Scottish Borders Council

Report to Members and the Controller of Audit on the 2008/09 Audit

September 2009
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Key Messages

We have given an unqualified opinion on the financial statements of Scottish Borders Council.

Throughout the year the council worked hard to manage its budget in financially challenging circumstances resulting in an actual outturn of £251.4 million against a revised budget of £252.1 million. In overall terms, the council incurred a deficit of £8.9 million on its income and expenditure account. After taking account of statutory adjustments of £5.6 million the sum of £3.3 million required to be met from General Fund Reserves.

The council ended the year with cash backed reserves of £24.3 million. The non-earmarked element of this was £5.6 million and is in accordance with the council’s reserves strategy. The reduction in income streams and the increased demand for council services arising from the economic recession will increase the pressure on these reserves in forthcoming years.

The council had corporate governance systems in place during 2008/09 that operated well, within a sound control environment. It is important however, that the council keeps these systems under review to ensure that they remain appropriate to the environment of multi-member wards, the council’s area committees and the Single Outcome Agreement.

The Business Transformation Programme aims to drive substantial change in the way the council operates to deliver a better quality of service to the people and communities of the Borders and make the council fit for the future. As a part of this programme the council is undertaking a series of service reviews. The first reviews have now been concluded and the programme of change implemented. The council should start to see the benefits of these changes in the near future. However, the council still lacks a comprehensive framework for systematically identifying and monitoring the efficiencies achieved and demonstrating continued improvement.

Two of the three schools being constructed under the 3 High Schools project were opened to pupils in February/March of 2009 with the third being occupied in August. However, the council has much to do to improve its asset management on a corporate basis. The council has reviewed approximately 25% of its properties to assess suitability for purpose and less than 50% of these considered to be appropriate for their current use. The council needs to complete work on its revised Corporate Property Asset Strategy and Management Plan.

The economic recession and the banking crisis have impacted on the council and the community it serves. This meant a reduction in developer contributions and capital receipts impacting on capital plans. As a consequence of the collapse of two Icelandic banks the council has recognised 27% of its £10 million of
deposits plus interest outstanding as irrecoverable, although this will be reviewed as the administration of
the insolvencies progress.

During the year Scottish Borders Council was the first council in the UK to achieve the British Standard
(BS25999) for business continuity management benchmark and is currently the only Category 1 responder
in Scotland to require certification against this standard from key suppliers and service providers.

Outlook
The council continues to face significant challenge in matching expenditure commitments to available
resources. Non-recurrent capital receipts which provided some respite in prior years are less likely to arise
in future. The council’s corporate management team have recognised this and all service departments
have identified efficiencies and cost savings in planned expenditure during the 2009/10 budget setting
process including significant savings through the Business Transformation Programme.

The council, its community planning partners and the local enterprise company have recognised that the
recession has not yet ended and its impact will continue to be felt for some time yet. An Economic
Resilience Action Plan has been prepared.

The co-operation and assistance given to us by Scottish Borders Council members, officers and staff is
gratefully acknowledged.
Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of Scottish Borders Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.

2. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
   - The impact of the race equality duty on council services.
   - Improving energy efficiency.
   - Asset management in councils.
   - Overview of drug and alcohol services.
   - Mental health overview.
   - Civil contingencies planning.
   - Strategic procurement.

3. We mention the key findings from these reports and the implications for Scottish Borders in the performance and use of resources sections of this report. Full copies of the studies can be obtained from Audit Scotland’s web page at www.audit-scotland.gov.uk.

4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed Planned Management Action. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.

5. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.
Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the council’s financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

7. We have given an unqualified opinion that the financial statements of Scottish Borders Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

8. We were satisfied with disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the council to obtain assurances on systems of control.

9. The council’s unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The quality of working papers provided remains good. However, as the changes introduced by the support services review have taken place a number of key staff in the Finance service involved in the preparation of the financial statements have left the council and work will be required to ensure the continuity of skills and the quality of working papers.

10. The accounts have been certified prior to the target date of 30 September 2009 and are now available for presentation to members and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting issues

11. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). No major changes were introduced by the 2008 SORP. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.

12. The council has adjusted the financial statements to reflect audit findings.
Audit testing

13. As part of our work, we took assurance from a number of the council’s main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Housing/Council tax benefits
- Main accounting system
- Treasury management
- Pensions
- Creditors payments
- Council tax
- Non-domestic rates
- Budgetary control
- Assessors

14. We relied on the work of internal audit in the following areas to support our work:

- Treasury Management – short term cash deposits
- Budgets and budgetary control
- Revenues – council tax and non domestic rates
- Housing and council tax benefits
- Debtors
- Creditors
- Members’ allowances
- Pensions
- SBcContracts
- System developments & change – corporate financial information system

Prevention and detection of fraud and irregularities

15. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

16. In 2008/09 there were 18 complaints lodged against elected members. Eight of these were referred to the Standards Commission and ten dealt with through the council’s internal procedure for dealing with complaints against Councillors. In all eight cases referred to the Commission the Chief Investigating Officer found that there had been no breach of the Councillors’ Code of Conduct. Of the ten cases dealt with internally nine have been either resolved or withdrawn and one remains current.
NFI in Scotland

17. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

18. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010. Overall 2,010 matches were identified for Scottish Borders Council. The council has taken a structured approach to the follow-up of these items focusing initially on “high quality” matches. As at 4 August 2009 1,799 matches have been processed with two cases of fraud identified resulting in combined savings of £6k. Although this is a relatively low sum this should not discourage participation in the exercise.

Housing Benefit

19. In 2008/09 the council paid out £26.8 million in benefits to assist persons on low incomes to pay Council Tax and Rent. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.

20. The risk assessment of Scottish Borders Council’s benefits service is currently in progress. On completion the council will be asked to respond to any risks identified with an action plan. We believe this process will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in 2010.

Group accounts

21. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council’s income and expenditure.

Associates

22. The council has interests in four associates:
   - Borders Sport and Leisure Trust
   - Jedburgh Leisure Facilities Trust
   - Lothian and Borders Police Board
   - Lothian and Borders Fire and Rescue Board.
23. They have been included in group accounts in accordance with the SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts.

24. There were no qualifications to the accounts of Borders Sport and Leisure Trust, Lothian and Borders Police Board and Lothian and Borders Fire and Rescue Board. The accounts of Jedburgh Leisure Facilities Trust were subject to an independent examination and no matters were raised for the attention of the Trustees.

Trust funds

25. The council is trustee for more than 200 trusts and endowments of which 39 are registered as charities. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council’s financial statements, supplemented by appropriate working papers.

26. During 2008/09 the trusts received income of £85k (2007/08 - £96k), principally dividends from external investments and interest earned on balances invested in the council’s loans fund. The decline in income is largely due to the current economic climate. Disbursements to beneficiaries totalled £44k (2007/08 - £55k). The net assets of the trusts at 31 March 2009 amounted to £1.7 million.

Common good fund

27. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.

28. A separate account for the common good is disclosed in Scottish Border’s financial statements and a separate fixed asset register is also maintained for Common Good land and buildings. Further work is being carried out to ensure the completeness of common good assets through the recording of moveable assets on the asset register.

29. During 2008/09 the funds received income of £311k (2007/08 - £328k) whilst incurring expenditure of £346k (2007/08 - £267k). As at 31 March 2009 the funds had net assets of £6 million. Scottish Borders Council has registered the combined Common Good Funds as a charity and there will be a requirement to ensure compliance with the Charities Accounts (Scotland) Regulations 2006 in respect of these funds in future years.
Pension fund

30. A full actuarial valuation of the pension fund was undertaken as at 31 March 2008 and the actuary’s final report was presented in February 2009. This recommends the employer’s contribution rates required for 2009/10 to 2011/12 in order to ensure that sufficient funds are available to pay future benefits. As at 31 March 2008 the pension fund had a funding level of 96.5% with a deficit of £10.8 million and the actuary recommended an employer contribution rate of 290% of employee contributions for the period 1 April 2009 to 31 March 2012 (1 April 2008 to 31 March 2009 – 300%), equating to 18% of payroll costs (ref. para 59). The asset value reported by the actuary at the valuation date was £299.3 million. The next actuarial valuation will be as at 31 March 2011.

Significant trading operations

31. The Local Government in Scotland Act 2003 replace compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

32. The council has one STO (SBcContracts) which undertakes a range of revenue and capital works mainly on highways and bridge construction. In the three years to 31 March 2009, the STO met the statutory target with a surplus recorded in each year.

Legality

33. Through our planned audit work we consider the legality of the council’s financial transactions. In addition the Chief Financial Officer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council’s management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members’ attention.

Financial reporting outlook

IFRS adoption

34. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. Indeed, next year, councils will be expected to account for PFI projects on an IFRS basis. But it is important that the council starts the transition period in 2009/10. A restated balance sheet as at 1 April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10.
Pension funds

35. The introduction of the IFRS based accounting code of practice in 2010/11 is likely to require separate pension fund reports and accounts, a development also supported by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). Although it is unlikely pension funds will be separate audit appointments (as they are not statutory bodies in their own right) it may be necessary for us to treat them separately. This is something Audit Scotland will be discussing with the CIPFA Directors of Finance Section.

Carbon trading commitment

36. From April 2010 a new and complex system for charging for carbon emissions will be introduced by the European Union. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. The charge in 2010/11 for the council has yet to be determined but will be significant.
Use of resources

Financial results

37. In 2008/09, Scottish Borders Council spent £307 million on the provision of public services and £33 million on capital projects. The council’s net operating expenditure in 2008/09 was £258 million. This was met by central government and local taxation of £249 million, resulting in a deficit of £9 million, 4% of the net operating expenditure for the year. The budget set for 2008/09 was based on a Band D council tax level of £1,084 with a planned contribution of £0.8 million from capital receipts.

38. After taking account of statutory adjustments an additional £1.6 million was met from earmarked reserves resulting in an actual outturn of £251.4 million against a revised budget of £252.1 million. The council monitors expenditure closely with the Executive receiving regular monitoring reports and action being taken to address variances. Exhibit 1 below highlights where the main movements in the budget occurred.

### Exhibit 1
Summary of budget movements

<table>
<thead>
<tr>
<th>Service</th>
<th>Original Budget £'000</th>
<th>Revised Budget £'000</th>
<th>Variance £'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive</td>
<td>4,025</td>
<td>4,209</td>
<td>184</td>
<td>5</td>
</tr>
<tr>
<td>Corporate Resources</td>
<td>10,278</td>
<td>10,469</td>
<td>191</td>
<td>2</td>
</tr>
<tr>
<td>Education &amp; Lifelong Learning</td>
<td>97,828</td>
<td>97,294</td>
<td>(534)</td>
<td>(1)</td>
</tr>
<tr>
<td>Planning &amp; Economic Development</td>
<td>1,723</td>
<td>2,547</td>
<td>824</td>
<td>48</td>
</tr>
<tr>
<td>Social Work</td>
<td>59,111</td>
<td>60,663</td>
<td>1,552</td>
<td>3</td>
</tr>
<tr>
<td>Technical Services</td>
<td>30,228</td>
<td>32,705</td>
<td>2,477</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>45,726</td>
<td>44,243</td>
<td>(1,483)</td>
<td>(3)</td>
</tr>
<tr>
<td>Total</td>
<td>248,919</td>
<td>252,130</td>
<td>3,211</td>
<td>1</td>
</tr>
</tbody>
</table>

39. The analysis highlights that, overall, the adjustments to budget, were not significant. The increase in expenditure was principally met from adjustments to the council’s share of Revenue Support Grant which resulted in an additional £3m of income.
40. Although there have been suggestions that the economic recession is beginning to ease it is highly likely that its impact will continue to be felt in the Scottish Borders for some time to come and the council will need to continue to manage its budget closely to ensure that it remains sustainable.

Reserves and balances

41. Exhibit 2 shows the balances in the council’s reserves at 31 March 2009 compared to the previous year. The reserves include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2009, the council had total funds of £24.3 million, a decrease of £2.1 million on the previous year.

<table>
<thead>
<tr>
<th>Description</th>
<th>31 March 2009 £ Million</th>
<th>31 March 2008 £ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>10.949</td>
<td>14.279</td>
</tr>
<tr>
<td>Corporate Repair and Renewal Fund</td>
<td>0.039</td>
<td>0.041</td>
</tr>
<tr>
<td>Insurance Fund</td>
<td>1.660</td>
<td>4.083</td>
</tr>
<tr>
<td>Capital Fund</td>
<td>11.654</td>
<td>8.061</td>
</tr>
</tbody>
</table>

24.302                              26.464

42. The general fund decreased by £3.3 million during the year to a balance of £11 million which equates to 1.3% of the council’s net annual expenditure. Of this balance £5.3 million has been earmarked for specific purposes and devolved education management balances held by individual schools. This leaves an unallocated balance of £5.6 million which is at the lower end of the council’s policy to maintain free reserves of 2% - 4% of net expenditure (£5.1 million - £10.2 million in 2008/09) to accommodate unplanned expenditure.

43. In 2007/08 the council received £2.5 million from its insurers in respect of Denholm Primary School which was destroyed by fire. In October 2008 the council re-opened the School after its reconstruction and the insurance receipts were transferred from the insurance fund to the capital fund to finance the works. This is reflected in the reduced balance on the insurance fund.

44. The overall effect of inclusion of all of the council’s associates on the group balance sheet is to reduce net assets by £163.8 million, mainly because of pension liabilities. However, all group bodies’ accounts have been prepared on a going concern basis as pension liabilities will be funded as they
fall due through a combination of employee and employer contributions, government grants and council tax.

45. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. These boards (Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Board) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £1,307 million (2007/08 £1,247 million), with the council’s share being £171.6 million (2007/08 £158.7 million).

Capital performance 2008/09

46. The council’s prudential indicators for 2008/09 were set in February 2008. A number of in-year revisions to the capital plan resulted in a final budget of £35.4 million, some £23.1 million less than originally approved. Actual capital expenditure in 2008/09 totalled £33.2 million, a drop of £7.4 million from 2007/08 and £2.2 million less than budgeted.

47. In-year revisions to budget arose from a number of factors, including:

- the transfer of the responsibility for the Waverley Rail Project to Transport Scotland (£11.7 million reduction)

- slippage in capital projects e.g new Kingsland and Lauder Primary Schools £5.5 million due to revised construction profiles and Galashiels Inner Relief Road (2) £1.8 million due to delays in acquiring land

- the impact of the economic recession.

48. The world’s financial markets are experiencing unprecedented turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring. And it is increasingly difficult to forecast interest rate movements as the balance between preventing recession and managing inflation is sought. It is also likely that capital receipts will be less than forecast for the medium to long term. This means that the council will have to consider alternative sources of capital funding or reduce capital budgets. The council has already felt the impact of this through the need to “re-finance” a pre-payment of £6 million due to the 3HS contractor in 2009/10 due to a drop in the anticipated capital receipts which were to be used to finance the payment.

49. The trend in capital investment and sources of funds is reflected in exhibit 3.
Exhibit 3
Sources of finance for capital expenditure 2006/07 – 2008/09

<table>
<thead>
<tr>
<th></th>
<th>2006/07</th>
<th></th>
<th>2007/08</th>
<th></th>
<th>2008/09</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>£M</td>
<td>Actual</td>
<td>£M</td>
<td>Actual</td>
<td>£M</td>
</tr>
<tr>
<td>Loans Fund Advances</td>
<td></td>
<td>11.7</td>
<td></td>
<td>15.7</td>
<td></td>
<td>14.6</td>
</tr>
<tr>
<td>Revenue Contributions</td>
<td></td>
<td>3.3</td>
<td></td>
<td>1.6</td>
<td></td>
<td>0.2</td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td>16.0</td>
<td></td>
<td>20.4</td>
<td></td>
<td>13.5</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>2.7</td>
<td></td>
<td>2.9</td>
<td></td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>33.7</td>
<td></td>
<td>40.6</td>
<td></td>
<td>33.2</td>
</tr>
</tbody>
</table>

(Other financing includes capital expenditure financed from the capital fund and contributions from third parties.)

50. The council continues to experience significant slippage in capital projects. As in previous years a significant proportion of the actual spend was incurred in the final months of the year. Over the next few years the council has committed to delivering a number of large capital projects. The council will need to improve its project management arrangements to ensure it can deliver these ambitious plans within the planned timescale.

51. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates in anticipation of funding requirements for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as
representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

52. As at 31 March 2009, Scottish Borders Council held cash and temporary investments totalling £33 million (31 March 2008 £46.8 million). We received specific representation from the Chief Financial Officer that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation and was on-lent in the interests of prudent cash management. In the Chief Financial Officer’s assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the ‘profit’ that might arise from these.

53. On 7 October the Icelandic bank Landsbanki Islands hf collapsed forcing its UK subsidiaries, including Heritable Bank plc into administration. The council had deposits totalling £10 million invested in these two institutions at that time, spread as follows:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Date of Deposit</th>
<th>Date Repayment Due</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landsbanki</td>
<td>15/05/2008</td>
<td>17/11/2008</td>
<td>£3,000,000</td>
</tr>
<tr>
<td></td>
<td>25/07/2008</td>
<td>23/01/2009</td>
<td>£2,000,000</td>
</tr>
<tr>
<td>Heritable</td>
<td>25/07/2008</td>
<td>23/01/2009</td>
<td>£1,000,000</td>
</tr>
<tr>
<td></td>
<td>22/08/2008</td>
<td>19/12/2008</td>
<td>£4,000,000</td>
</tr>
</tbody>
</table>

54. Because of the differing status of these two bodies, negotiations between the creditors and the administrators are likely to be protracted. Landsbanki Islands hf’s affairs are being administered under Icelandic law and current projections are that a recovery of 83% may be achieved. In view of this the council has assumed recovery of 83% by 2012. However, there are a number of uncertainties and risks that may impact on the recoverability of these sums. Heritable Bank plc is a UK registered bank under Scots law. In April 2009 the company’s administrators outlined that the return to creditors was projected to be 80p in the pound by 2012.

55. To reflect the fact that carrying value of the loans is in excess of the recoverable amount the council has recognised an impairment of £3.1 million in the value of these assets and the associated interest income in the Income and Expenditure account as irrecoverable. The council has decided that it will take advantage of regulations introduced by the Scottish Government to defer the impact of the impairment charge on the General Fund until 2010/11. As a result of this decision, both the impairment charge and the interest credited to the Income and Expenditure Account have been transferred to the Financial Instruments Adjustment Account.
Pension funds

56. The council is responsible for the management and administration of the Scottish Borders Council Pension Fund on behalf of the council and a number of other admitted bodies. At 31 March 2009 the fund had assets of £227.9 million (31 March 2008 - £284.9 million). The fund investments are managed externally by two firms of investment managers, UBS Global Asset Management and Baillie Gifford. In 2008/09 administration costs amounted to £228k (2007/08 - £185k).

57. Total investment value has recently declined due to the global economic downturn. There have been significant movements in share prices particularly in the banking sector, affecting the investment asset valuation. However, the dynamic nature of the current market does not lend itself to a reliable long term estimate of the value of the asset.

58. In 2008/09, the fund returned -21.4% compared to a benchmark of -19.9%. Exhibit 4 shows the negative performance of the fund over 2008/09 with the strong performance over the previous 4 years.

Exhibit 4

59. The long term impact of these fluctuations will be monitored on an ongoing basis by the council. The effect on the asset values of the pension fund and the future outlook for employers’ contributions was assessed at the triennial valuation of the pension fund. The Chief Financial Officer has taken the findings of this valuation into account in his decision to leave the employer contribution rate unchanged.
Financial planning

60. In 2008 the concordat between the Scottish Government and local government was introduced bringing with it the Single Outcome Agreement, the Council Tax freeze and the rolling up of previously ring-fenced grants into general revenue funding. In a report to council in February 2008 the Director of Corporate Resources highlighted these changes and reported that whilst the council’s share of Aggregate External Finance had increased by £7.3 million this was not enough to meet expected cost increases of £14.3 million arising from pay increases (including single status), fuel and food cost inflation and changes to services provided. The council’s budget for 2008/09 therefore included £7.2 million of proposed efficiencies and cost savings to meet this shortfall.

61. As the council is party to the concordat the council tax will not be increased in 2009/10. In February 2009 the Director of Corporate Resources highlighted that the council continued to face difficult financial pressures in 2009/10 and was faced with revenue cost increases of £20.8 million. This means that the council has had to look at other sources of income and reductions in expenditure to balance its budget. The council has £6.4 million of efficiency savings built into its 2009/10 budget through implementation of Business Transformation Programme streams, a workforce review and service re-design (Environmental Services). A further £1.1 million of savings is anticipated from service rationalisations including a reduction in planned works (Roads Services). Increases in some charges to clients will also be applied for certain services.

62. The Scottish Government has communicated that public expenditure will be constrained for the medium term. This means that councils need to plan now for a future where there is no real growth in funding. Assuming that the council remains party to the concordat, there will be no increase in the level of council tax for at least another year. Scottish Borders has produced a medium term financial plan and is in the process of aligning this with the SOA. This will enable it to ensure that resources are targeted to the achievement of local priorities.

Budgetary Control

63. This year, because of the heightened importance of good budgetary control, we paid particular attention to how the council set and managed its budgets. We found that the process for budget setting was generally sound and comprehensive with a number of elements of good practice. The council has itself identified the need for clearer linkages with the SOA and to maintain tight control over the budget setting and monitoring process.

64. Budgetary control reports to members routinely comment on variances/virements and explain why the variance has occurred and the need for the virement. The process would be improved if the budgetary control reports had more emphasis on demonstrating any service impact of the variance as well as the implications for the final outturn.
65. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property, because buildings work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the council’s carbon footprint.

66. In 2009, we published Asset Management in Councils. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. Scottish Borders Council identified that 62% of their properties were considered to be in good or satisfactory condition with a further 20% considered to be in poor or bad condition; 18% have yet to be assessed. The report also highlighted that the council had only reviewed approximately a quarter of its properties to assess suitability for purpose. Fifty percent of those were considered to be poor or unsuitable.

67. The lack of full information regarding the condition and suitability of the council's property portfolio is likely to impact on the council’s ability to deliver Best Value services and its aim to reduce the volume of office space used. This however is in the process of being addressed following organisational restructuring and the recruitment of additional staff to increase the strategic capacity of the Estates function.

68. The report also highlighted that c66% of the council’s expenditure on property maintenance in 2007/08 was reactive rather than planned. The council’s maintenance costs of £5 per square metre were the third lowest in Scotland and less than half the national average for Scottish councils. The amount of maintenance a building requires depends on a number of factors and it is more effective to maintain buildings in a planned manner and good practice suggests a ratio of 60% planned maintenance expenditure against 40% reactive. However, in order to help cope with its relatively low maintenance spend, the Council has a Property & Assets Programme in its capital programme that comprises planned capital spend for enhancement and improvements, which also address condition issues. When the latter spend is combined with the maintenance spend, the proportion of planned spend that addresses condition issues increases to about 66%, comfortably above the good practice bench mark of 60%. The relatively low level of maintenance resource allocated to the Council’s estate means that a substantial backlog of necessary maintenance has built up when the council is facing severe financial constraints as a result of the current economic climate.

69. The council’s Corporate Property Asset Strategy and Management Plan dates from 2006 and is due to be reviewed by 31 December 2009. In the meantime, a Property & Assets Review Programme was agreed in November 2007 and progressed as part of the Council’s Business Transformation Programme, putting estates strategy at the heart of the Council’s change agenda. The latter
programme was last reviewed in May 2009 and its work will form the core programme of work for the 31 December 2009 Corporate Property Asset Strategy & Management Plan.

Key risk area 1

70. Early 2009 saw the opening of the new Berwickshire and Eyemouth High Schools, two of the three schools to be constructed under the council’s 3 High Schools PPP scheme. The third school, Earlston High School opened in August 2009. This represents completion of the first stage of the council’s investment in new educational facilities which includes the provision of a further 5 new primary schools.

71. The current economic situation has implications for the management of the council’s assets. In recent years the council has not placed significant reliance on capital receipts from disposals to finance capital expenditure. However, the current capital plan anticipates that capital receipts arising from the property rationalisation programme will support the capital programme in future years. The economic recession means that assets are harder to dispose of and proceeds are lower than might previously have been anticipated and the Capital Management Group is keeping this situation under review. The council will need to carefully balance the cost of retaining these assets until prices rise against the proceeds available to ensure that they achieve Best Value.

Procurement

72. Local authorities spend significant sums annually purchasing goods and services. As part of the efficient government initiative the Scottish Government identified that scope existed for significant financial savings through improved procurement practice. The McClelland Report on procurement, published in March 2006, confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.

73. In response to the McLelland Report the Scottish Government introduced the Public Procurement Reform Programme (the programme) in April 2006. In July 2009 Audit Scotland reported the extent to which the programme had progressed nationally. The report concluded that while some significant steps had been taken, more work was required before the programme could achieve its full potential. In particular:

- there was no systematic process for reporting savings directly attributable to the programme
- savings from collaborative contracts, a key feature of the programme, are being achieved more slowly than anticipated
there are wide variations across public bodies in the quality of purchasing data, practice and skill levels.

74. During 2008 the council undertook a fundamental review of procurement with the aims of improving its strategic approach to procurement, ensuring adherence to EU legislation and achieving best practice. From April 2009 the council’s procurement will be undertaken through a centralised Corporate Procurement Service which will work within the Category Management Model for contracting (the council has been a member of Scotland Excel since February 2008).

75. A revised procurement strategy which aims to achieve Best Value, protect public spending, reduce bureaucracy and support a mixed economy of provision was approved by council in June 2009. A direct link to the council’s SOA provides a framework for Best Value and supports compliance with the recommendations in the McClelland Report.

76. The strategy is supported by a procurement plan for 2009/10 and work is underway to implement a process for identifying, recording and monitoring procurement savings and benefits. The Corporate Procurement Service aims to achieve savings in excess of £1 million from new contracts and frameworks in 2009/10.

Managing People

77. The council has undertaken, and is undertaking, a number of reviews at service level, principally through its Business Transformation Programme (support, older peoples and children’s services) all of which have included aspects of workforce planning. The council’s Human Resources Strategy sets out a high-level statement of values and principles. However, this has not yet been developed into a comprehensive, organisation wide workforce plan through which to identify resource needs.

78. The ongoing Business Transformation Programme will result in a number of changes in the tasks people perform, the people who perform those tasks and how they are performed. Changes in working patterns and working practices combined with the retirement of experienced staff will require the council to ensure that it has appropriate procedures in place to identify and manage the skills gaps that will arise. The council has recognised this and a new Performance Review and Development (PRD) system is being piloted in September 2009 with a view to full implementation in 2010.

79. The council implemented its single status agreement in November 2008. At the end of March 2009 the council had 81 equal pay cases outstanding and has made a suitable provision in the annual accounts. The implementation of single status has helped reduce the risk of further claims.
80. The council has 4,584 FTE staff. Levels of sickness absence are lower than the national average for both non-teaching staff and teachers. In 2008/09 the council lost 45,435 days to sickness amongst non-teaching staff which equates to 13.3 days per employee and 6,542 days amongst teaching staff, 5.6 days per employee.

81. A staff survey has not been carried out since 2003. Again, given the council’s ongoing business transformation programme, it is important that the council understands the issues of importance to staff. The changes in departmental structures and working practices arising from the BTP have the potential to impact adversely on the morale of some groups of staff. A survey which has been commissioned and will be conducted across all staff in September 2009 with the results being available in November 2009. This will assist the council to assess the impact of implementation of single status on the morale of staff.

ICT

82. The council’s Business Transformation Programme places significant dependence on the use of an appropriate ICT infrastructure to support redesigned services and a modern, flexible approach to working. In January 2009 the council received a report from the Director of Corporate Resources outlining the conclusions reached from a review of future ICT service delivery options by external consultants. The consultants made a number of recommendations to improve service delivery which were adopted by council.

Data handling and security

83. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.

84. We carried out a review of data handling and security and we found elements of good practice, for example, the council has a framework of policies and standards in place and a procedure for secure disposal of assets. However more work is required to establish the existence and ownership of information assets to ensure that all aspects of confidentiality, integrity and availability have been addressed.

Key risk area 3
85. In October 2008 a clerical error led to the accidental disclosure of a number of confidential private sector landlord e-mail addresses. The council responded to this through an internal investigation and a number of recommendations were made to prevent a recurrence.

Shared Services

86. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. They recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency. The council is working with 5 partner councils across Edinburgh, the Lothians and Fife as a part of the ELBF Forum to explore opportunities for shared service activity. Work is still at an early stage but the Forum is considering a number of projects including:

<table>
<thead>
<tr>
<th>· Procurement</th>
<th>· Mobile working</th>
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<td>· Internal audit</td>
<td>· Roads maintenance</td>
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<td>· Payroll</td>
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87. The Council has a number of positive examples of shared services with NHS Borders already in operation

- Mental Health
- Learning Disabilities
- Equipment and Ability Store
- Equalities and diversity
- Joint Director of Public Health

Work is ongoing to identify further opportunities for shared services and resources.

Outlook

88. Clearly we are in a period of reduced economic growth with significant implications for the council’s resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.
89. Whilst the recession has significant implications for the whole of the country the Scottish Borders has faced recession for a number of years, with the decline of commercial activity in the areas of textiles and electronics. The council has had to work actively with enterprise bodies and the private sector to find innovative ways to stimulate the economy, taking account of the needs of a widely dispersed population over a predominantly rural region.
Governance and accountability

Introduction

90. An effective council is committed to high standards of probity and demonstrates high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting which sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its reporting of the council’s strengths, weaknesses and challenges for the future.

Structure and policies

91. Corporate governance is about direction and control of organisations. Councils are large complex organisations therefore good governance is critically important. The council has determined five key dimensions to its governance arrangements: community focus, service delivery arrangements, structures and processes, risk management and internal control systems, and standards of conduct. Directors are required to sign an annual ‘Certificate of Corporate Governance’ and the Chief Executive provides the Audit Committee with an opinion on the adequacy and effectiveness of internal control and Corporate Governance arrangements. In his statement for the year ended 31 March 2009 the Chief Executive stated that corporate governance arrangements were considered adequate overall and has identified a number of areas for improvement. Based on the work we undertook, we concluded that the council had systems in place that operated well, within a sound environment.

92. The council operates an executive/scrutiny committee structure. The “Executive” consists of twelve elected members from the coalition administration and makes most of the decisions arising from council policies and strategies. The Scrutiny Committee is comprised of nine elected members, excluding any members on the Executive and exists, among other things, to ensure that the Executive makes decisions which reflect the best option for the council. Some local decision making is devolved to the 5 Area Committees.

93. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The council’s framework for scrutiny includes, in addition to the Scrutiny Committee, a Performance Monitoring Panel and an Audit Committee. Each has a clear role and remit. The Audit Committee is well attended and in overall terms its remit and working practices are in accordance with best practice principles.
94. Each year the Audit and Risk Manager provides the Committee with a report summarising the work of internal audit and providing an opinion as to the effectiveness of the systems of internal control. The Committee undertakes an annual self assessment of its arrangements using the Smith Report evaluation checklist. Arising from the May 2008 review the Committee has introduced an Audit Committee Annual Report. This was presented to the full council in June 2009.

95. During 2008/09 the council implemented the first stages of the Support Services Review, a stream of the business transformation programme. As a part of that review the council has redesigned the structure of the Finance Service, in particular the role of the S95 officer, who is responsible for the proper administration of the council’s financial affairs and the administration of those affairs. This statutory role was previously held by the Director of Corporate Resources. The restructuring created a new post of Chief Financial Officer which the Council has designated as the appropriate post to discharge the Section 95 responsibilities.

Roles and relationships

96. Clarity of elected member roles is well established. The council’s ‘Role Description for Elected Members’ details the duties of elected members generally and those of key positions e.g. Convener, Chair of Scrutiny Committee.

97. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The council has an established Elected Member Training and Development programme. In 2008/09 elected members were offered training on a range of areas including, developer contributions, planning gain and the use of legal agreements, equalities and diversity, information technology. Specific training was also provided for new members of the Audit Committee.

98. The council has also been participating in a project initiated by the Improvement Service which is piloting a development framework for Elected Members in Scottish Government. In January 2010 the council’s Scrutiny Committee will be reviewing the results of the pilot project to determine what can be done internally to further develop elected member training.

Partnership Working

99. Community planning structures are well developed with public sector partners at council and local levels with appropriate political, officer and community representation on each. During the year, the Borders Strategic Board (the Community Planning Partnership (CPP) in the Scottish Borders) worked effectively to develop a Single Outcome Agreement, a real milestone for effective partnership working, with the SOA now the key strategic planning document for the Council and its Community Planning Partners. Good leadership by the council ensured that all members of the CPP signed up to the SOA.
100. In August 2009 Audit Scotland published a study examining how public sector bodies were responding to the duties placed upon them by the Civil Contingencies Act 2004, improving civil contingencies planning. The study found that, overall, the act has reinforced multi-agency working and organisations are generally co-operating well with each other. Progress is being made to meet the main duties under the Act, but further improvements could be made and the pace of change could be accelerated in certain areas. The Act requires a broader, more integrated approach to be taken to civil contingencies planning. The study found that traditional aspects, such as response arrangements for emergencies, still tend to dominate. Arrangements for recovery and the continued delivery of service are less well developed.

101. The arrangements for civil contingencies planning are increasingly complex and clarity is needed about leadership, some roles and responsibilities, and priorities. More needs to be done to engage elected members in relation to civil contingencies planning and to communicate effectively with the public.

102. There is now a British Standard (BS25999) for business continuity management. The study found that 14% of Category 1 responders (which includes local authorities), were planning to require evidence of compliance with this standard among their suppliers in future. Scottish Borders Council was the first council in the UK to achieve this benchmark and is currently the only Category 1 responder in Scotland to require certification against this standard from key suppliers and service providers.

103. The report also highlights, as an area of good practice, the work done by the council to develop an emergency rest centre management system. The Scottish Government has now provided funding to roll this system out across the rest of Scotland.

104. The council is aware that the current economic recession is likely to have a significant impact on the local economy as well as on council services. The impact will be felt through increased potential for business failures, higher unemployment and an increasing number of families and individuals experiencing financial hardship. The council, its community planning partners and local enterprise company have worked together to produce an Economic Resilience Plan.

Community engagement

105. The council’s approach to community engagement is set out in its Community Engagement and Consultation Strategy, a revised version of which was published in October 2008. This identifies how the council will engage with citizens and partner organisations to communicate with them, involve them and support them in delivering quality services. This is supported by an annual programme of activity.
106. In 2007/08 the council and its New Ways planning partners worked together to develop the first Scottish Borders SOA. During the current year all partners have worked together to refine the planning process and produce the 2009/10 SOA. This demonstrates the council’s commitment to the successful delivery of key outcomes. However, there remains a need for the council and its partners to develop an effective performance management framework to demonstrate delivery of the SOA outcomes. Work is now underway to finalise the performance management and reporting arrangements to ensure delivery of SOA outcomes. Reporting on the delivery of the outcomes of the 2008/09 SOA is due by the end of September 2009.

Key risk area 4

107. During 2008/09 the council undertook a number of important consultations across a range of service areas of importance to members of the Borders community. These were undertaken through a variety of avenues from open public consultation, the Community Councils and the annual household survey demonstrating the council’s commitment to listening to its community.

Public performance reporting

108. Public performance reporting remains an area where there is significant scope for improvement. The Council has recognised this and has recently approved a revised public performance reporting framework (which includes developing a website “Borders performs”) which will allow the council to demonstrate the impact of the Business Transformation Project, the impact of the SOA and progress in implementing the Administration’s programme to 2012.

Key risk area 5

Outlook

109. The Accounts Commission acknowledges that SOAs are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than the outcomes. The council has already demonstrated good leadership in developing a joined up approach to the SOA with its Community Partners and in 2010/11, we expect to see further developments in clarifying accountability, governance and public performance reporting.

110. As the SOA demonstrates, partnership working is critical to the council’s success. We are developing our approach to the audit of partnerships through the new approach to best value. In future, we shall increasingly be looking at the contribution of the Borders Strategic Board and the individual Community Planning Partners as well as the council’s own contribution to the delivery of outcomes.
Performance management and improvement

Introduction

111. An effective council will have a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision will be effectively promoted by the member and officer leadership of the council and supported by staff and partners. It will be backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council will have a performance management culture which is embedded throughout the organisation. The council’s performance management framework will be comprehensive and integrated with service planning and delivery. Staff will have a “customer first” culture. The council will be able to demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements.

Vision and Strategic Direction

112. The Single Outcome Agreement is now the one strategic document for the Scottish Borders, replacing the Community Plan. For 2009/10 the Council has reviewed its corporate planning structure following the introduction of the SOA and has now streamlined its Corporate Plan and Council Improvement Plan. These Plans have been replaced by a new ‘Council Priorities’ report which is in the process of being finalised. The council and its partners, through the Borders Strategic Board, have been working to review the 2008/09 SOA and ensure that the 2009/10 version is more focussed and prioritised. Of the 46 local outcomes included 21 have now been identified as strategic outcomes and will provide the focus for joint effort and monitoring activity.

113. The council and its partners have recognised the evolutionary nature of the SOA process and are working to improve their approach to its development. In particular they have recognised the need to identify meaningful, effective and robust indicators to enable performance in the delivery of outcomes to be measured and managed. The council has also recognised the linkage between the SOA and the budget setting process and the Administration Budget Working Group has been tasked with taking ownership and oversight of the SOA to encourage debate about outcomes and priorities and to ensure that in future there will be a clear link with the council’s budget, business plans and service plans.
Performance management

Statutory performance indicators

114. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). As the Scottish Borders Council, key SPIs are already included within service scorecards. With regard to 2008/09, a total of 71 SPIs were required. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. In overall terms, Exhibit 5 confirms that the council has made improvement in a number of areas continuing the recent overall positive trend.

Exhibit 5
Improvements demonstrated by SPIs (Total 71 indicators)

115. The picture across council services is mixed and the degree of change is not always significant. Patterns are beginning to emerge in some areas that show trends in one direction or another such as Social Work which is showing improvements in the majority of its care indicators and in the quality of accommodation provided in residential accommodation. In some areas performance is mixed, for example, Environmental Services where the number of complaints per 1,000 households rose to 24.9 (2007/08 18.3). However the same service oversaw an increase in the amount of municipal waste recycled to 36.9% and the overall cleanliness index achieved rose to 76. Some frontline services also show a decline in service levels such as Roads and Lighting which saw a decline in performance for the repair and maintenance of traffic and street lighting.

116. In 2007/08 the council had 21 indicators ranked within the upper quartile (i.e. in the top 8 of the 32 councils) and 19 in the lower quartile (25 – 32). Of those 19 indicators in 2008/09 there has been an improvement in 14 cases. In 5 instances, however, performance has declined.
117. Each year we review the reliability of the council’s arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs has continued to improve although there is still scope for further improvements in the process.

118. In February 2009 the Social Work Inspectorate Agency (SWIA) published its Performance Inspection of social work services provided by Scottish Borders Council. The report gave a positive account of many aspects of work and highlighted that the department was ambitious for change and that the work done to improve the impact on the local community was very good. Overall the council was rated as “very good” in 2 of the 10 assessment areas and “good” in the remaining 8. The report also made some recommendations for improvement.

Equality and Diversity

119. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*. This study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.

120. Scottish Borders Council has recognised that it has responsibilities and duties to comply with diversity and equalities legislation. An Equalities and Diversity Working Group comprised of members and officers drives the process internally, whilst the Fairer Borders group, with members from the council and its partners, supports local outcomes in the SOA relating to equalities and diversity.

121. In December 2008 a report to the Executive, incorporating the findings of the Audit Scotland report, highlighted that the council needed to do more and presented the Race Equality Scheme 2009 – 2011 action plan. A number of developments have been made or are underway including:

- a Migrant Support Service – hosted by the Eildon Housing Association on behalf of Fairer Borders
- welcome handbooks are being revised to cover more languages
- the council and its partners are introducing a joint approach to interpretation and translation
- equalities and diversity have been reflected in the 2009/10 SOA
- an equalities and diversity training programme for officers and elected members has commenced.
122. The council is also operating on a trial basis a joint Equalities and Diversity service with NHS Borders to explore the benefits of joint working in this area which will be subject to review – March 2010. A Strategic Lead Officer will be shared by both organisations and will lead the development of equalities and diversity awareness.

123. The Race Equality Action Plan was presented to council in December 2008. Whilst acknowledging that many of the actions therein are medium term and unlikely therefore to have been completed, it is noted that no progress reports have been presented to council. Regular progress monitoring will help the council and its strategic partners to deliver their responsibilities with regard to Equalities and Diversity and demonstrate that elected members have taken ownership of these responsibilities.

Key risk area 6

Efficiency

124. The council’s Business Transformation Programme seeks to deliver a modern, efficient and customer focussed organisation. The savings anticipated from the strands of this programme play a critical part in the council’s budget process. A Return on Investment model has been developed to forecast potential efficiency savings in the Customer First workstream. However, the changes arising from the Council Elections in 2007 and the complexity of the programme have meant that savings and benefits have not been realised as quickly as originally intended. In the current economic climate the need to achieve efficiencies whilst maintaining or improving the quality of service delivery is critical. At present the council still lacks a comprehensive framework for systematically identifying and monitoring the efficiencies achieved and demonstrating continued improvement.

125. In February 2008 the council approved a budget containing £7.2 million of proposed efficiency savings. These savings are embedded in service budgets and monitoring their achievement is an integral part of the Council’s budgetary control process.

Key risk area 2

126. Tackling climate change and making the best use of resources require the efficient use of energy. In 2008, we published a report on this subject: Improving Energy Efficiency. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour. In the case of Scottish Borders Council the council has signed Scotland’s Climate Change Declaration and has produced a Corporate Environmental Action Plan to assist in embedding environmental actions throughout the council’s business. The council works with
its New Ways partners to promote energy efficiency and a number of ‘green’ targets have been built into the SOA.

Progress on delivery of the council’s best value improvement plan

127. A full review of best value and community planning was published in March 2007. In intervening years short follow-up reviews are carried out by the local auditor. The 2007 best value report highlighted that the council had focussed on building a corporate improvement culture. Many of the council’s arrangements were new and it still had much to do in major areas of Best Value such as performance management; competitiveness; engaging with its communities; asset management and procurement. The report stated that the council had yet to realise the full benefit of its investments in improving service delivery and outcomes for local people. The council’s service performance was mixed, with some services such as education, refuse collection and recycling performing well whilst improvement was required in others including planning, road maintenance, aspects of criminal justice and delivery of the planned strategic review of community care. The report highlighted that the council was committed to change and had adopted an ambitious Business Transformation Programme, but, in order to implement this as planned the council needed to look closely and realistically at its capacity to deliver the planned improvements.

128. We found that, whilst the Business Transformation Programme has taken longer than originally anticipated in some areas, progress is now being made. The impact of implementing changes from the Children’s Services, Support Services, Procurement and elements of the Transforming Older Peoples Services reviews should begin to be felt in 2009/10. The council has agreed a further 6 strategic reviews covering Property & Asset Management, Technical Services & Planning and Economic Development, Financial Services IT Platform, Capital Expenditure & Planning, Community Services and Residential Care for Older People.

129. The council continues to face significant financial pressures and needs to deliver efficiencies in order to achieve its budget proposals. The council’s Business Transformation Programme offers a means of achieving considerable efficiencies. Whilst there will be some “up front” cash savings arising from implementation of changes a robust monitoring framework will be required to ensure that, in the longer term, revised service delivery arrangements deliver efficiencies and support continuous improvement.

130. There have been some delays in the completion and/or implementation of the improvements the council is committed to which may suggest that there is a need to review priorities, especially in light of ongoing budget pressures, in order to focus resources on those areas identified as in most critical need of improvement.

Key risk area 7
Risk Management

131. Risk is the threat that an event, action or inaction will adversely affect an organisation’s ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

132. The council has a sound approach to managing risk. The council uses its Covalent Performance Management System to maintain corporate, strategic and operational risk registers for all business units. All are subject to quarterly review. The risk management team follows up issues arising from reviews with responsible officers.

Outlook

133. We have already mentioned the importance of developing the governance aspects of the SOA; the performance management aspects are also important. The long term and complex nature of many of the outcome targets pose many challenges for performance management. For example, how can the council tell if its allocation of resources is making a difference? We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems Scottish Borders have in place to monitor progress and take remedial action.

134. We are currently developing our approach to Best Value 2 by working with five pathfinder councils, one of which is Scottish Borders Council. Details of our new approach can be found on our website at www.audit-scotland.gov.uk. From April 2010 we shall be rolling out the new approach to all Scottish councils.

135. In addition, working with other scrutiny and inspection agencies, a Shared Risk Assessment will be developed for every council. This will result in a scrutiny plan for each council covering all scrutiny activity over a three year period.
Appendix A

External audit reports and audit opinions issued for 2008/09

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<th>Title of report or opinion</th>
<th>Date of issue</th>
<th>Date presented to Audit Committee</th>
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<tbody>
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<td>Strategic Audit Risk Analysis</td>
<td>10/3/09</td>
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<td>Review of adequacy of internal audit</td>
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<td>Report on financial statements to those charged with governance</td>
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<td>Audit opinion on the 2008/09 financial statements</td>
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</table>
## Appendix B: Action Plan

### Key Risk Areas and Planned Management Action

<table>
<thead>
<tr>
<th>Action Point</th>
<th>Refer Para No</th>
<th>Risk Identified</th>
<th>Planned Management Action</th>
<th>Responsible Officer</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>69</td>
<td><strong>Asset management</strong>&lt;br&gt;The council has not yet completed the review of its Corporate Property Asset Strategy and Management Plan.&lt;br&gt;<strong>Risk:</strong> the council may fail to benefit from cost saving efficiencies and may suffer performance failures through inefficient or ineffective use of its asset base.</td>
<td>Following organisational restructuring to increase the strategic capacity of the Estates function, the review of the Corporate Property Asset Strategy &amp; Management Plan is due to be completed on the 31st December 2009</td>
<td>Head of Property &amp; Facilities Management</td>
<td>Dec 2009</td>
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<td>2.</td>
<td>76 &amp; 125</td>
<td><strong>Efficiencies</strong>&lt;br&gt;The council does not have a comprehensive framework for systematically identifying scope for efficiencies, monitoring progress and reporting their achievement.&lt;br&gt;<strong>Risk:</strong> the council may fail to benefit from cost saving efficiencies and may suffer performance failures through inefficiencies.</td>
<td>Agreed – improved framework to be developed.</td>
<td>Chief Financial Officer</td>
<td>March 2010</td>
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<tr>
<td>3.</td>
<td>84</td>
<td><strong>Data handling and security</strong>&lt;br&gt;More work is required to establish the existence and ownership of information assets to ensure that all aspects of confidentiality, integrity and availability have been addressed.&lt;br&gt;<strong>Risk:</strong> the council or third parties may suffer loss from inappropriate or ineffective controlled of data.</td>
<td>Under the new BTS structure an Information Management Strategy will be developed. This will set standards and policies for information and data security.</td>
<td>Head of Business &amp; Technology Solutions</td>
<td>April 2010</td>
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<td>4.</td>
<td>106</td>
<td><strong>SOA performance</strong>&lt;br&gt;The council and its partners need to develop an effective performance management framework to support delivery of the SOA</td>
<td>SOA monitoring is a central aspect of the new Performance Improvement Framework and the Borders Strategic Board agreed an updated approach to</td>
<td>Head of BIU</td>
<td>Dec 2009</td>
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<tr>
<td>Action Point</td>
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<td></td>
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<td>outcomes.</td>
<td>quarterly monitoring reporting at its meeting in August 2009.</td>
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<td>Risk: the council and its partners cannot demonstrate that they have achieved desired outcomes or may fail to deliver them.</td>
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<td>5</td>
<td>108</td>
<td>Public performance reporting</td>
<td>The Performance Monitoring Panel approved new Public Performance Reporting arrangements (which includes developing a comprehensive performance reporting web-site “Borders Performs”) at its meeting on 31 August 2009, taking account of the need to report progress against the Single Outcome Agreement.</td>
<td>Head of BIU</td>
<td>Immediate</td>
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<td>The council’s public performance reporting arrangements are not well developed. Reporting is infrequent and lacks depth. Risk: the council is unable to demonstrate to the Borders community that it is delivering Best Value and continuous improvement.</td>
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<td>6.</td>
<td>123</td>
<td>Equalities and diversity</td>
<td>A new joint equalities service with NHS Borders is now in place and new reporting arrangements are now being developed in this context.</td>
<td>Joint Strategic Head for Equalities</td>
<td>Nov 2009</td>
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<td>The council should receive regular reports on the progress towards meeting responsibilities under Equalities and Diversity legislation. Risk: there may be a perceived lack of demonstrable leadership from elected members.</td>
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<td>7.</td>
<td>130</td>
<td>Business transformation</td>
<td>The Council has developed proposals for strengthening the overall governance of the transformation programme and more effectively aligning resources centrally to ensure the effective coordination and delivery of the programme. This, together with robust benefits realisation arrangements, will enable more effective prioritisation and delivery of individual projects.</td>
<td>Head of BIU</td>
<td>Dec 2009</td>
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</tbody>
</table>