training’ outcomes for the people of North Ayrshire. These themes were identified in the AIP as areas for scrutiny because respectively –
    - North Ayrshire is below the national average for many health and well-being indicators and was not meeting ‘health’ and ‘lifestyle’ targets identified in the single outcome agreement.
    - There was limited information to assess the progress the council and its partners were making with ‘working and training’ and high levels of unemployment and deprivation are significant challenges in the area.
  - How effectively the council manages its resources including people management and workforce planning arrangements, financial planning, monitoring of costs and value for money, asset management and procurement.
  - How well selected services are performing including the extent to which they are able to demonstrate value for money. The services selected being, community and cultural services, environment and related services, infrastructure and design services, planning and targeted work on the councils review of building services. These services were selected as the AIP identified there was limited qualitative information and external scrutiny in these areas.
  - The process identified social services commissioning as a risk area. We worked with SWIA to assess what progress had been made in relation to improving commissioning and contracting since SWIA undertook a follow up inspection of social work services in 2008.
7. The shared risk assessment process gave sufficient assurance in a number of areas where we did not have to conduct any detailed Best Value audit work. These include:

- Progress in delivering outcomes for communities relating to 'Safe & secure', 'Learning & taking part', 'Clean & green', 'For you and for everyone'
- Progress with management arrangements such as public performance reporting, testing competitiveness of services, risk management arrangements and arrangements to develop and support equalities and sustainable development
- Progress in delivering education and skills services, other than the audit work considering community & cultural services
- Progress in delivering social services and housing, other than targeted work on social services commissioning and audit work on the councils review of building services.

While we did not undertake any detailed work in these areas we have reported the current position in a number of areas including risk management, equalities and sustainability.

## About this audit report

8. The first Best Value report on North Ayrshire Council was published in 2005. The Accounts Commission's findings described the council as having the foundations for Best Value and Community Planning mostly in place, in that it was engaging well with its local community and its community planning partners at a strategic level, and there was evidence of some good service performance and customer care. The Commission went on to highlight some areas for improvement including elected members needing to set a clearer direction and fulfil a more effective scrutiny role, the role of the corporate management team to be more strategically focused and the establishment of better measures of cost and quality of services.
9. We carried out the BV2 audit in North Ayrshire between June and September 2010. The scoping phase took place during July, with the detailed audit work taking place in August 2010. We worked closely with colleagues from other inspectorates while undertaking the audit.
10. We gratefully acknowledge the co-operation and assistance provided to the audit team by the chief executive, Elma Murray; the leader of the council, Councillor David O'Neill, and all other elected members and staff involved. We are also grateful to the representatives of community planning partners for their participation.

# Overall conclusions

## Summary conclusions

11. Progress has been slow in addressing key issues raised in the first best value report, in particular, performance management, scrutiny and the development of better cost and service performance information. Between 2005 and 2009 members and officers demonstrated insufficient momentum with these key areas for improvement.
12. There has been a considerable increase in the pace of change since June 2009. Much of this activity is in the early stages of implementation and while we consider that the council is focusing on the key issues, it is too early to assess its overall effectiveness.
13. The chief executive is leading a challenging change programme and has brought renewed vigour in improvement activity across all services. The aim of the programme is for the council to become 'a leaner, more innovative and flexible organisation, which is better able to respond to future change and challenges'. It is at the early stages of implementation.
14. North Ayrshire Council has recently strengthened its leadership arrangements with officers and members working better together. Political leadership is improving through more cross party working following the implementation of the change sounding board. This is resulting in a clear focus on improvement.
15. Scrutiny is improving but is limited due to the variable quality of information presented to members. In particular performance management arrangements are under developed and elected members are unable to assure themselves that the council is achieving Best Value. Elected members understanding of, and commitment to, their scrutiny role is developing.
16. Progress with developing shared services with partners and other local authorities has been slow in recent years.
17. North Ayrshire Council shares a clear strategic focus with its partners on addressing the challenges facing the local community, which are significant given the levels of deprivation across the area. Partnership working is maturing however there have been tensions in the relationship between the council and NHS Ayrshire and Arran. Both organisations recognise this as an area for improvement and are actively addressing it. While there are improvements in most outcome areas performance is not consistent, particularly in relation to health and well-being targets, which are challenging given the area demographics and levels of deprivation. Performance management arrangements need to improve significantly in order to provide sufficient assurance to the community planning board that its desired outcomes are being delivered.



18. There are areas of good performance in the key services of education, social work and housing. Planning and libraries are also performing well. There remain areas for further improvement including improving the condition of the local roads and sport and leisure usage.
19. The council cannot yet demonstrate how efficiently and effectively it is using its resources because it uses limited quality and cost information to assess the value for money of services. However, it is improving its approach to resource management. Workforce planning is improving and there is good alignment between the council's workforce strategy and its change programme work stream for people management. Significant improvements are still needed in the council's arrangements for tendering and procurement, which display significant governance and accountability weaknesses, and the council's approach to asset management remains underdeveloped.
20. The council recognises the financial challenges it faces and has reflected this in its current budget plans. While the council has some of the key financial plans and processes in place, it does not currently have an overarching financial strategy setting out its response to significant financial challenges facing the public sector. This would support medium to longer term financial decisions focused on delivering the council's priorities within the available resources. This issue was highlighted in Audit Scotland's 'Report to Members and the Controller of Audit on the 2009/10 Audit'.
21. While the council has established a good momentum for change it does not have a culture of continuous improvement systematically embedded across the organisation.

## Performance assessment

22. The BV2 performance assessment provides two judgements on council performance. One assesses how well the council is performing and the other covers the council's prospects for improvement. Descriptions of each category can be found at Appendix 1.
23. The council's overall performance is satisfactory :
  - The council made slow progress in addressing the key issues raised in the 2005 Best value audit report.
  - Generally services are performing well, including key areas such as education, social work and housing. The council performs less well in relation to the condition of local roads and sport and leisure usage.
  - Performance management arrangements need to improve significantly. Without good quality performance information elected members cannot effectively direct resources to areas where improvement is most needed.
  - While progress is being made against most outcome areas, this is not consistent across all of them.

- The community planning partnership should identify and focus on key improvement areas ensuring it has good quality performance information to monitor and direct progress against them while ensuring resources are being used efficiently and effectively.
  - User satisfaction levels are generally lower than the national average. The council has introduced arrangements for user consultation and can demonstrate elements of good practice; however this is not applied consistently across the organisation.
24. The council has fair prospects for future improvement:
- It is developing more effective political and managerial leadership with elected members and senior officers working better together. However, there are some weaknesses in governance arrangements with insufficient adherence to financial regulations and standing orders.
  - The council is aware of the improvements that it needs to make and has established a sound approach to delivering the change agenda. Staff are developing their understanding of the council's approach to continuous improvement, although a culture of continuous improvement is not yet embedded across the organisation.
  - Performance management arrangements have been slow to develop, although the council is beginning to make progress in this area. This will enable elected members to access better quality information in order for them to effectively scrutinise performance and discharge their duties for best value.
  - Partnership working is developing. Partners have a shared vision for the area and while there are various examples of joint working at a local level, further work is needed to align resources.
25. We recognise that the pace and direction of change being established across the council should result in further improvements in the above key areas.

## Areas for Improvement

26. There are eight main areas for improvement for the council:
- The council has established an ambitious improvement agenda. While it has recognised and responded to the immediate need for additional skills and capacity to take this forward, it needs to ensure that it develops internal capacity and embeds improvement in its culture in the medium and longer term.
  - Elected members and senior officers need to continue to show clear leadership to ensure that the vision for change is clearly shared and understood by staff at all levels and that a culture of continuous improvement is developed across the organisation
  - Robust performance management arrangements need to be embedded throughout the council and in the community planning arrangements. The pace of implementation since June 2009 needs to be sustained.

- The council has introduced arrangements for consulting with its users. It needs to ensure these arrangements are embedded across the organisation. Combining the results of consultation with better information about cost and quality will enable the council to assess whether it is achieving value for money.
- While the council and its community planning partners have a clear shared vision for the area and good governance arrangements in place to deliver on it, further work is needed to ensure partner resources are directed effectively to priority areas.
- The council generally manages its resources effectively. However it needs to embed its arrangements for risk management and asset management. It would also benefit from establishing an overarching financial strategy in order to assess the overall impact of reduced funding.
- Council governance structures should be strengthened particularly around adherence to financial regulations and standing orders. Procurement arrangements need further improvement and should be embedded across the organisation.
- The council should consult regularly with staff as this will enable it to monitor whether the change programme and associated improvement activity is having a positive impact on the culture of the organisation.

# Local context

## North Ayrshire

27. North Ayrshire covers an area of 885 square km, split almost equally between the mainland and the islands of Arran and Cumbrae, with a mix of urban and rural areas. The population is around 135,510 and is estimated to decrease by 4.3 per cent between 2008 and 2033. However, it will be an increasingly older population with the number of people of pensionable age predicted to increase by around 26 per cent. The working age population and the number of children are expected to fall significantly over this period, in contrast with modest growths anticipated nationally. This demographic shift brings significant challenges for the council and its partners in relation to support services for the elderly, labour market restrictions, community sustainability and education provision.
28. While the islands of Arran, the Cumbraes and the northern coastal area of North Ayrshire are relatively advantaged, the area as a whole has relatively high and increasing levels of deprivation. In 2009, almost a quarter of North Ayrshire's datazones were in the 15 per cent most deprived areas of Scotland. Unemployment levels, crime rates and health and well being in the area do not compare well with the Scottish averages. Educational attainment is good and improving in primary schools, however, it is generally below the national average at secondary school level. The percentage of pupils going on to higher and further education is higher than average.
29. The challenge for the council and its partners is to encourage growth in the employment market to allow these skilled young people to stay in North Ayrshire. The availability and mix of employment opportunities in North Ayrshire present significant issues for the area. Job density is low at 0.58 jobs per person compared to 0.8 nationally. The local employment market relies more on manufacturing and tourism than elsewhere in Scotland. There are fewer employment opportunities in finance, IT and business sectors. There are also more limited managerial and professional employment opportunities.

## The council

30. North Ayrshire Council shares local authority boundaries with East Ayrshire, South Ayrshire, Inverclyde, Renfrewshire and East Renfrewshire. It has eight electoral wards and has 30 elected members. The political make-up is 12 Labour, eight SNP, six Independent, two Conservative and two Liberal Democrat members.
31. The council has been a Labour administration since it was established in 1995/96. The Leader of the council has been in this role since May 1999. At the May 2007 election the Labour group lost a long held majority position (previously 20 of the 30 members) and established a minority administration. Following the election, the council adopted a cabinet model for decision making.

The council's Executive consists of six administration members, each with a portfolio role and is chaired by the Leader of the council. There are no opposition members on the Executive but seven of the 10 members on the council's scrutiny committee are opposition and it is chaired by an independent member.

32. A new chief executive was appointed in the summer of 2009. Since then she has led a programme of restructuring of the organisation including the management team and the council departments. The council is currently at the early stages of a major change programme. The change programme is a coordinated approach to managing restructuring and improvements in the council's corporate arrangements and services over the next three to five years.
33. As at 31 March 2010, the council employed 6,065 full time equivalent staff. This is 44.8 members of staff per 1000 head of population, slightly below the average for Scotland of 48.2. The estimated net expenditure of the council for 2010/11 is £346.4 million. This equates to £2,556 expenditure per head of population, slightly above the average for Scotland of £2,490.

# Is the council working effectively with its partners to improve North Ayrshire?

**The council and its partners have a shared vision for the area that is based on a clear understanding of the context and the challenges facing them. Performance management remains underdeveloped and needs to improve to enable partners to effectively monitor progress against identified outcomes. While there are examples of joint working at a local level more could be done to make better use of resources across partner agencies.**

## Are they focused on the challenges for North Ayrshire?

34. North Ayrshire's community planning partnership includes: NHS Ayrshire and Arran, Strathclyde Police, Strathclyde Fire & Rescue, Strathclyde Partnership for Transport, Scottish Enterprise, Skills Development Scotland, Jobcentre Plus and the Scottish Government. The community planning board is supported by the Community Planning (CP) Management Group and five thematic partnerships – the Community Health Partnership Committee, North Ayrshire Economic and Learning Partnership, Safer North Ayrshire Partnership, North Ayrshire Environment Partnership and, North Ayrshire Housing Partnership.
35. The council and its partners have a clear understanding of the context within which they are operating, the communities they serve and the challenges facing them. The work of the partnership focuses on the challenges of the area. The partnership has a very broad vision for North Ayrshire - 'A better life', articulated through seven priority themes (Exhibit 1).
36. The vision is clearly set out in the Single Outcome Agreement (SOA) which replaced the previous community plan (2006-2016) and council plan (2008-2011). The partnership has streamlined the original SOA action plan and significantly reduced the number of actions contained within it, enabling it to more effectively focus on the priority areas and to respond to new challenges as required.
37. The community planning partnership board has recently revised its priorities to focus on prevention and early intervention in three key areas - Wordlessness, Health Inequalities, and Community Safety. This has been a useful step in clarifying the immediate priorities while retaining the breadth of the overall vision. The council reintroduced a council plan in June 2010 which helped clarify the council's key role in taking forward partnership objectives. This has also helped to address a perceived gap between the SOA and the council's service plans.

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## Exhibit 1

<b>Community Planning Priority Themes</b>	<b>Priorities for 2010 going forward</b>	<b>NAC Key objectives</b>
working & training clean and green	worklessness	regenerating our communities and increasing employment
healthy and active caring and supportive safe and secure for you and everyone	health inequalities community safety	protecting vulnerable people
learning and taking part		improving educational attainment

Source: North Ayrshire Council / Audit Scotland

38. Partnership working is developing across North Ayrshire. Following a review of the community planning arrangements in 2008, the roles and responsibilities were clarified across all levels. Partnership groups were reorganised into the five thematic partnerships, (including the Community Health Partnership), that collectively cover all of the thematic priorities, and the reporting lines of sub-groups were clarified. There is now greater clarity in what is expected of them in delivering against outcomes and reporting on performance. At the same time, the remit of the Community Planning Partnership management group was enhanced to provide a clearer focus on monitoring and driving forward delivery of the SOA.
39. Elected members are developing their leadership of community planning, becoming increasingly active and engaged in overseeing the delivery of strategic priorities. Both the Leader of the council and the Chair of the Community Planning Partnership are engaged in setting the strategic direction for partnership working through the community planning board. The Leader of the Council is the Chair of the CHP and also on the Board of NHS Ayrshire and Arran. The Chair of the Community Planning Partnership is also on the CHP and is the Community Portfolio Holder within the council. Their involvement is ensuring good strategic integration between the council and partnership structures. Elected members are encouraging partner agencies to increase joint resourcing and seek opportunities for sharing budgets, however this is at the early stages of development and the impact so far is limited.
40. The community planning review encouraged greater elected member involvement in community planning, which both officers and elected members recognised was required. The partnership is increasing cross party representation at all levels of the community planning partnership, including the CHP, with over half of members now directly involved in community planning. This has been beneficial in supporting elected members as they further develop into their strategic role. Representatives from partner organisations also have key roles, such as the police chairing

the Safer North Ayrshire thematic partnership and the NHS representative from the CPP management group now leading work developing partners' roles in delivering against the three priorities for 2010.

41. Performance reporting arrangements require further development. The community planning review emphasised the Board's overall responsibility for performance management and monitoring. The strategic groups report to the CPP Management group and then on to the Board. Performance management arrangements need to improve significantly. The Board monitors the SOA action plan, however during the year it only monitors progress against actions rather than progress of outcome performance measures. This has led to the Board only discovering at the end of the final quarter for 2009/10 that less than half of outcome measures had been met. Performance reporting needs to bring together partnership actions with their related outcome measures, to ensure the community planning board can evaluate delivery against their desired outcomes. The Board recognises that the current situation is not satisfactory and is looking at alternative ways of reporting performance.
42. The partnership has good arrangements in place for engaging with its communities including a people's panel which it regularly uses for surveys and focus groups. This gives it a better understanding of the local context and how the partnership's approach to outcome themes is impacting on local communities. Surveys on the priorities have confirmed public support for them. The partnership held its second community planning week in May 2010. The aim of the week is to raise awareness of community planning, the partnership and its vision. A number of different events were held across North Ayrshire with community partners meeting with members of the public.

## **Does the council have the support of its partners to deliver improvements for North Ayrshire?**

43. Although overall relationships with partners are good, there have been tensions in the relationship between the council and health. The council and NHS Ayrshire & Arran recognise the need to develop a better understanding of how they can work more effectively together. The new Corporate Director of Social services and health is leading this agenda from the council's perspective. The main issues and areas to improve are:
  - the need to establish a shared view on the CHP arrangements and how to achieve greater integration between management structures, staffing and budgets;
  - the need to ensure that, where possible, relevant strategies, plans and policies are developed in partnership and integrated into the thematic work streams.
44. The council represents a significant proportion of the Community Planning Partnership Board—six of fifteen members of the board. Concerns have been raised by community planning partners about the consequent inequality within the partnership. This is increasingly important as reductions in public sector funding put pressure on future budgets and difficult decisions may



need to be taken. It is for each community planning partnership to determine their own governance arrangements; however, the Board should consider whether its makeup adequately reflects the composition of the partnership.

45. The council and the police work well together. The local Police Superintendent, as well as being the Chair of the Safer North Ayrshire partnership has, since March 2010, taken on the role of Corporate Director for community safety within the council. He reports to the Chief Executive on community safety matters and is a member of the council's strategic management team. He is employed by Strathclyde Police and continues to be responsible for police operational matters. This has helped focus community safety work and provided for better integration between council staff and local police officers.
46. The Chief Executive has introduced a strategic management team including chief officers from NHS Ayrshire and Arran, Strathclyde Police and the Irvine Bay Regeneration Company (IBRC). This has created the opportunity to identify and discuss common issues. This is a positive approach to develop strong relationships in light of the difficult financial times ahead across the public sector. This complements the CP structures, providing a forum for parties to identify joint issues and approaches and develop those before formalising plans through the CP partnership. However, this arrangement is recent and not yet mature enough to allow us to assess its effectiveness.
47. The partnership has been working to further develop joint working. A pilot project has been carried out using alcohol services to work through the responsibilities of each member of the partnership to supporting this client group. This potentially presents a useful model for building effective joint working. Another project to further develop joint working, is being led by the community health partnership, reviewing resources used in supporting children with complex needs. This is being developed as part of the national Integrated Resource Framework with the other Ayrshire councils. While there are many examples of good joint working at a local level more could be done to co-locate services and share resources between partner agencies. This could generate further efficiency savings.

# What has the council and its partners achieved?

**The council and its partners are making progress in most outcome areas. However, progress in improving the health and well being of communities remains a challenge, particularly given the demographics of the area. There are good examples of joint initiatives across all outcome areas.**

## What progress has there been in addressing the challenges for North Ayrshire?

48. The partnership is able to demonstrate that it is making progress across the selected outcome themes of 'Healthy and active', 'Caring and Supportive' and 'Working and training'. However, a number of the measures such as life expectancy and the level of unemployment are long term and will take time to show the impact of intervention. Progress is broadly from a low starting point and deprivation levels are getting worse, which make these a significant challenge for the partnership to redress.
49. In some cases, the partnership has deliberately set the same outcomes across different strategic themes, for example drugs and alcohol misuse is tasked against both Healthy and Active and Caring and Supportive. This helps to ensure an integrated approach is taken particularly for client groups requiring a combination of services. Elected members are leading work to identify total budgets for shared priorities, through identifying what individual partners spend and bringing that into a whole. Until that is further developed, the partnership is not able to make assessments on the impact that it is achieving for spend against priority areas.
50. In the following section we have made an assessment against the overarching strategic theme of the community planning partnership, rather than a detailed commentary on individual priority areas, as initiatives and performance measures can be cross-cutting over several priorities.

### **Healthy and Active -**

51. The CHP is responsible for leading on both the 'Healthy and Active' and 'Caring and Supportive' themes on behalf of the CP partnership. The CHP's priorities for Healthy and Active are:
  - Health and well-being throughout life have improved
  - Health inequalities have reduced
  - The harmful effects of drugs and alcohol misuse are reduced
  - People are more active more often
52. More progress is needed in addressing these priorities. Although there are many examples of good initiatives at an operational level to promote improved health and activity, available measures indicate comparatively poor health outcomes in North Ayrshire. The partnership

recognises this and since the review of the CHP in 2008 much of the strategic work of the CHP has been establishing new structures and strategies to take forward its priorities.

53. Examples of the comparatively poor outcomes include life expectancy levels that are below the national average and notable differences in mortality rates from respiratory and coronary heart disease for those in the more deprived areas. For example, mortality rates from coronary heart disease in the more deprived areas are 32.6 per 100,000 people, 22 per 100,000 people higher than for the rest of the North Ayrshire area. A similar situation is found in relation to the mortality rates for cancer with 54 per 100,000 in the more deprived areas compared to 22 in the rest of the area.
54. Increasing levels of deprivation in parts of the area make it challenging for the partnership to improve on these outcomes. The CPP recognise this as a significant issue and identifies the interdependence of prosperity and employment levels in the area with improving health outcomes. The partnership also considers this an issue that cannot be tackled in isolation and the council, with support from partners, has been in correspondence with the Scottish and UK governments in relation to support for addressing deprivation in the area.
55. Other indicators illustrate further areas for improvement for the partnership. For example, hospital admissions for alcohol and drug misuse are both higher than the national average. The number of deaths from alcohol related disease has almost doubled since 2007, from 19.2 per 100,000 population in 06/07 to 36.2 in 08/09. The number of drug and alcohol assessments undertaken has reduced (408 in 2006/07 to 336 in 2009/10) but the number accessing treatment and care has been maintained at around 550 since 2006/07. The partnership established an Alcohol and drugs partnership sub-group of the CHP in October 2009 to focus on this issue. This group has developed a strategy and action plan for young people with addiction issues and recently completed an assessment of the needs of the wider community.
56. There are indications of a positive direction of travel in tackling mental health. A mental health rating system indicates improvement across the area, and suicide rates show some signs of improvement from 20.6 per 100,000 population in 2006/07 to 17.7 in 2008/09. Current work in this area includes the development of mental health crisis services and specific actions such as the installation of a telecare link on the mainland to provide mental health counselling on Millport and Arran.
57. There is a wide range of good health improvement initiatives being taken forward operationally. For example, projects focused on harder to reach people in communities such as 'Street Nurses' in community settings such as advice centres in shopping centres. However, the impact of these initiatives is not clearly evidenced. An example where there is clear evidence is improving children's oral hygiene. The proportion of children with no dental cavities in primary 1 improved to just over 60 per cent in 2007/08 from 48 per cent in 2005/06. This has been achieved through effective partnership delivery of the national Childsmile programme.



62. The housing service was recognised by SHR in its 2008 inspection report as having an excellent homeless service with good progress in managing homelessness and supporting homeless people. There is a significant reduction in the number of homelessness presentations, with a 22 per cent reduction in those presenting as homeless in 2009/10 exceeding the partnerships target of a five per cent reduction. However, the proportion of people re-presenting as homeless within a 12 month period has increased from five per cent in 06/07 to 10 per cent in 09/10. The council is responsive to these indicators and found that over a third of those re-presenting chose not to complete the process. The council is developing improvement plans to address these issues

## **Working and training**

63. The partnership's priorities under this theme are:

- North Ayrshire is a more attractive place to do business
- North Ayrshire has more of an enterprise culture
- More people are in work and training
- More people are in high value, high wage jobs.
- More young people are leaving schools for positive destinations (further or higher education, employment or training)

64. The partnership is making progress in some of the key performance measures against this theme and in taking forward plans for the regeneration of the area. This is against a context of significant challenges in terms of deprivation and high levels of unemployment. The current financial downturn poses significant risks to the financing of regeneration plans.

65. The partnership is working with local small to medium sized companies to support them to survive, expand and grow. This is being taken forward through the Business Gateway and Business support services. North Ayrshire council is the lead authority for Business Gateway which delivers business development services for the whole of Ayrshire. The partnership has had success in supporting new and existing businesses. It performed 12 per cent above target for business start-ups in 2008/09. Business support services have also been successful, supporting over 170 businesses (resulting in a projected 270 new jobs created) and safeguarding over 970 jobs in the same time period.

66. The council's business development function received a positive assessment from an independent evaluation undertaken by external consultants in July 2010. This found that service users and stakeholders, including the business sector, had high levels of satisfaction and the service had generated additional economic impacts to the area. It also identified some areas for improvement including speeding up access to loan funding and improved communication on the services the council can offer.

67. In addition to supporting new and existing businesses, the partnership also delivers programmes aimed at addressing the high levels of unemployment in the area, through employability programmes. The Community Planning partnership has had success in delivering against programmes aimed at getting people back into work. Over 2,970 people are registered with the programme, with 927 progressing into work and over 830 into education or training, in-line with targets. Although North Ayrshire is making progress in supporting business growth, unemployment rates remain above the Scottish average.
68. Irvine Bay Regeneration Company (IBRC) has a key role in making North Ayrshire a more attractive place to do business, through levering investment and development into key areas. The legacy of past town growth and the positioning of the railway has presented difficulties in making the most of the areas coastal asset. IBRC has developed a masterplan for the Irvine Bay area with the aim of addressing these issues and bringing in the necessary infrastructure and development to support business growth and improve the tourist potential of the area. At July 2010, £17.5 million had been invested in key projects, land acquisitions and site preparations to facilitate development. Most of the larger scale developments are in the planning stage, such as the Irvine Harbour mixed use development, with 330 homes, leisure and business uses and Ardrossan North shore, designed to bring in 4,000 square meters of office space, new public space and 400 new homes.
69. The current financial downturn poses significant risks to the financing of regeneration plans and the delivery of the partnership's priorities under Working and Training. In an effort to respond to the continuing economic challenges the partnership is currently renewing its Economic Strategy, to clarify what can be delivered within the funding available going forward.

# Is the council managing and using its resources effectively?

**The 2005 Best Value audit report highlighted areas for improvement in corporate processes for managing resources effectively. Until recently progress with these improvements was slow. The pace of change in relation to improving workforce management, asset management and its approach to dealing with customers has improved significantly since 2009.**

**The council manages its finances effectively. It faces significant financial decisions over the next few years and needs a clear strategic financial plan to provide a common framework for members and officers to plan and implement these decisions.**

**The council is not able to demonstrate how efficiently and effectively it is using its resources as there is limited quality and cost information to assess the value for money of services. The council needs to improve the quality of information provided to members to support effective decision making, scrutiny and accountability.**

## Financial planning

70. The council manages its finances effectively. However, all councils face a difficult financial outlook, with the need to provide and maintain quality services while achieving an unprecedented level of savings and efficiencies. While the council has been able to manage its revenue expenditure in the short term, it does not have an over-arching financial strategy. This will make it difficult to assess the overall impact of reduced funding across the organisation going forward.
71. The council recognises the need to take immediate action to reduce costs for future years and key decisions are imminent. The council's budget for 2010/11 reflected the need for £9.2 million in efficiencies and savings, and the council is working to make further savings of 18 per cent, approximately £64 million, over the 3 years from 2011/12 following the UK government spending review. The council's change programme is focusing on service development and improvement within this financial context and is considering different delivery options that will offer cost savings.
72. The budget setting process uses the prior year budget for each service as a base on which to build a 3 year budget. Services are provided with service planning and budgeting guidance, and advised on how to identify capital and resource implications. Once draft budgets have been developed there are a series of cross-party member seminars to discuss the proposals. Budget monitoring reports are presented to the executive, and the following scrutiny committee, on 4 occasions throughout the financial year. Officers also monitor budgets and talk to services regarding progress on a monthly basis.
73. The council's management of its capital spend has been less effective with continued slippage and failure to implement the planned capital programme on an on-going basis. The council has implemented a capital working group. This is attended by senior officers from each service and chaired by the corporate director (finance & infrastructure). The purpose of the group is to identify

slippage and select projects that can be brought forward. It is not yet possible to assess the effectiveness of this group.

## **Workforce planning and management**

74. There are recent improvements to workforce management and planning including the introduction of a revised workforce strategy in July 2010 which addresses the issues of the size and profile of the workforce and absence management. The council recognises where further improvement is needed and staff and workforce management is a significant part of the change agenda and has been included as a specific work stream in the change programme.
75. The council recognise the importance of addressing the size and profile of the workforce. Initial steps have been taken by tightening vacancy management procedures, minimising the use of agency workers and initiating a voluntary severance arrangement. The age profile of the workforce is a significant consideration, with almost 40 per cent of staff over the age of 50 years old. This gives the council specific issues around succession planning
76. Absence levels in the council are poor. In 2009/10 staff absence cost NAC £8.7M. The council has made improvements to its absence arrangements and has increased the level of monitoring and scrutiny of the data. It is too early to assess the effectiveness of the improvements longer term, but early indications are good with the most recent reports showing improvements.
77. There are recognised gaps in the arrangements for managing people, with appropriate actions planned. These include:
- Leadership and management development at the senior level
  - Providing middle managers with change management skills
  - Rolling out of a competency based appointment and appraisal system

These arrangements are important to the effective implementation of the change programme and urgent progress is needed to ensure these are in place.

78. The council has recently made significant improvements to communications with staff, including a range of approaches for the chief executive to communicate the change agenda to staff. The council recognises the need to develop a structured approach to surveying staff and have identified this as an improvement action in the corporate PSIF improvement plan.

## **Asset management**

79. The council has been slow to develop its approach to asset management and there is limited evidence of working with partners to jointly rationalise assets. It does recognise this as an issue and has recently drafted a corporate asset management strategy and improvement plan. It has



also just completed a conditions survey of its housing stock. The 'our future working environment' working group is developing an approach to make the most effective and efficient use of property assets.

## **Risk management**

80. The council is making good progress in developing its approach to managing risk but it is too early to assess the effectiveness of the arrangements. A risk management strategy is in place with strategic and service risks established by the corporate management team (CMT) with the assistance of the risk and insurance manager. Further work is needed to embed this approach across all service areas.

## **Procurement**

81. Improvement is needed in the council's arrangements for procurement. The council is failing to achieve best value for its procurement activities. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. North Ayrshire Council scored 17 per cent in this exercise which is a low score and classified as non conformance. This means that the council did not have sufficient policies and processes in place to deliver an effective and efficient procurement service. The council is putting measures in place to address the issues raised through the assessment in advance of a follow-up review.
82. The results of the capability assessment are borne out by weaknesses identified as part of the annual audit process which found that road services did not adhere to standing orders during tendering processes, and social services made significant advanced payments for goods and services to be provided in breach of financial regulations and standing orders.

## **Efficiency**

83. The council has made good progress with its efficiency agenda. The 2009/10 Efficiency Statement concluded that 'North Ayrshire Council has achieved cashable efficiency gains totalling £6.197 million in 2009/10. The council recognises the current financial climate makes it imperative to continue to achieve efficiency savings of this scale and it is addressing this through the council's change programme.

## **Shared services**

84. Progress with developing shared services has been slow since 2005 but the focus on this agenda has increased recently. Internally North Ayrshire Council has established a specific workstream within its change programme to address the shared services agenda and a pan-Ayrshire shared services project board has been established to lead this agenda across North, South and East Ayrshire. The board includes senior officials from the three Ayrshire councils and NHS Ayrshire & Arran. The board is considering a range of functions for potential shared services. These include

services such as the provision of ICT in schools, roads services and social services stand-by arrangements. The board reports to the Ayrshire Shared Services Group, established in 2006. This group includes political leaders and chief executives from the three Ayrshire councils as well as NHS Ayrshire and Arran. The relative objectives and the roles and responsibilities of both groups are not clear and need further clarification to assist focused work on this agenda.

85. Recent progress has been made on developing a shared service model for the regulatory service functions of environmental health, building standards and trading standards. In October 2010, the councils agreed to establish a Joint Committee, as an interim step to establishing a Joint Board, which will undertake the regulatory functions across Ayrshire. This model is anticipated to achieve financial benefits to all three Councils, however these have still to be identified, and will not be confirmed until the joint committee makes its decisions on staffing structures and service budget.

## **Customer care**

86. The council is currently reviewing its approach to customer care through a strand of the council's change programme, 'Improving our Customer Service'. This work stream will look at consolidating opportunities for streamlining customer contact, reviewing local offices to see whether assets can be rationalised and using technology to bring more efficient ways of working. It is also tasked with delivering a council wide strategy for customer services, after the change programme has identified how customer services should be taken forward at a corporate level.
87. The council has been slow to push forward with a corporate approach to customer services. The council has only recently agreed to merge its two customer contact centres following a review of building services. The contact centre is undertaking pilot work to demonstrate it can bring more services under its remit. The change programme will identify other services that can be delivered through the contact centre.
88. The contact centre has a strong focus on trying to improve the customer experience through identifying how improved service delivery or better information can reduce customer contact. The contact centre works to identify common causes of customers getting in touch with the council and works with services to try and find solutions, such as improved publicity on services or improving how services are delivered. This is built into service level agreements and the contact centre has regular meetings with services to address the causes of unnecessary contact from citizens. The contact centre has also developed a bank of multi-skilled staff to cover local offices in rural locations, introduced a competency based performance appraisal framework and introduced performance measures, such as cost per call. Following an analysis of the cost per call (£0.70 per minute at December 2009 compared to its target of £0.50 per minute) the council is currently reviewing its target, in light of their commitment to resolve calls at first point of contact. The contact centre has achieved the Contact Centre Association Global Standard award and IIP.

89. There are good examples of where the council gathers the views of citizens and service users to help inform service delivery. These include tenants and residents networks and survey work undertaken through the contact centre. Education and skills also routinely survey the views of parents and pupils. Survey activity is driven by services, with support from the customer service team, but this is not yet coordinated centrally to make it most effective and avoid duplication. As the council's residents' survey takes place only every four years, it is important other activity is drawn together to ensure the council has a comprehensive picture of the views of citizens and service users.

## **What progress has the council made in promoting sustainability?**

90. The council and its partners are aware of the wider impact of sustainable development for achieving their priorities. Sustainability issues are clearly reflected in the CPP themes. Environmental issues are captured through the 'Clean and Green' theme and consideration of economic and social sustainability is evident throughout a number of themes, for example through the partnership's focus on regeneration.
91. The council demonstrates a positive approach to addressing sustainability. Environmental, economic and social sustainability are clearly evident in the council's strategic planning. Environmental sustainability is also reflected in decision making processes. The council undertakes environmental impact assessments of policies and strategies, where these are considered to be necessary, including one of the area as part of the local development plan.
92. The council has a Carbon Management Plan and a Carbon Management Team, tasked with taking this agenda forward. The council has reduced its carbon emissions by 4.3 per cent over the last four years. It is developing a waste strategy and implementation plan with the aim of further improving its management of waste disposal. It is the lead authority in an Ayrshire wide project to develop energy from waste facility and is one of the lead organisations in developing the Ayrshire Biodiversity Action Plan.
93. The council promotes social and economic sustainability through community capacity building within its local communities. It is working with communities to support the transfer of services to community groups, in areas such as Out of School care and sports club development programmes. The Economic and Learning Community Planning Partnership have developed a social enterprise support programme, Opp2mise. This programme aims to assist social enterprises and encourage them to develop from grass roots community organisations to more commercially orientated enterprises.

## **What progress has the council made in promoting equalities?**

94. Equalities issues are clearly incorporated into the work of the council and the CPP through the 'For You and For Everyone' theme. The partnership shows awareness and understanding of equalities issues beyond the statutory elements and they make use of a range of forums to

inform and develop their work, such as the People's Panel and the Ayrshire Equalities Partnership. However, there are insufficient measures in the SOA to demonstrate that they are making progress across their intended outcomes in this theme.

95. The council and its partners can demonstrate some positive outcomes in relation to promoting equalities. The council has made improvements in the percentage of its buildings that are accessible to disabled people, increasing this by more than 10 per cent over the last two years. People's panel focus group outputs show that Public perception on whether "people from different backgrounds" get on well together rose from 49 per cent agreeing to this statement in 2008, to 57 per cent in 2009.
96. The council is committed to addressing equalities issues and proactively identifies areas for improvement. It has undertaken a range of assessments and reviews to inform its approach, including an internal equalities review, and research commissions on specific equalities issues such as violence against women. Through this review work the council has identified that it needs to better integrate equalities considerations into service planning.
97. The council has a number of arrangements in place to support its approach to equalities, including a Single Equalities Scheme and a Corporate Equality Officers Group. Committee reports contain a section for outlining any assessed impact on equalities of the proposed policy or action. The council also undertake equality impact assessments, although it recognises that these could be more comprehensive.

# How good are council services and are they improving?

**Services generally perform well with the key services of education, social work and housing receiving positive external inspection reports. Other services including planning and library services are also performing well although there are areas for improvement including the maintenance of the local roads condition and use of sports and leisure facilities. Residents' satisfaction levels with services are not strong and this remains an area for the council's attention.**

98. Services generally perform well with external scrutiny inspections in education, social work and housing having all reported positively about council services. The housing benefits service has recently been assessed as performing to a high standard. Planning services also performs well. It is among the top performing authorities for processing planning applications and benchmarks its activities with other authorities. Other services would benefit in sharing the learning and experience from these services.
99. The council acknowledges the importance of taking a planned approach to service delivery. However, it has limited evidence to enable it to demonstrate value for money. Procedures and processes need to be developed that will enable the council to both achieve value for money and demonstrate that it has been achieved.

## User satisfaction

100. The results of the council's last household survey in 2007 show that people are generally satisfied with council overall and the services it provides (53 per cent satisfaction). However, The Scottish Household Survey asked residents whether "my council provides high quality services", with North Ayrshire scoring 35 per cent compared to 41 per cent nationally. Residents were also asked whether "my council does the best it can with money available" for which it also scored 35 per cent compared to 36 per cent nationally. Libraries, special refuse uplifts and recycling centres showed the greatest levels of satisfaction while more than a quarter of people responding to the survey were dissatisfied with the sporting facilities.
101. The council needs to draw together the work it does across the organisation on evaluating user satisfaction. North Ayrshire has been one of six councils involved in a pilot with the Improvement Service, being taken forward through the customer contact centre. This should provide a good basis for developing a corporate approach.

## Education services

102. Overall, Education Services performs well. Early years provision is very strong and supports the most vulnerable children very well. Attainment and achievement is good and improving in primary schools. The council recognises the need to continue to improve attainment in secondary schools

where educational attainment is generally below the national average. The number of exclusions is declining.

103. The number of pupils staying on at school into the fifth and sixth years is below average. However, the percentage of pupils going on to higher and further education are comparatively positive, with figures in line with the Scottish average at 34.2 per cent for higher education and above average at 31.9 per cent for further education compared to 27 per cent nationally. There have been improvements in both of these measures in recent years.

## **Culture and community services**

104. Culture and community services were brought together under a new service grouping in April 2010. This involved a restructuring leading to a rationalisation of management and senior posts resulting in a saving of approx £800,000. The impact of this in terms of sustaining current good performance will be an area for the council to monitor going forward. There is not yet a performance report bringing together information across the range of culture and community services and this is something the council needs to address.
105. HMIE has evaluated community learning and development services as strong. There has been considerable work done in some of the most deprived communities to engage learners of all ages and to support families. The service was making progress against its targets for increasing participants in lifelong learning and participants reporting their knowledge and skills had increased. Overall levels of working age people with qualifications is in line with the Scottish average, however the levels for those with qualifications above NVQ1 are lower than average.
106. Performance on library services is assessed through an external evaluation using the Public Library Quality Improvement Matrix framework. The library service received a positive report, being assessed as 'very good' in most areas and 'good' in the remaining two in relation to the themes of Personal and Community Participation and Meeting Readers Needs. The council was in the second quartile for performance in relation to library services in 08/09. Performance in relation to library visits per 1,000 population improved in 09/10; however performance has worsened slightly for number of borrowers as a per cent of the resident population. The Scottish Household Survey results show library users having high levels of satisfaction (91 per cent). This is around the national average. Our analysis of financial information showed expenditure per visit and cost per library borrower to be lower than for Scotland and for all except one of the comparator authorities. Library services is delivering value for money given its low costs, good performance in relation to key aspects of service delivery and high levels of user satisfaction.
107. Performance with sport and leisure is below average in terms of the SPIs. The council has been looking at options for replacing the Magnum leisure facility which is no longer fit for purpose. However, progress on this has slowed and the council is now reviewing the site and alternative methods of financing. The council was in the bottom quartile for swimming pool usage and performance has worsened from 08/09 to 09/10. Performance was better for indoor sports and

leisure facilities, with the council ranked 16 in 08/09 and performance improving in 09/10. The Scottish Household Survey indicate higher levels of dissatisfaction with sports and leisure facilities compared to Scotland overall. Our analysis of financial information showed that net revenue expenditure for sports facilities per head of population and for sports facilities per attendance at sports facilities is higher than the Scottish average. Sport and leisure services are not delivering value for money given the poor service performance, high levels of dissatisfaction and higher costs than comparator authorities.

## **Social Services**

108. Adult and children's social services show an overall positive picture of improving performance. There is stronger performance in children services and criminal justice with good results on keeping more looked after and accommodated children within the authority and achieving good educational attainment.
109. SWIA undertook a performance inspection in April 2007 and a follow-up was undertaken in December 2008. The 2007 inspection evaluated the service with one 'very good', 5 'good' and 4 'adequate' categories. The report identified support and outcomes for older people as an area for improvement the follow-up inspection showed good progress, but identified strategic planning and commissioning issues, and that proactive performance management was not as well developed in community care as in child care.
110. The council has made progress on some aspects of commissioning. A joint commissioning strategy for older people has been developed, as well as a joint commissioning framework for child care services. A contracting team has been established within social services which provides improved oversight and undertakes the regular review of services purchased from the voluntary and private sectors. However, there has been little progress on developing an overarching commissioning strategy for social services or identifying joint priorities and opportunities for collaborative commissioning with colleagues in health.
111. The newly appointed Corporate Director acknowledges the need to prioritise the development of a strategic approach to commissioning. Senior officers have devised a project plan aiming to deliver a draft commissioning strategy to the Senior Management Team in December 2010. SWIA will monitor the impact of these plans and self-improvement activities over the coming months.
112. Her Majesty's Inspectorate of Education (HMIE) led a joint inspection of services to protect children in the spring of 2010. The report is positive with all of the inspection categories evaluated as good or very good.

## **Housing management**

113. The council's performance in housing management is excellent. Tenant satisfaction, tenancy and neighbourhood management, tenant participation and income maximisation are all strong and

improving. Services for homeless people are good and improving. The HMIE joint inspection to protect children also highlights good practice in housing in relation to playing an important part in identifying vulnerable children.

114. The council has responded to areas for improvement identified by the Scottish Housing regulator in relation to housing asset management and its approach to meeting the Scottish Housing Quality Standards by 2015. This is referred to in paragraph 111 below (infrastructure and design).

## **Infrastructure and design**

115. Some good progress is being made in improving the standard of council buildings. Good progress is being made with improving the proportion of buildings accessible for disabled people. In 2009/10 66.4 per cent of council buildings are suitable and accessible to disabled people above the national average of 60.5 per cent. The proportion of council buildings in a satisfactory condition, and suitable for their current use, has improved slightly. The council estimates that 36 per cent of the council housing stock does not yet meet the Scottish Housing Quality Standard (SHQS). The national target for 100 per cent of stock meeting the standard is 2015.

116. The road condition in North Ayrshire has deteriorated over the past year. The proportion considered for maintenance treatment has increased from 37.2 per cent to 40 per cent in 2009/10, higher than the national average of 36.8 per cent. The council recognises the substantial additional investment necessary to address the backlog of roads maintenance. The service identified the need for an additional £1.4M revenue and £1M capital for the next ten years in order to address the challenge. In 2009/10 an additional £400k revenue was allocated to the service and a one off payment of £1M, to assist with the impact of the particularly severe winter. Current financial pressures make it increasingly challenging for the council to address this significant issue. Roads services is one service area being considered as a potential area for shared services through the council's change programme.

117. Traffic and street lighting are maintained by a contractor. Indications are that the service delivery is being well managed and providing good value for money. The service performs comparatively well in relation to completing street light and traffic light repairs within the target times and also in reducing the number of lighting columns over 30 years old. Since 2004/05 expenditure on road lighting has increased at a similar rate to the national average but is lower per head of population and per repair [2008/09 £249.07 per repair compared to £286.20 per repair on national average].

118. A local transport strategy was approved in January 2008. The council report a good and improving level of satisfaction from the community planning people's panel and focus groups with the convenience of public transport, but with scope for improvement.

## **Building services**

119. Building services show a good standard of performance in relation to housing repairs and customer responsiveness. The council has responded to significant risks identified in this service



area by undertaking a major review of this service. The 2008 SHR report identified weaknesses including the scrutiny of Building Services as the main contractor, control over responsive repairs expenditure, statutory duties on gas safety (undertaken by a private contractor) and a lack of focus on value for money in procurement. Following the review of building services interim arrangements are in place, including placing the service under the remit of the Chief Executive while longer term options are considered, decided and implemented through the change programme. The SHR will assess the response and progress in the appraisal planned for early 2011.

## **Planning**

120. The planning service has been working closely with the Irvine Bay Regeneration company to produce design guides for the area, which have helped development projects keep to standards of design and quality. It also prepares the development plan for the area. The service is taking part in benchmarking activity for development management, along with seven other councils, and will report comparative results on staff costs, operating costs, income and decision making processes. The results are not yet available.
121. The council has met or exceeded its target for all planning applications during the last three years and is among the top performing authorities for processing planning applications in all categories. It continues to improve its performance on a yearly basis. North Ayrshire's net revenue expenditure per head of population per planning application is well below the Scottish average. Aspects of the planning service are delivering value for money given the good levels of performance and lower than average costs.

## **Environment and related services**

122. Waste collection is broadly improving although recent changes to the collection arrangements have impacted on cost and user satisfaction. The overall cost of collection per property is significantly higher in North Ayrshire, at £73.13 than the national average of £66.22 although the gap in cost has reduced since 2006/07. The cost peaked in 2008/09 coinciding with the expenses of changing to an alternate weekly domestic and recycling collection system.
123. Waste disposal is improving. The cost of waste disposal per premise is significantly lower than the national average at £74.85 compared to £89.75. However, revenue expenditure per premise has increased significantly since 2004/05 reflecting increased employee costs over the same time period. The council recognises that the costs associated with refuse disposal are increasing and have done well diverting waste from landfill and improving the proportion of waste recycled and composted to above the national average.
124. The council is looking to improve arrangements for managing waste disposal. It is developing a new waste strategy and implementation plan and is also the lead authority in a pan-Ayrshire project to develop an 'energy from waste' treatment facility. A pan-Ayrshire project board is

currently reviewing the implications of the Scottish Government's 'Zero Waste Plan' published in June 2010 on its plans.

125. Other services within the remit of Environment and related services include grounds maintenance, street cleaning, catering and building cleaning, janitorial and school crossing services. The council report good service user satisfaction levels for these areas. Performance and costs are broadly positive in relation to comparators and targets. For example, the cost per head of population for the council's grounds maintenance service in 2008/09 at £33.46 is above the Scottish average of £30.06. Community satisfaction levels with the service are comparable with national levels.

# What are the council's prospects for future improvement?

**The chief executive shows strong leadership and commitment to driving positive change in the council. Leadership from members is developing with cross-party engagement supporting an improved pace of change.**

**Progress with improvement work since the 2005 best value report was slow, particularly in relation to performance management arrangements. There is scope for further improvement in scrutiny arrangements and aspects of governance.**

**The council's change programme is ambitious and it needs to sustain the recent increase in the pace of change. The council recognises the risk that it does not have the internal capacity to deliver the programme effectively. While the council is beginning to implement key aspects of continuous improvement this is not consistent across the organisation. As a result, the council does not yet have a culture of continuous improvement.**

## Is the council aware of where it needs to make improvements and is it committed to change?

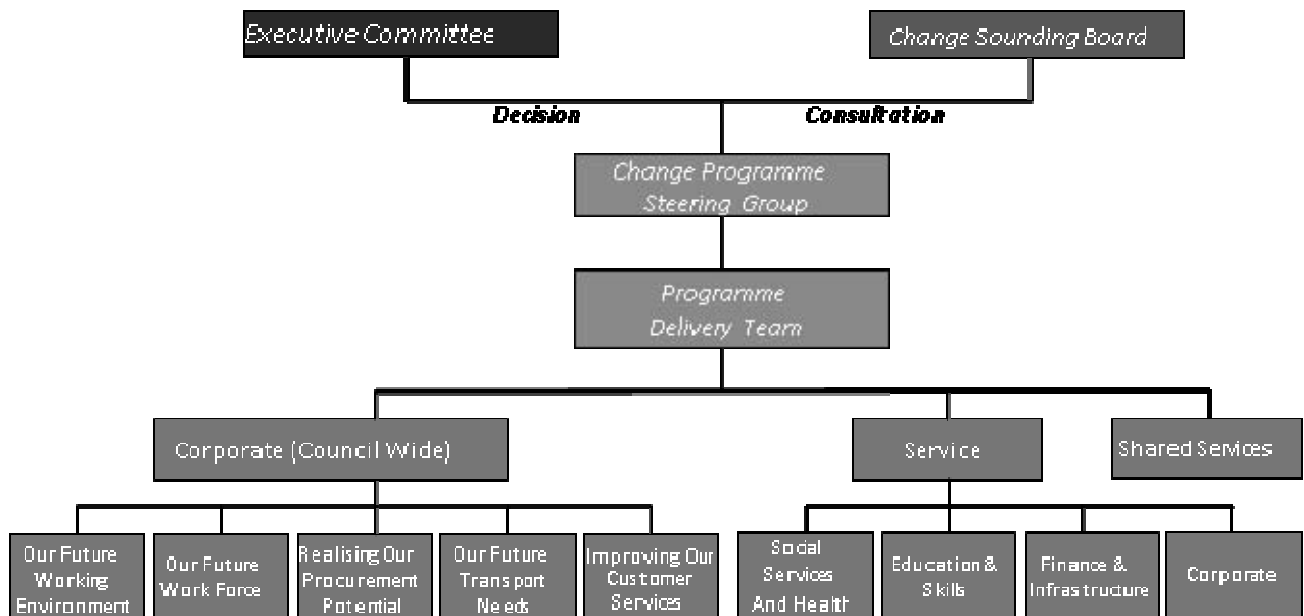
126. In the 2005 Best Value report the Accounts Commission commented on the council knowing what needed to improve, but progress with implementation was poor, particularly in relation to performance management. Prior to 2009 the council did not focus on continuous improvement activity.
127. Since the appointment of the current Chief Executive there has been an increased level of commitment and activity to promote improvement. The majority of senior officers and members demonstrate a good awareness of the areas for improvement. Given the slow progress with implementing change since the 2005 Best Value audit report the council needs to do further work to establish and embed a culture of continuous improvement across the organisation if the more recent improved pace of change is to be sustained.
128. The council's change programme is currently the council's core focus for improvement work. It was established during 2009, just shortly before the chief executive took up her post. The agenda is an ambitious corporate approach to systematically addressing the change necessary over the next three to five years, to address current financial pressures. . The aim is to become 'a leaner, more innovative and flexible organisation, which is better able to respond to future change and challenges'. Within this the council's objectives are to:
- Achieve the savings required;
  - Deliver priority outcomes such as educational attainment, social care and regeneration;
  - Enhance customer experience by delivering more joined-up services and responding to requests more promptly;

- Utilise assets more efficiently, including property, transport and technology, leading to a reduction in our carbon footprint and cutting operating costs;
- Increase staff productivity through smarter, more effective ways of working;
- Provide opportunities for skills and career development;
- Create a flexible, pro-active workforce with a 'can-do' approach.

129. Elected members are engaged in the change programme. In particular a cross-party 'Change Sounding Board' oversees the programme and sets the direction. This is proving to be an effective forum and means that members have a pivotal leadership role in the change programme. It is supported by an officer group, the Change Programme Steering Group, which includes the CMT and other key officers. The steering group reviews and monitors progress and reports to both the change sounding board and council Executive Committee. The Executive Committee is responsible for making any decisions resulting from the change programme. Working groups are in place for each of the streams. [Exhibit 2]

## Exhibit 2

### Change Programme Framework



Source: North Ayrshire Council

130. Each of the identified work streams is following a well structured project management framework and each has a local intranet site to assist team members' access to information. Each work stream has a work package of activities that are being taken forward –

- Our Future Working Environment: this group has undertaken a review of property owned by the council and all property leased by the council with a view to identifying where this can be rationalised and savings made – the group report potential savings of £400,000
- Our Future Workforce: this group is assessing where potential savings could be made from voluntary and early retirement applications
- Our Future Transport Needs: this group is currently reviewing how savings in fuel costs can be achieved and the arrangements for fleet maintenance.
- Realising Our Procurement Potential: activities under this work stream include reviewing and renegotiating contracts and tenders for utilities, goods and services.
- Improving Our Customer Service: this group are developing more effective use of the customer contact centre.
- Services: Services are also being considered under the change programme. Through this work stream core and discretionary areas have been identified to support the decision making processes around savings across services.
- Shared services: opportunities for progressing shared services are also being considered within the change programme - see paragraph 79 Shared Services.

131. The arrangements for managing and taking forward the change programme are well structured. Broadly the work is progressing in line with the council's plans. A dedicated project team has been established. The council shows a good level of awareness of the risks associated with its own capacity to take forward the change programme. It has secured additional skills and capacity by procuring consultancy support to act as a 'strategic partner' in the process.

132. Other arrangements to support continuous improvement include use of the PSIF. The first corporate level PSIF assessment has recently been completed. The findings reflect some of the issues being identified in this audit [Exhibit 3] and some similar areas for improvement identified following the first best value audit.

133. The PSIF is now being rolled out across all services as an evaluation and improvement tool but it is too early to assess the impact of this work on continuous improvement and the culture. Early indications are that it is being used effectively as a self assessment tool, with identified improvements evident in service action plans. Officers indicate the PSIF has been challenging but recognise it as a valuable tool for assessment at service level. The council plan to have all service areas assessed by March 2011.

134. One issue identified in the councils PSIF action plan is the need to improve shared learning within the council. There are examples of networking opportunities for middle management but no planned regular arrangements. It is important for the change agenda and culture that the council improves the opportunities for managers to network, share learning and good practice.

## Exhibit 3

### Areas for improvement identified by the Corporate PSIF

<b>Leadership</b>
Develop and implement a new Council Plan for the period 2010-13 to reflect the current and anticipated operating environment.
Develop and implement a revised external and internal Communications Strategy to support the Council's ambitions.
Develop a policy to achieve greater national recognition and processes for sharing good practice, both internally and externally.
Sustain the level of engagement in the Elected Member development process.
Implement a structured approach to CMT development.
<b>Performance Management</b>
Develop a range of measures / actions / risks that will provide a clear focus of improvement as well as a clear picture of the Council's performance.
Strengthen strategic planning and budgeting processes including further identification of unit costs for core and additional services to link with the Change Agenda.
Develop a set of measures to demonstrate the Council's impact on the community.
Review and revise the format of service performance reports and develop updated guidance for more consistent use of "traffic light" reporting.
Review and revise as appropriate the arrangements for performance reporting to the public, giving consideration to improving responses to customers' feedback.
<b>People Management</b>
Develop and implement an updated employee recognition and reward strategy.
Introduce a structured approach to employee surveys, giving consideration to a system of capturing / using / measuring their improvement ideas.
Further develop the suite of people measures for use at corporate and service levels.
Implement the agreed performance and competency framework.
<b>Partnership Working</b>
Develop a set of principles and framework for effective partnership working including performance indicators to measure overall effectiveness.
Undertake a governance review of the Community Planning Partnership to further improve its effectiveness and secure increased Elected Member involvement.
Work with partners to prioritise and refine / reduce the current set of outcomes and indicators in the Single Outcome Agreement.
<b>Change Programme / Resource Management</b>
Develop and implement short and medium/long term change programmes to realise the required efficiency savings.
Key change programme work streams are:
<ul style="list-style-type: none"> <li>• Our future working environment             <ul style="list-style-type: none"> <li>• Our future workforce</li> <li>• Our future transport needs</li> </ul> </li> <li>• Realising our procurement potential, and</li> <li>• Improving our customer service.</li> </ul>
In addition, the Change Programme will involve core and optional services reviews and a number of service specific reviews.

Source: North Ayrshire Council

## Does the council have the leadership capacity and capability to deliver the improvements that are needed locally?

135. The chief executive demonstrates strong leadership. Her commitment to driving positive change in the council is significantly improving the pace of change and culture of the organisation. Since coming into post in the summer of 2009 she has led significant changes to the management structure, brought renewed vigour to a major change programme and clarified the organisational priorities.
136. The leader of the council and the chief executive have a good working relationship and complement each other in their respective leadership roles. He is well regarded by officers, other members and partners. The leader took up position in 1999 with a majority administration although this changed to a minority administration in 2006. He is working to develop cross party relations.
137. There are mature working relations among members, although it is clearly a political environment. Good cross-party engagement in the budget process and in the change sounding board is supporting the improved pace of change and providing a clear focus on improvement. The leadership from members involved in setting the direction in these core strategic areas balances well with the strong organisational leadership provided by the chief executive.
138. The current financial context in the public sector will require members to make a range of challenging strategic decisions over the next few years. There are recent examples that indicate that members are willing to consider different options for delivering services. For example, North Ayrshire Council has historically tended to retain services internally. In October 2010 the council Executive made the decision to realign the balance of purchased and in-house provision of home care from 28 per cent of hours purchased to 50 per cent. This was a significant policy change for the council.
139. The current corporate management team is still developing. In April 2010 the management structure changed significantly and the corporate management team reduced from a team of eight to five. One corporate director (CD) recently took up post and another is retiring within a year. The refresh of management from the chief executive down to heads of service is bringing in fresh ideas and experience and having a positive impact on the culture but it may take further time to mature into a cohesive team.
140. The objectives of the council's change programme are ambitious, particularly with a management team that is still developing. The council needs to ensure the arrangements it has established will ensure the programme is fully assessed and challenged rigorously. It is too early in the process to judge the effectiveness of the current arrangements in delivering change or developing its capacity. The council needs to ensure that developing capacity and a culture of improvement is prioritised and is embedded in all of the improvement activity.

141. While the council has good awareness of what it needs to do and is beginning to implement the key elements of a continuous improvement culture through more effective strategic leadership and an ambitious change programme, this will take time. Presently continuous improvement is not tackled consistently across the organisation and as a result is not embedded in its culture.

## How effective are the council's management arrangements?

142. While the council's management arrangements generally operate effectively, there are some concerns over its governance arrangements, particularly in relation to adherence to standing orders and financial regulations. This is referred to in more detail at paragraph 77.

143. The council has recently improved its planning arrangements. It has introduced a new council plan and enhanced service planning arrangements. The improvements will take time to become fully developed. It is important that, given previous weaknesses and changes, a focus is maintained on embedding the refreshed planning framework; ensuring it becomes a stable framework for members, managers and staff; and is integrated effectively with the budget processes, performance information systems, reporting, improvement and change activity.

144. It is not clear how the corporate management team brings together information on the range of improvement initiatives, such as PSIF improvement plans, change programme actions, corporate plan commitments, and other strategic and service plans and projects, to allow them to focus resources and ensure no duplication across the activities and action plans. The council should consider how this information can be aligned and reported to support good programme management. A more systematic approach to continuous improvement will also help embed a culture better able to support the council's ambition to create 'a leaner, more innovative and flexible organisation'.

## Performance Management

145. The council has made slow progress with developing an effective performance management system. Since the 2005 BV report initiatives have been taken forward to develop performance management systems with some progress. A range of stand alone systems have supported performance management across services and this has resulted in variability in the quality and availability of performance information, and inconsistency in performance reporting across the organisation.

146. In November 2008 the CMT agreed to take forward work to procure software (Covalent) to support improvements to the performance management framework that 'would meet the longer-term and complex performance monitoring needs of the council'. Initially progress with developing the system was slow but good progress is now being made. The system is being populated with data in a phased approach but it is not yet rolled out as a management or scrutiny tool. It is too early to assess the effectiveness of the system and the impact of these improvements.



147. Without sufficient performance management information the council cannot readily demonstrate that it is achieving Best Value. Continued focus on this project is needed as it underpins effective progress with many other areas including improved consistency and accessibility of information for scrutiny, information to support the change programme, service improvement work and potentially supporting programme management of the range of plans and activities.

## **Scrutiny**

148. The arrangements for elected members to challenge and scrutinise policy and performance are generally sound but there is scope for further improvement. The scrutiny committee provides a good level of challenge but the quality and accessibility of information for scrutiny is variable. All elected members have a key role in scrutinising performance and decisions of the council. Their understanding of, and commitment to, this role is developing.

149. Members have also raised concern about the depth of data and analysis which is presented to them. The council needs to improve the quality of analysis and transparency of reporting to members, ensuring a clear and full picture is provided for members to understand issues and decision for which they are accountable.

# Appendix 1 - Judgement descriptions

<b>How good is my council's overall performance?</b>	<b>Unsatisfactory</b>	<b>Satisfactory</b>	<b>Good</b>	<b>Outstanding</b>
<b>Improving outcomes and addressing complex cross-cutting issues with partners.</b>	The council has a poor track record in delivering improved outcomes for the area with its partners, and addressing key cross-cutting issues such as community safety, health improvement, equalities, and sustainability.	Progress towards key strategic outcomes is mixed, with improved progress required in a number of important outcome areas. Systematic evidence of the impact of partnership working is not available.	Consistent progress is being made towards the majority of key strategic outcomes. However, some improvements are still required in a number of outcome areas and there is scope to further align partnership working with key strategic priorities.	The council is able to consistently demonstrate considerable success in delivering complex cross-cutting strategic local issues and improving outcomes with partners. Consistent progress is being made towards almost all key strategic outcomes. Limited improvements are required.
<b>The quality of local service.</b>	The overall quality of council services is consistently below the national average. Many services, including one or more key services (education, social work, or housing) require significant or urgent improvement.	Overall service performance is mixed. Whilst some services are performing well several services, or significant aspects of services, require important improvements to be achieved.	Many council services are performing consistently well and demonstrating continuous improvement. Whilst some further improvements are required, all key services are performing well.	Most of the council services are recognised as performing at the highest level. All key services can demonstrate strong and consistent improvement.
<b>The views of citizens and service users</b>	Overall satisfaction with the council and its services is consistently below the national average. Overall satisfaction trends are static or falling.  Arrangements for consulting with local people and users of services are patchy and underdeveloped and the council cannot demonstrate that consultation is influencing decision-making and service improvement.	Overall satisfaction with the council and its services is mixed, with a significant number of services, or important aspects of services, below the national average. Overall satisfaction trends are improving slowly.  The council has introduced arrangements for consulting with local people and users of services but these are not applied consistently throughout the organisation. Whilst there are some examples of this 'making a difference' within departments systematic evidence of impact is not yet available.	Overall satisfaction with the council and its services is generally above the national average, with overall satisfaction trends that are improving well.  Arrangements for consulting with local people and users of services are well developed. There is good evidence that that consultation and engagement is taken seriously across the organisation with good systematic evidence available on its impact.	Overall satisfaction with the council and its services is consistently above the national average for most aspects of performance, with overall satisfaction trends that are improving quickly.  The council has comprehensive and well co-ordinated arrangements for consulting with local people and users of services and is able to demonstrate that their views are influencing strategic priorities and shaping service improvements
<b>The council's progress in delivering on its improvement agenda (including VFM)</b>	There is limited evidence that the council knows where improvements are required and is able to secure improvement in service performance. It cannot demonstrate improvement in VFM.	Whilst some services are improving the pace of change has been slow and the council has been unable to systematically transfer service improvements from one service to another and secure systematic improvements in VFM.	The council knows where improvements are required and can demonstrate a systematic and effective approach to securing improvements across all services (including VFM). Improvement are implemented quickly, and with little slippage.	The council is able to demonstrate that it is effectively managing performance improvements in line with its strategic priorities, across services, and in partnership with others, and it can demonstrate systematic and significant improvement in VFM.

	<b>Poor prospects</b>	<b>Fair prospects</b>	<b>Good prospects</b>	<b>Excellent prospects</b>
<b>Leadership capacity and organisational commitment to change</b>	The council does not have the leadership and management arrangements needed to deliver on its ambitions. Governance is weak and developing its political and managerial ability to tackle the council's problems is a key priority for the council	The council needs to improve its leadership and managerial impact to deliver on its ambitions. There are some weaknesses in the governance arrangements and it is unable to demonstrate that it currently has the organisational commitment and capacity to secure change and improved outcomes.	The council has effective political and managerial leadership supported by good governance arrangements. It is committed to continuous improvement, focused on what matters to local people, and is securing improved outcomes.	The council has highly effective political and managerial leadership supported by strong and effective governance arrangements. It has ambitious plans for the areas and a strong focus on continuous improvement. It has the organisational commitment and capacity to secure change and improved outcomes.
<b>Partnership working</b>	The council has not yet established a shared vision for the area with its partners, supported by sound governance arrangements and the resources needed to deliver key priorities.	Whilst the council has established a shared vision for the area with its partners, there is not a consistent sense of ownership from the partnership's leaders and improvements are needed in governance and resource alignment.	Leaders of the partnership articulate a clear and consistent shared vision and sense of purpose for the partnership and the improvements it is trying to achieve for the area and effective governance and resource alignment arrangements are in place.	Leaders of the partnership actively promote and communicate the shared vision and sense of purpose of the partnership and the improvements it is trying to achieve for the area. They can demonstrate – and are committed to - ensuring that the shared vision for the area impacts on their own organisation and partnership activity.
<b>Staff understanding of and commitment to improvement</b>	There is very limited staff understanding of and commitment to continuous improvement and the council's improvement agenda.	Staff understanding of and commitment to continuous improvement and the council's improvement agenda is developing.	There is widespread staff understanding of and commitment to continuous improvement and the council's improvement agenda.	There is very strong staff understanding of and commitment to continuous improvement and the council's improvement agenda.
<b>Effectiveness of resource planning and performance management (including member scrutiny).</b>	The council lacks awareness of where it needs to make improvements and is not able to secure improvement in service performance as a consequence of ineffective performance management arrangements and weak scrutiny and challenge. Resources are not used to best effect.	Whilst the council is aware of where it needs to make improvements, it lacks a systematic approach to securing improvement. Scrutiny and challenge is patchy. The council lacks a systematic process for directing resources to key priority areas and securing improved VFM.	The council is aware of where it needs to make improvements, and has a systematic approach to securing improvement. Scrutiny and challenge is well developed.  It has a systematic process for directing resources to key priority areas and securing improved VFM, but cannot yet demonstrate consistently improved outcomes.	The council is aware of where it needs to make improvements, and has a systematic approach to securing improvement. Scrutiny and challenge is highly effective. The council has a systematic process for directing resources to key priority areas and can demonstrate consistently improved outcomes

**ACCOUNTS COMMISSION**

**MEETING 17 FEBRUARY 2011**

**MINUTES OF PERFORMANCE AUDIT COMMITTEE**

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Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 3 February 2011 at 10.30am.

PRESENT: Douglas Sinclair (Chair)  
Mike Ash  
Jim King  
Christine May  
Colin Peebles

IN ATTENDANCE: Barbara Hurst, Director, Performance Audit Group  
Gordon Smail, Portfolio Manager, Performance Audit Group  
Angela Canning, Assistant Director, Performance Audit Group  
Angela Cullen, Assistant Director, Performance Audit Group  
Ronnie Nicol, Assistant Director, Performance Audit Group  
Mark Brough, Secretary and Business Manager  
Miranda Alcock, Portfolio Manager (Justice), Performance Audit Group [Item 4]  
Sally Thompson, Project Manager, Performance Audit Group [Item 4]  
Claire Sweeney, Portfolio Manager (Primary and Community Care), Performance Audit Group [Item 5]  
Carolyn Smith, Project Manager, Performance Audit Group [Item 5]  
Mark Roberts, Portfolio Manager (Environment and Rural Affairs), Performance Audit Group [Item 6]  
Tricia Meldrum, Portfolio Manager (Health and Sport), Performance Audit Group [Item 7]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 9 December 2010
4.	Justice overview – Performance audit project brief
5.	Community health partnerships – emerging messages for performance audit report
6.	Protecting and improving Scotland's environment – 12-month impact report
7.	Commonwealth Games 2014: Progress report on planning for the delivery of the XXth Games – 12-month impact report
8.	Any other business

1. Apologies for absence

Apologies were received from John Baillie and Alan Campbell.

2. Declarations of interest

Christine May declared interests in relation to Item 4 as Chair of the Scottish Library and Information Council, which has undertaken projects with the Scottish Prison Service, and in Item 6 arising from her role as a self-employed consultant advising on matters including waste strategy.

3. Minutes of meeting of 9 December 2010

The minutes of the meeting of 9 December 2010 were submitted and approved.

The Committee noted that, at its meeting on 20 January 2011, the Accounts Commission had approved the recommendation at item 6 that the proposed performance audit on the climate change delivery plan be conducted in two phases.

4. Justice overview - Performance audit project brief

The Committee considered a report from the Director of Performance Audit setting out a draft project brief for a performance audit entitled *Justice Overview*, to be conducted jointly on behalf of the Accounts Commission and the Auditor General.

The Committee welcomed the proposed scope of the study, in particular its aim to—

- provide a clear explanation of the role of each component of a complex system responsible for significant public expenditure;
- identify costs in the system and the outcomes achieved for the expenditure.

The Committee noted that—

- the audit would be based on the perspective of users of the system such as victims, witnesses and offenders;
- it would include examination of the role played by voluntary and private sector organisations.

The Committee agreed that—

- the team should seek to include the perspectives of service users and the voluntary and private sectors in membership of the project advisory group;
- the objectives of the audit should include—
  - examination of local as well as national priorities;
  - assessment of whether individual bodies in the justice sector have effective performance management systems and can evidence achievement of both local and national outcomes;
  - mapping the structural boundaries of the different bodies in the sector.

The Committee approved the project brief, subject to consideration being given to the points noted above.

5. Community health partnerships – emerging messages for performance audit report

The Committee considered a report by the Director of Performance Audit presenting emerging messages from the performance audit on *Community Health Partnerships*, conducted jointly on behalf of the Accounts Commission and the Auditor General.

The Committee approved the emerging messages as the basis for a draft report, subject to consideration being given to a number of points raised in discussion.

The Committee noted that a final draft report would be submitted to the Commission in due course.

6. Protecting and improving Scotland's environment – 12-month impact report

The Committee considered a report by the Director of Performance Audit outlining the impact of the performance audit report entitled *Protecting and improving Scotland's environment*, published in January 2010 on behalf of the Accounts Commission and the Auditor General.

The Committee noted that—

- while the report was an overview, with relatively few recommendations focused on a very specific sector, its impact to date has been limited;
- Audit Scotland will continue to monitor progress and implementation of recommendations;
- the section on waste management followed up on the *Sustainable Waste Management* report published in September 2007;
- external auditors would examine as part of the 2011/12 audit how individual councils have responded to recommendations on sustainable waste management.

The Committee agreed that options should be considered for how the Commission can engage with the local government community to help ensure that action is taken on recommendations relevant for local government in joint reports such as this. The Committee noted that a paper suggesting possible approaches would be submitted to a subsequent meeting.

The Committee noted the report and agreed that a summary should be published on the Audit Scotland website.

7. Commonwealth Games 2014: Progress report on planning for the delivery of the XXth Games – 12-month impact report

The Committee considered a report by the Director of Performance Audit outlining the impact of the performance audit report entitled *Commonwealth Games 2014: Progress report on planning for the delivery of the XXth Games*, published in November 2009 on behalf of the Accounts Commission and the Auditor General. This was the first in a series of planned reports on the Games.

The Committee noted that—

- the performance audit report has had significant impact, with the partners responsible for delivering the Games responding with action on most recommendations;
- a recommendation on costing planned mitigation actions for risks had not be addressed due to standard public sector approaches to risk;
- the issues raised in the report would be examined further in the second performance audit, scheduled to begin later this year, which would provide a further progress report on planning for the Games.

The Committee noted the report and agreed that a summary should be published on the Audit Scotland website.

8. Any other business

There was no other business.

**ACCOUNTS COMMISSION**

**MEETING 17 FEBRUARY 2010**

**DIRECTOR OF BEST VALUE & SCRUTINY IMPROVEMENT**

**THE SHARED RISK ASSESSMENT PROCESS AND BEST VALUE AUDIT WORK**

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**Purpose**

1. This is the first of two reports to the Commission on the shared risk assessment process and Best Value audit work which flows from that. This paper provides a summary of the first shared risk assessment process which took place in 2009/10 (SRA1) and the audit work which arose from that in 2010/11. It also outlines the broad approach being taken for the shared risk assessment which is currently under way for 2011/12 to 2013/14 (SRA2).
2. The paper also outlines the Commission's oversight role with regards to scrutiny improvement and risk assessment and seeks to inform the Commission's consideration of this as part of its annual strategy seminar in March.
3. I propose to bring a further report to the Commission in April summarising the results of SRA2 and the proposed Best Value audit work arising from the shared risk assessment process.

**Background**

***Developing the Shared Risk Assessment Process***

4. The development of the shared risk assessment process and the BV2 audit approach took place in parallel during 2008 and 2009.
5. Following the publication of the Crerar report the Commission was invited to take on a co-ordination and 'gatekeeping' role by the Cabinet Secretary for Finance and Sustainable Growth in March 2008 (letter attached as appendix A.)
6. Strategic and operational groups involving stakeholders from the main audit and inspection agencies were established and tasked with improving scrutiny arrangements and the co-ordination of audit and inspection activity. The overall objectives were to streamline scrutiny work (in particular by developing a single corporate assessment process), provide assurance on the audited bodies, inform the scoping of work and improve the co-ordination of audit & inspection work.
7. As a result, the Shared Risk Assessment (SRA) process was developed and implemented during the winter of 2009. This resulted in the publication of a National Scrutiny Plan and an Assurance and Improvement Plan (AIP) for

each of the 32 councils in July 2010. These documents set out the identified risks and the resulting scrutiny response for a rolling three year period.

8. IPSOS MORI were commissioned to review and evaluate the SRA process, the initial findings were considered by the Commission November 2010.

### ***Developing the Best Value Audit***

9. The Accounts Commission consulted on the development of the Best Value Audit process during the Spring and Summer of 2009 and a revised methodology was developed to carry out five 'BV2 pathfinder audits' (Table 1).

*Table 1: BV2 Pathfinder Audits*

Audit	Published
Dundee City Council	30/03/10
East Ayrshire Council	01/04/10
Angus Council	12/05/10
The Highland Council	13/05/10
Scottish Borders Council	19/05/10

10. The BV2 audits used the same risk assessment structure as was used in the SRA process to inform the scope of the audit work. This meant that the structure for the risk assessment could be tested and inform its development.

### **Best Value audit work arising from the first shared risk assessment**

11. Where issues are identified during the SRA, the LAN considers a range of criteria in order to determine the most appropriate scrutiny response. The LAN considers whether the council is already aware of the risk, if there is an improvement plan in place and the extent to which the council has a 'track record' of delivering on improvement plans. The LAN also considers what added value the scrutiny action might bring in terms of providing assurance, accountability and supporting improvement. The conclusions arising from the scrutiny response then inform the way in which the work is reported.
12. In many instances, the appropriate scrutiny response is to use an existing audit or inspection process. For example, the SRA might result in a follow-through inspection, or identify an area of focus for the annual audit process. The 'product' of the work would typically be reported in the form of an inspection report or as part of the annual audit report.
13. Alternatively the LAN may consider that a bespoke piece of joint work is the best vehicle to address the scrutiny risk. In December 2010 the strategic group approved a guide on joint working to support this process and the guide highlights key decision points which help inform the decision on how the work is reported.
14. Where some form of Best Value audit work is identified as an appropriate scrutiny response, the BVSI group considers the breadth, scale and significance of the risk factors to inform the scope and nature of the audit work. The scope of the work and the issues arising from the work also informs the reporting route, which, depending on the scale and significance of the issues identified, may or may not involve a Controller of Audit report to the



Commission. Table 2 below summarises the BV audit work which came from the first SRA and the associated reporting arrangements.

15. For example, the SRA identified several important areas of uncertainty in North Ayrshire Council and the LAN agreed that a BV audit was an appropriate scrutiny response. The Commission is considering that report at the meeting today.
16. The SRA also identified specific risks within councils which were the subject of targeted Best Value audit work, but where a 'full BV audit' was not considered an appropriate scrutiny response. In most cases the issues identified through this audit work were reported through the annual report to members rather than as a specific report to the Commission by the Controller of Audit. While this is keeping with spirit of risk based and proportionate audit, it also means that the Commission do not automatically receive reports on every piece of Best Value audit work.

*Table 2: Best Value audit work 2011/12*

<b>Council</b>	<b>Risks identified and Audit response</b>	<b>Reporting arrangements</b>
North Ayrshire Council	SRA1 identified several of areas of uncertainty including; progress on strategic priorities, vision & strategic direction, partnership working, use of resources and performance management and improvement.  'BV2 audit' - work started Summer 2010	BV2 Audit Report to Accounts Commission Feb 2011
Stirling Council	SRA1 identified several of areas of uncertainty including; progress on strategic priorities, vision & strategic direction, partnership working, governance and accountability, use of resources and performance management & improvement, equalities and sustainability  'BV2 audit' – work started January 2011	BV2 Audit Report to Commission Autumn 2011
Dumfries & Galloway Council	Targeted BV audit work on leadership, performance management and resource management – Summer 2010, in conjunction with ASG	Annual Audit Report to Members October 2010
Orkney Islands Council	Targeted BV audit work on workforce management – Summer 2010, in conjunction with Scott Moncrieff	Auditor Management Letter to OIC management team September 2010 and Annual Audit Report to Members October 2010
Comhairle nan Eilean Siar	Targeted BV audit work on leadership and culture – Autumn 2010, in conjunction with ASG	Annual Audit Report to Members October 2010
Moray Council	Targeted audit and inspection work on political leadership, member leadership on equalities and educational improvement and member training and development – Summer/ Autumn 2010 in conjunction with HMIE	Joint Report with HMIE to Council February 2010

## **The shared risk assessment process 2011/12**

17. In September the local government scrutiny co-ordination strategic group agreed a revised approach for the 2011/12 risk assessment. SRA1 had provided a baseline risk assessment for each of the 32 councils which had not previously existed and the feedback from councils indicates that Chief Executives 'recognised their council' in the risk assessments and were broadly content with the AIPs. The strategic Group also recognised that the first set of AIPs had been published in July 2010 and so the elapsed time between the two risk assessments would not be significant. The objective of SRA2 has therefore been to review and refresh the risk assessments.
18. The focus for SRA2 has been to consider any new evidence which might result in a change to the risk assessment and therefore require a scrutiny response. The risk assessment has been informed by audit and inspection work during the year as well as a review of outcome and performance information.
19. This change in focus will also be reflected in the nature of the AIPs, which will be shorter summary reports compared to those published in July 2010.
20. The 2011/12 risk assessment is well under way and the majority of the Local Area Networks had met by January to carry out risk assessment work. LAN leads have been liaising with councils throughout the process and will continue to engage with councils during the year, helping to ensure that the SRA is a process rather than being an annual event.
21. The AIP update reports for all councils have been drafted and are currently being quality assured. The AIP updates will be published in April 2011 and we intend to publish the National Scrutiny Plan sometime after the Scottish elections in May.
22. The Best Value audit work scheduled for 2011/12 is subject to the finalisation of the SRA process, however the indications are that we will carry out four BV audits (including Stirling which arose from the SRA1 process). We anticipate the SRA will also identify specific targeted pieces of BV audit work as was the case during 2010.
23. I will report back to the Commission in April on the outcome of the risk assessments and the proposed BV audit work arising from the SRA process.

## **The role of the Accounts Commission**

24. In March 2008, the Scottish Government asked the Accounts Commission to take on the transitional co-ordinating and 'gate-keeping' role in respect of the scrutiny of local government. The Commission established the local government scrutiny coordination strategic group involving the main scrutiny bodies for local government (Audit Scotland, HMIE, SWIA, the Care Commission, The Scottish Housing Regulator, Her Majesty's Inspectorate of Constabulary and NHS QIS). The Scottish Government, COSLA and SOLACE are also represented on this group.
25. The Chair, Deputy Chair and Chair of the FAA Committee are members of the strategic group and have therefore been instrumental in shaping the SRA process.

26. Minutes of the strategic group meetings are circulated to members of the Commission to keep members advised of developments.
27. The Commission considers the National Scrutiny Plan which flows from the shared risk assessment process.
28. In January 2010 the audit and inspection agencies published a joint Code of Practice which set out arrangements for cooperation between the Accounts Commission and Audit Scotland, and Her Majesty's Inspectorate of Education (HMIE), the Social Work Inspection Agency (SWIA), the Scottish Commission for the Regulation of Care (SCRC), the Scottish Housing Regulator (SHR), Her Majesty's Inspectorate of Constabulary Scotland (HMICS) and NHS Quality Improvement Scotland (NHS QIS). This code of practice focuses on the risk assessment process but does not set out the role of the Commission in any detail.
29. The move to proportionate and risk based scrutiny work means that audit work flows from the risk assessment, rather than a pre-determined cycle covering all councils. In theory, these arrangements could mean that the Commission may never receive a Best Value Audit report on a particular council. It is therefore important that the Commission has assurance in the underlying risk assessment process and the other audit processes.
30. In addition to the assurance offered to members by virtue of the SRA process Commission members receive a range of reports and products to inform their oversight of local government. Examples of these are illustrated in Table 3 below.

*Table 3: Information sources*

<b>Period</b>	<b>Report</b>
Annually	National Scrutiny Plan Local Government Overview Report Statutory Performance Indicators
Quarterly	FAA Committee Current Issues Report
At Commission Meetings	Controller of Audit update Best Value/ S102 reports National Performance Audit Reports 'How Councils Work' reports Joint BV audit/ inspection reports on Police Boards and Forces

31. In addition to reports issued directly to Commission Members information on councils is publicly available through the annual audit reports and the Assurance and Improvement Plans.
32. Where issues of significance are identified through the annual audit process the Controller of Audit reports to the Commission under S102 of the 1973 Act. The most recent examples of this relate of Shetland Islands Council and Caithness Heat and Power.
33. The Commission also has a range of powers including the power to require the Controller of Audit to carry out specific audit work. To date the Commission has generally exercised this power in response to a report from

the Controller of Audit. This has resulted in the Best Value Progress Reports (including Inverclyde, Moray, West Dunbartonshire, Aberdeen and South Ayrshire) and reports on specific issues (CHAPs and SPT.)

### **Recommendations**

34. The Commission is invited to:

- note the contents of this report,
- agree to receive a further paper on the proposed Best Value audit work arising from the risk assessment process,
- consider whether the current arrangements are providing the appropriate assurance and information in order for the Commission to fulfil its responsibilities.

**Fraser McKinlay**  
**9 February 2011**

### Cabinet Secretary for Finance and Sustainable Growth

John Swinney MSP

T: 0845 774 1741

E: [scottish.ministers@scotland.gsi.gov.uk](mailto:scottish.ministers@scotland.gsi.gov.uk)

Professor John Baillie  
Chair  
Accounts Commission  
110 George Street  
Edinburgh  
EH2 4LH

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20 March 2008

As you will know, one of the recommendations in Professor Crerar's independent report into scrutiny and complaints handling was that an appropriate scrutiny body be appointed to oversee the delivery of scrutiny programmes in local government until longer term changes could be implemented.

Our goal is to move to a position where Best Value is the key corporate level assessment tool and is much better aligned and co-ordinated with other corporate audit and performance processes. I write to ask the Accounts Commission to take on this gate keeping role through the auspices of Audit Scotland. This role will operate while we consider how best to achieve a more permanent solution. In effect, this will mean that all scrutiny relating to the corporate and strategic role of local government will be required to be cleared by the Accounts Commission. In asking you to take on this role, I fully recognise the Commission's independence from central and local Government.

In addition, other service related scrutiny of local government functions, including multi-agency inspections of service delivery, should be communicated to the Accounts Commission in advance. This will enable the Accounts Commission to co-ordinate service delivery inspections with a view to minimising compliance burdens.

I have asked my officials to continue their liaison with the Accounts Commission and Audit Scotland to ensure there is clarity on what is required. The Accounts Commission and Audit Scotland will want to take the views of scrutiny bodies and local authority representatives on how this new role is delivered in practice.

In relation to scrutiny of service delivery, you will want to take account of the various requirements which may be placed by statute, Ministers and others upon the scrutiny bodies.

We would expect all scrutiny bodies to work together with you to fit scheduled inspections into a coordinated programme; any statutory requirements will, of course, remain to be delivered. The issue of unannounced inspections will need to be considered but scrutiny bodies will continue to be free to carry out unscheduled inspections which they decide are necessary to ensure the safety of service users or for any other reason.

Although your new role will focus on inspections of local authorities, I would expect scrutiny organisations dealing with other delivery bodies to consider how they can adopt the same principles of reducing compliance burdens.

As you will appreciate, the Accounts Commission will have no statutory authority over scrutiny bodies to require them to carry out or to cease carrying out assessments at this stage. However, we will where necessary support you in securing support from scrutiny bodies for this important new approach.

How the Accounts Commission decide to undertake this new role and your experience over the first half of the new financial year will help us consider how to achieve a permanent solution, possibly through statute. I ask that you write to me in April after consultations with other scrutiny bodies and explain how you propose to undertake this new role. I would be grateful if you would also write to me and advise on your experience and any lessons from implementing this role in October. This advice will then enable us to decide whether or not it is necessary to formalise new arrangements. The approach you adopt to this new role and your experience will also help us to understand how we can simplify the scrutiny landscape.

I hope that you will be willing to take on this key role. If you have any concerns or queries or would like to discuss this further, please contact Ian Mitchell, Head of Public Bodies Policy Division, on 0131 244 7833.

I am copying this letter to the scrutiny bodies that will fall within your new remit. If there are other bodies which you consider should be engaged in this exercise please share this letter with them as you consider appropriate.

**JOHN SWINNEY**