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## ITEM 1

**REPORT TO:        AUDIT AND RISK MANAGEMENT SUB-COMMITTEE 20/03/06**

**REPORT ON:        EXTERNAL AUDIT REPORTS**

**REPORT BY:        PEARL TATE, SENIOR AUDIT MANAGER**

**REPORT NO:        78-2006**

### **1        PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee External Audit Reports finalised since the last Sub-Committee.

### **2        RECOMMENDATIONS**

Members of the Sub-Committee are asked to consider each of the individual reports.

### **3        BACKGROUND**

3.1        The following reports relating to the 2004/05 audit have been finalised:

- Asset Management Planning
- Following the Public Pound

3.2        The Summary Findings in each report sets out the principal focus of the review and summarises the main audit findings. The Action Plans contain detailed recommendations on the areas where further improvement could be achieved.

3.3        These reports conclude the agreed 2004/05 external audit plan. Work is now underway to develop the 2005/06 plan which will be brought to the next meeting of the Audit and Risk Management Sub-Committee.

Pearl Tate  
Senior Audit Manager  
12 January 2006

# **Dundee City Council 2004/2005 Audit**

## **Asset Management Planning**

**September 2005**

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# Summary Findings

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## Introduction

1. With the introduction of the Prudential Code (the “Code”) in April 2004, Councils in Scotland have more freedom in determining their levels of capital spend and borrowing. Asset management planning, therefore, represents a major part of the financial planning process.
2. Although an Asset Management Plan (AMP) could have many aims, we consider that some of the key benefits of having a robust and well-planned AMP are to:
  - act as a management tool, aiding the delivery of key elements of the corporate vision, aims and objectives;
  - assist the Council in setting a coherent corporate plan for the development of all its assets including prioritising, on a corporate basis, asset improvements, additions and disposals;
  - provide real integration between asset management and financial planning;
  - contribute to debates about affordability;
  - contribute to long-term objective setting.
3. The Corporate AMP should provide the context, vision and objectives for asset management, with Service AMPs setting out how asset management will add value to frontline service delivery. The Plans should be supported with resources, processes and procedures that demonstrate how the strategy works in practice.
4. As part of our 2004/05 audit, a review has been carried out to determine the progress the Council has made in establishing an AMP following the introduction of the Prudential Code.

## Findings

5. The Council holds a sizeable and varied asset portfolio which includes operational properties, investment properties, social housing, schools, and infrastructure assets e.g. roads and bridges. Asset management is a key component of the financial planning process and in January 2004, the Depute Chief Executive (Finance) and the Director of Economic Development were tasked with taking forward a corporate asset management strategy. As part of this process an Asset Management Group (AMG) and an Asset Management Plan Project Team (AMPPT) was established.
6. The AMG’s remit is to ensure that an AMP is in place by 2007 coinciding with when the current Council Plan 2003-2007 will be reviewed. The task of the AMPPT is to compile and analyse the necessary data to enable the asset management plan to be drawn up.
7. For an AMP to be effective, it requires to be underpinned by robust baseline information from a review of current and likely future requirements. The AMPPT decided that this required all properties to be subject to detailed surveys to confirm whether they were “sufficient and suitable” for purpose and to establish the condition and financial implications of the Council’s property portfolio. Following these surveys the properties will be given a score and decisions taken as to whether low scorers should be disposed of or upgraded to an acceptable level. To address this, three sub-groups of the AMPPT were established covering *sufficiency and suitability*, *technical (condition)* and *surplus properties*.
8. It was initially thought that the surveys would be completed by July 2005 but the AMPPT quickly established that this timescale was unrealistic. The revised timescale anticipates surveys will be completed by February 2006 with a draft AMP being produced by April 2006.

9. A consultant was appointed for a six month period from September 2005 to carry out the *suitability and sufficiency* surveys of approximately 400 properties. Experience to date indicates that the average time taken to complete surveys, including reporting the findings, is three hours. It is unlikely, therefore that the February 2006 target date will be met unless additional resources are made available to conclude the surveys.

**Action Plan no 1**

10. At the time of our review we noted that, whilst the target set by the AMPPT was to create a draft AMP by April 2006, the actions being taken would only result in the creation of a partial asset management database covering operational assets. The School Estate Management Plan, approved by the Education Committee on 15 December 2003, will also form part of the AMP, although this may need to be revised to ensure it meets the overall corporate requirements. Investment properties, social housing and infrastructure assets have not been included to date. Infrastructure assets were excluded on the basis that a Highways AMP was being produced, however we were subsequently advised that this process was at the very early stages and would take between two and five years to complete depending on available resources. This will clearly not be ready for amalgamation with a corporate AMP by 2007.

**Action Plan no 2**

11. The first meeting of the Project Team was held in May 2004. The group has not met since January 2005 and does not plan to meet again until the findings from the surveys are available. There is therefore no monitoring of the progress of survey groups being carried out to ensure the target deadlines for producing an AMP are achieved.

**Action Plan no 3**

12. Membership of the Asset Management Group includes the Depute Chief Executive (Finance) and Depute Chief Executive (Support Services) and is chaired by the Director of Economic Development. The group has been tasked with ensuring the AMP is in place by 2007. A well designed AMP will influence the asset management strategy, corporate policy development and implementation, and service and budget planning guidelines. This can be a complex and time consuming process. The AMG has however, only met twice, the last time being in March 2005.

**Action Plan no 4**

13. The Best Value Task Force issued "Asset Management under Best Value – An Advisory Note" which is intended to support managers in their interpretation of obligations under the Local Government in Scotland Act 2003. This document states "Capital assets are as important a resource as cash, and councillors should be aware of the strategic importance of good asset management at the highest level. Officers would also benefit from the designation of an elected member to ensure that asset management considerations are taken into account in policy and operational discussions at a political level." There is as yet no member representation on the AMG.

**Action Plan no 5**

14. Our review highlighted that although the process of developing an AMP is underway, considerable work remains to be completed, for example, the need for:
- a clear and comprehensive corporate policy for asset management, encompassing all assets, and all aspects of asset management to be developed. This should include procedures for maintaining and monitoring AMPs, prioritising capital expenditure needs in line with corporate strategy and links to the financial planning process;
  - the corporate vision, aims and objectives to be integrated into the AMP planning process;

- documentary procedures to be developed, formally linking output from the AMP system to the existing Prudential Code framework and budget setting process.

***Action Plan no 68***

## **Management action**

15. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist. Although our report includes a number of specific recommendations to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to Dundee City Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
16. The contents of this management letter have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

Pearl Tate  
Senior Audit Manager

## Action Plan

No.	Issue, Risk and Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
1	<p>A consultant was appointed for six months from September 2005 to carry out the <i>suitability and sufficiency</i> surveys of approximately 400 properties. Experience to date indicates that the average time taken to complete surveys, including reporting the findings, is three hours. It is unlikely, therefore that the February 2006 target date will be met unless additional resources are made available to conclude the surveys</p> <p><i>Risk: the effectiveness of the AMP as a management tool is diluted by delays in the availability of key baseline information.</i></p> <p><b><i>Recommendation: the timetable and resources allocated to complete the property surveys program should be urgently reviewed and action taken to ensure the target dates of February and April 2006 are achievable.</i></b></p>	High	J D Dobbie	Agreed	<p>The Council is committed to creating and implementing a Corporate Asset Management Plan within the target timescales it has set.</p> <p>The issue of additional resources will be addressed should there be a deviation from this.</p>	by Feb. 2006

No.	Issue, Risk and Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
2	<p>At the time of our review we noted that, whilst the target set by the AMPPT was to create a draft AMP by April 2006, the actions being taken would only result in the creation of a partial asset management database covering operational buildings. We noted that the School Estate Management Plan, approved by the Education Committee on 15 December 2003, will also form part of the AMP, although this may need to be revised to ensure it meets the overall corporate requirements. Investment properties, social housing and infrastructure assets have not been included to date. Infrastructure assets were excluded on the basis that a Highways AMP was being produced, however we were subsequently advised that this process was at the very early stages and would take between two and five years to complete depending on available resources. This will clearly not be ready for amalgamation with a corporate AMP by 2007.</p> <p><i>Risk: a corporate AMP may not be possible if content and output of the various asset planning systems are inconsistent or not completed within the timeframe.</i></p> <p><b>Recommendation: action should be taken to ensure that all the various asset planning systems within the Council are consistent in terms of content and output and that all plans are developed in time to produce a corporate AMP by 2007.</b></p>	High	J D Dobbie	Agreed	<p>For the purposes of the Council's statutory requirements, the properties used for their delivery were deemed to have a priority over non statutory activities. These will be addressed at a later stage</p> <p>The Highways AMP is being progressed separately by engineers and will cover infrastructure assets before being assimilated into the Corporate Plan.</p>	by Feb. 2006

No.	Issue, Risk and Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
3	<p>The first meeting of the Project Team was held in May 2004. The group has not met since January 2005 and does not plan to meet again until the findings from the surveys are available. There is therefore no monitoring of the progress of survey groups being carried out to ensure the target deadlines for producing an AMP are achieved.</p> <p><i>Risk: target dates completing surveys are not met resulting in delays to the production of an AMP.</i></p> <p><b>Recommendation: the AMPPT should meet regularly to monitor progress in completing surveys and take prompt action to address any slippage.</b></p>	High	J D Dobbie	Agreed	<p>The AMP has progressed from a concept to a strategy for gathering data on property.</p> <p>Until this has been completed and the strategy to deal with the results and the future various service plans development projections, the Corporate Property Officer has been monitoring progress to date. Reports will be submitted at strategic intervals by the AMPPT</p>	Immediate
4	<p>Membership of the Asset Management Group includes the Depute Chief Executive (Finance) and Depute Chief Executive (Support Services) and is chaired by the Director of Economic Development. The group has been tasked with ensuring the AMP is in place by 2007. A well designed AMP will influence the asset management strategy, corporate policy development and implementation, and service and budget planning guidelines. This can be a complex and time consuming process. The AMG has however, only met twice, the last time being in March 2005.</p> <p><i>Risk: there is no strategic drive to ensure a robust AMP is established.</i></p> <p><b>Recommendation: the AMG should meet regularly to monitor progress in developing the AMP and to ensure the plan is robust. It should also take prompt action to address any slippage.</b></p>	High	EGB/ D K Dorward	Agreed	<p>The AMG has been disbanded in favour of a higher profile group, the Efficient Government Board (EGB) comprised of non service department Managers.</p> <p>The EGB covers a broad area of responsibility which now includes Asset Management Planning.</p> <p>They will meet regularly and focus their attentions on each of these areas for progress particularly in respect of the AMP.</p>	Completed



No.	Issue, Risk and Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
5	<p>The Best Value Task Force issued "Asset Management under Best Value – An Advisory Note" which is intended to support managers in their interpretation of obligations under the Local Government in Scotland Act 2003. This document states "Capital assets are as important a resource as cash, and councillors should be aware of the strategic importance of good asset management at the highest level. Officers would also benefit from the designation of an elected member to ensure that asset management considerations are taken into account in policy and operational discussions at a political level." There is as yet no member representation on the AMG.</p> <p><i>Risk: councillors may not be fully informed of asset management decisions.</i></p> <p><b>Recommendation: the AMG should include member representation to ensure that asset management considerations are fully considered during policy and operational discussions.</b></p>	Medium	EGB/ D K Dorward	Agreed	<p>The AMP is currently being developed and until it has reached a point where we have all the information on our properties recorded in the database, there is no perceived benefit in involving elected members either for them or the process.</p> <p>When this stage has been completed and the formulation of a strategy for the future is being undertaken, elected members and possibly other interests will become involved.</p>	Post Feb. 2006
6	<p>The Council has not yet produced a clear and comprehensive corporate policy for asset management.</p> <p><i>Risk: the lack of a formal asset management policy could be viewed as a corporate governance weakness.</i></p> <p><b>Recommendation: a clear, comprehensive corporate policy for asset management, encompassing all assets and all aspects of asset management should be developed. This should include procedures for maintaining and monitoring AMPs, prioritising capital expenditure needs in line with corporate strategy and links to the financial planning process.</b></p>	High	EGB/ D K Dorward	Agreed	<p>The fundamental process of an AMP is to garner the data of the total asset holding and use the Council and Community Plans to identify future aspirations particularly in relation to property needs.</p> <p>Until we have completed this stage the formulation of a strategy is premature.</p> <p>In the interim, the Efficient Government Board will involve and monitor officers who will have a direct contribution to the plan.</p>	Immediate

No.	Issue, Risk and Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
7	<p>In order for the AMP to be an effective management tool, aiding the delivery of key elements of the corporate vision, aims and objectives, such elements should be clearly integrated into the AMP planning process.</p> <p><i>Risk: the effectiveness of the AMP as a management tool is diluted if it is not informed by corporate vision, aims and objectives.</i></p> <p><b>Recommendation: The Council should take the necessary steps to ensure that corporate vision, aims and objectives are clearly integrated into the AMP planning process.</b></p>	High	J D Dobbie	Agreed	<p>The Corporate Vision is contained in the Council and Community Plans which will be integrated into the AMP at the next stage. The AMP will reflect the aspirations of both plans and be a dynamic tool for management to ensure both plans are carried out or identify areas where additional resources will be required in advance of their need.</p>	Post Feb. 2006
8	<p>Documentary evidence has not been provided to explain how output from the AMP system is planned to formally link to the existing Prudential Code framework and budget setting process.</p> <p><i>Risk: capital spending plans are set without major input from the AMP process. The Council is unable to demonstrate meaningful consideration of the affordability, prudence and sustainability of capital expenditure.</i></p> <p><b>Recommendation: documented procedures should be developed, formally linking output from the AMP system to the existing Prudential Code framework and budget setting process.</b></p>	High	EGB/ D K Dorward	Agreed	<p>The linkage between the Capital Plan and the AMP is yet to be developed fully.</p> <p>The EGB will ensure the involvement of officers working on the AMP compilation to identify property asset requirements/needs as a matter of course until such time as the AMP has been sufficiently developed to provide the information for future capital expenditure to be determined.</p>	by March 2007

# Dundee City Council 2004/05

Following the public pound

October 2005



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Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



# Contents

<b>Executive summary</b>	<b>1</b>
<b>Action plan</b>	<b>3</b>
<b>Introduction</b>	<b>11</b>
<b>Expenditure</b>	<b>13</b>
<b>Code compliance</b>	<b>15</b>

# Executive summary

## Overall conclusions

In response to the need to maintain control and accountability over public funds paid to arms-length and external organisations (ALEO'S), COSLA and the Accounts Commission jointly published the "Code of Guidance on Funding External Bodies and Following the Public Pound" (the Code) in 1996. Although Dundee City Council endeavours to comply with the Code there are a number of areas where improvements could be made.

## Main strengths

The Council has effective arrangements in place to:

- properly document agreements with ALEO's. All such agreements are drawn up with reference to the Council's local guidelines 'Guidance on Funding External Bodies and Following the Public Pound';
- maintain and review a central database of its departments' funding arrangements with ALEO's;
- monitor its relationship with ALEO's. Departmental Monitoring Officers are in place and monitoring arrangements are established at the outset of the funding arrangement through service level agreements;
- ensure that when it enters into a new arrangement to fund an ALEO, the Council's liability in all types of financial support is clearly stated within the service level agreements.

## Areas for improvement

We consider the following areas merit renewed management attention:

- in relation to large investments, whilst we noted that officers carry out informal discussions and assessments in determining how a new organisation will be set up, there was little evidence to show the Council entering into a formal decision making process in this area;
- many aspects of a sound risk assessment framework in relation to ALEO's are in place but this process has not been formalised;
- due to the volume and diversity of organisations the Council funds there is no consistent format for collecting performance information across all areas of council activity. In some instances, however, only financial activity is measured therefore it is not clear whether these ALEOs have actually achieved the Council's non-financial objectives. Monitoring reports tend to be submitted to Committee on an annual basis rather than on a level and frequency consistent with the risks to the Council.

## Management action

The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged. The agreed action plan contained within this report details areas where improvements could be achieved.

Pearl Tate  
Senior Audit Manager  
October 2005

# 1. Action plan

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
<b>Principle 1: Purpose</b> : the council is clear about its reasons for transferring funds to ALEOs.						
1	<p>We found that, in respect of significant investments, in most instances the Council has entered into a limited company agreement with other public or private bodies as this was seen as the most appropriate mechanism to access finance which would not be available from internal budgets. Whilst we noted that officers carry out informal discussions and assessments in determining how a new organisation will be set up, there is little evidence of any formal decision making process in this area</p> <p><b>Risk: Limited companies may not be the most appropriate means of achieving the Council's objectives.</b></p> <p><b>Recommendation:</b> <i>When establishing a significant arms length organisation, the Council should conduct a formal option appraisal to identify the optimum type of organisation, its governance arrangements, and the nature of the Council's funding commitment.</i></p>	Medium	<b>Depute Chief Executive (Finance)</b>	<b>Agreed</b>	<p>The Council will continue to undertake a full option appraisal when establishing significant arms length organisations. In future, this process will now be formalised.</p> <p>The above procedures will be outlined in memorandum to departments when issuing Following the Public Pound Guidance.</p>	<b>31 Dec 2005</b>



Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
	<b>Principle 2: Financial regime:</b> the council has a clear and robust financial management regime in place.					
2	<p>The Council displays many aspects of a sound risk assessment framework in relation to ALEO's but this process has not been formalised.</p> <p><b>Risk: The Council may be exposed to a high or unacceptable level of financial or reputational risk.</b></p> <p><b>Recommendation:</b> <i>The Council should have a formal risk assessment framework in place relating to ALEO's that;</i></p> <ul style="list-style-type: none"> <li>• <i>identifies the objectives of the service delivery approach;</i></li> <li>• <i>identifies potential areas of risk, both financial and non-financial;</i></li> <li>• <i>evaluates the significance of risks identified;</i></li> <li>• <i>implements procedures to address risks;</i></li> <li>• <i>monitors and reviews risk procedures.</i></li> </ul>	High	Depute Chief Executive (Finance)	Agreed	<p>The Council will build on the existing risk assessment procedures that are already in place. This will include establishing a formal risk assessment framework for major organisations funded by the Council. This formal assessment will only apply to organisations receiving financial support in excess of £100,000 per annum.</p> <p>The above procedures will be outlined in memorandum to departments when issuing Following the Public Pound Guidance.</p>	31 Dec 2005

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
	<b>Principle 3: Monitoring:</b> the council has robust arrangements for monitoring its relationship with ALEOs.					
3	<p>The monitoring arrangements with ALEOs are established at the outset of any funding relationship and these arrangements are included in the relevant service level agreements. However, from a review of the agreements, these requirements are not always clearly set out.</p> <p><b>Risk:</b> <i>Insufficient information may be provided by ALEOs to enable the Council to fully monitor outcomes.</i></p> <p><b>Recommendation:</b> <i>Monitoring arrangements with ALEOs which are established at the outset of any funding relationship should be included in the relevant service level agreements.</i></p>	Medium	Depute Chief Executive (Finance)	Agreed	All service level agreements should include detailed requirements of monitoring arrangements with ALEOs. Sponsoring departments already review service level agreements on a periodic basis. The Depute Chief Executive (Finance) will provide written guidance to departments instructing them, when carrying out the next review, to ensure details of these arrangements are clearly set out in all service level agreements in future.	31 Dec 2005

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
4	<p>Due to the volume and diversity of organisations the Council funds it is acknowledged that there may not be a consistent format for collecting performance information across all areas of council activity. In some instances, however, only financial activity is measured. The inclusion of non-financial performance measures within the monitoring process is essential in order to establish whether the ALEO has actually achieved the Council's objectives. Monitoring reports tend to be submitted to Committee annually rather than on a level and frequency consistent with the financial and non-financial risks to the Council.</p> <p><b>Risk: There may be insufficient information to confirm that Council objectives are being achieved and therefore that public funds are being appropriately spent.</b></p> <p><b>Recommendation:</b> Accounting information on the use of council funds and non financial performance measures should be consistently collected across the Council. To enable appropriate action to be taken, financial and non financial monitoring reports should be submitted at a level and frequency consistent with the risks to the Council, rather than on an annual basis.</p>	High	Depute Chief Executive (Finance)	Agree	<p>It is the Council's view that robust monitoring arrangements with ALEOs are already in place and therefore this principle is adhered to. Due to the range and diversity of organisations involved it would be impossible to consistently collect financial and non-financial information across all areas of Council activity. We do acknowledge, however, that there may be instances where financial and non-financial monitoring reports could be submitted more often than an annual basis.</p> <p>The Depute Chief Executive (Finance) will therefore instruct sponsoring departments to review all organisations individually and consider alternative reporting arrangements for both financial and non-financial information. Any changes following this review should then be incorporated in future service level agreements.</p>	31 Dec 2005
78-2006			6			20-03-06

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
5	<p>There are no measures in place to alert the Council should a problem arise between the formal monitoring stages. The measures to be taken by the Council to guard against its funding of an ALEO being misappropriated are not adequately defined. Officer/member representation or attendance at ALEO Board meetings is deemed to be sufficient where the Council has a significant financial commitment in the ALEO.</p> <p><b>Risk: This could result in a potential loss of Council funds or objectives not being met</b></p> <p><b>Recommendation:</b> Measures should be in place to alert the Council should any problems arise between formal monitoring stages for any ALEOs. These procedures should be documented in the local guidelines.</p>	Medium	Depute Chief Executive (Finance)	Agreed	<p>For organisations that receive a significant level of financial support the Council have elected members/officers on their Board of Directors. In the event that a problem arose this individual would inform the Council.</p> <p>For other smaller investments it is agreed that it would be beneficial for the Council to review individual organisations and where appropriate introduce alternative monitoring mechanisms other than the existing procedures of reviewing historical annual accounts.</p> <p>The Depute Chief Executive (Finance) will provide written guidance to instruct sponsoring departments to review all existing service level agreements and consider alternative methods of monitoring financial performance. Any changes following this review should then be incorporated in individual service level agreements.</p>	31 Dec 2005

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
	<b>Principle 4: Representation:</b> the council is clear about the purpose of any officer or member representation on ALEOs, and representatives discharge their responsibilities with due regard to the objectives of the council.					
6	<p>In May 2001 the Council issued “<i>Companies, Trusts and Other Outside Organisations Guidance to Elected Members and Officers</i>” which clearly sets out the individual’s responsibilities to both the Council and the ALEO. This document has not, however, been reviewed since it was originally published and does not currently cover, for example, dispensations granted by the Standards Commission with effect from May 2003.</p> <p><b>Risk: Members/officers are not fully informed of their responsibilities to the Council or the ALEO.</b></p> <p><b>Recommendation:</b> <i>The Council should regularly review the “Companies, Trusts and Other Outside Organisations Guidance to Elected Members and Officers” to ensure it is kept up to date.</i></p>	Medium	<b>Depute Chief Executive (Support Services)</b>	<b>Agreed</b>	<p>The Council issued members with copies of The Councillor's Code of Conduct issued by the Standards Commission in May 2003 (see report by Depute Chief Executive (Support Services) - 326-2003). In addition, the Depute Chief Executive (Support Services) provided training sessions regarding this subject for all elected members at that time.</p> <p>Whilst the above information was issued the Council did not update its own guidance note on "Companies, Trusts and Other Outside Organisations Guidance to Elected Members and Officers." The Depute Chief Executive (Support Services) will review and update this guidance and then reissue this to all relevant elected members and officers.</p> <p>Arrangements will be put in place to ensure that this guidance is reviewed regularly and distributed to all relevant individuals.</p>	<p><b>30 Nov 2005</b></p> <p><b>Ongoing</b></p>

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
<b>Principle 6: Accountability:</b> the council makes arrangements for suitable access by external audit.						
7	<p>Arrangements for audit access to records and to the ALEO's external auditors are highlighted in the local guidance. A review of service level agreements found that not all of these contained clauses whereby the body funded by the Council permitted duly authorised staff or agents of the Council to examine its records at any reasonable time and to provide suitable oral or written explanations if reasonably required by the Council or their auditors.</p> <p><b>Risk: Insufficient access to records and staff may result in probity or regularity issues not being fully investigated.</b></p> <p><b>Recommendation:</b> <i>All service level agreements should contain clauses whereby the ALEO's permit duly authorised staff or agents of the Council together with the Council's internal/external auditors right of access to key records and staff. Arrangements for audit access to ALEO's which are already being funded should be reviewed and monitored on a regular basis.</i></p>	Medium	Depute Chief Executive (Finance)	Agreed	<p>All service level agreements should include standard clause with regard to access to information by authorised audit staff. Sponsoring departments already review service level agreements on a periodic basis. The Depute Chief Executive (Finance) will provide written guidance to departments instructing them, when carrying out the next review, to ensure this clause is now included in all service level agreements in future.</p>	31 Dec 2005

Action ref	Recommendation	Priority	Responsible officer	Agreed	Council's comments	For action by (date)
8	<p>The earlier work carried out by Audit Scotland and the more recent publication of the Accounts Commission's findings raised general concerns about councils' funding of ALEO's. We were advised that the Council had started reviewing the arrangements it has in place to ensure it complied with the Code but this exercise has still to be concluded.</p> <p><b>Risk: The Council fails to comply with the Code.</b></p> <p><b>Recommendation:</b> <i>The Council should conclude its current ongoing review of the arrangements it has in place to ensure it is complying with the Code.</i></p>	Medium	<b>Depute Chief Executive (Finance)</b>	<b>Agreed</b>	<p>This review will be concluded shortly and reported to Committee by the end of the year. Details of the review will be incorporated in the Following the Public Pound Guidance that will be issued to departments thereafter.</p>	<b>31 Dec 2005</b>

## 2. Introduction

### Background

1. Councils fund arms-length and external organisations (ALEOs) for a range of purposes related to council services and their broader objectives. These arrangements are often more complex than standard purchase contracts for goods or services and are usually designed to deliver wider public benefits. They involve the transfer of public funds from the direct control of a council to the control of an ALEO. In practice these can range from relatively small grants to voluntary organisations and small community organisations, to payments to trusts set up by councils to manage all of their leisure facilities. A council may make a fixed payment to an ALEO, or the ALEO may have the power to commit council funds.
2. To ensure that public funds are used properly, are accounted for and value for money is secured, it must be possible to trace the funds from the point at which they leave the council to the point at which they are ultimately spent by the receiving organisation. In other words, it is important to be able to 'follow the public pound' across organisational boundaries.
3. In response to concerns about councils' increasing use of ALEOs and the need to maintain control and accountability over public funds, COSLA and the Accounts Commission jointly published the 'Code of Guidance on Funding External Bodies and Following the Public Pound' in 1996 (the Code).
4. In view of reported problems in existing funding arrangements and the likelihood of further and possibly more complex funding relationships as councils respond to the Best Value and Community Planning legislation, Audit Scotland carried out a review in 2003. This assessment found that the quality of the information available was mixed, reflecting the problems that some councils experienced in identifying the details requested about expenditure and compliance with the Code, and the difficulties that auditors had in verifying the information.
5. In March 2004, the Accounts Commission issued these findings on the basis of Audit Scotland's research.

On the basis of this initial review the Commission has concerns about councils' funding of arm's length bodies, and particularly about the lack of reliable information on the position. These issues will grow in significance as councils become increasingly involved in partnership working and innovative ways of delivering services and we have therefore asked Audit Scotland to carry out further work as a matter of priority to establish:

- The action taken by councils to apply the Code to funding relationships already in place
- The steps being taken by councils to apply it to new funding relationships
- The extent of implementation of improvements being made by councils in management information systems and controls
- The amounts going to companies and trusts which receive high value funding from councils and the amounts going to the large number of organisations which receive relatively small individual grants, and the ways in which councils are dealing with both categories.

We will make a further public report when that work has been completed. In the meantime we are asking auditors to follow up the initial results with individual councils.



## Aims and objectives

6. The overall aim of the follow-up study was to examine the current position at councils, specifically in relation to the areas highlighted in the Commission's findings. Within this aim the main objectives were:
  - to map how much councils spend on ALEOs, and why;
  - to establish the extent to which councils comply with the Code;
  - to facilitate the sharing of identified good practice;
  - to prepare a local report for each council;
  - to prepare a national follow-up report on a named council basis.

## Audit approach

7. Councils completed a questionnaire which was validated by their appointed auditors who, in turn, submitted a suitably revised return to the central study team in Audit Scotland.

# 3. Expenditure

## Background

8. Research leading to our previous report found that in 2001/02, the Council provided a total of £3.6 million in funding to ALEOs.
9. Changes to the detailed scope of audited expenditure in 2003/04 mean that precise comparisons cannot be made between funding levels in the two years. However, the modified approach taken for 2003/04 should account for only a modest proportion of changes between the years in most councils.

## Audit findings

### Financial support to ALEOs, by type of service

10. In 2003/04 the Council provided:
  - £2.7 million of revenue funding to a total of 165 ALEOs
  - £49,000 of capital funding to 2 ALEOs
  - £250,000 of loans to 1 ALEO.
11. Over 92% of the Council's ALEO revenue expenditure related to work in the following 5 service areas :
  - Social Work (£1.15 million, 43% of Council funding)
  - Cultural and related services (£850,000, 31.8% of Council funding)
  - Communities (£255,000, 9.5% of Council funding)
  - Economic Development (£115,000, 4.3% of Council funding)
  - Miscellaneous, including Citizens' Advice Bureaux (£106,000, 3.9% of Council funding).

### Financial support to ALEOs, by type of ALEO

12. The Council supported a total of 165 ALEOs, including:
  - 67 voluntary and community organisations
  - 82 charities
  - 16 companies.

## **Financial support to ALEOs, by amount of funding**

13. Around 85% of the number of individual revenue awards to ALEOs were for less than £10,000. In comparison, the Council made 10 revenue awards of over £100,000, which totalled £2,000,777 in value.

## **Non-financial support to ALEOs**

14. Councils routinely make low-cost or 'free' use of council property and facilities available to ALEOs. Awarding ALEOs non-cash subsidies, in whatever form, represents a cost which needs to be recognised in taking, recording and monitoring decisions about funding.
15. However, Dundee City Council was only able to provide estimated figures for these costs and found it difficult to collate a comprehensive and robust assessment in this area. The Council does not consider the risks to be high in the area of non-financial assistance, although it acknowledged that it does not have the systems in place to identify the commitment and risk involved.

# 4. Code compliance

## Background

16. This aspect of the audit sought to develop a detailed picture of the extent to which councils comply with the Code, and to identify areas where improvements are required. The Code covers six overarching principles, which Audit Scotland developed into 22 statements of good practice:
- **Principle 1: Purpose** – the council is clear about its reasons for transferring funds to an ALEO.
  - **Principle 2: Financial regime** – the council has a clear and robust financial management regime in place.
  - **Principle 3: Monitoring** – the council has robust arrangements for monitoring its relationship with an ALEO.
  - **Principle 4: Representation** – the council is clear about the purpose of any officer or member representation on ALEOs, and representatives discharge their responsibilities with due regard to the objectives of the council.
  - **Principle 5: Limitations** – in entering into a substantial funding commitment with an ALEO, the council lays down a timetable for the achievement of its objectives.
  - **Principle 6: Accountability** – the council makes arrangements for suitable access by external audit.
17. Each council assessed its degree of compliance with the good practice statements using the 5-point scale described in Exhibit 1 (below).
18. Where auditors considered that a council's scores should be adjusted up or down, e.g. to better fit with the evidence brought forward by the council, they discussed changes with the authority but had the final discretion to edit the council's return when submitting it to the Audit Scotland study team.

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## Exhibit 1

### Assessment scale

Rating	Process	Product
1	Process not in place / plans to introduce process at very early stage.	Nothing / very early draft
2	Process not yet in place but plans at advanced stage / process in place but most key mechanisms missing.	Draft document but yet to be approved / not in use operationally, <u>or</u> formally approved document that misses out most of the important issues.
3	Process exists but some key mechanisms are not in place.	Formally approved document – but one that misses some of the important issues <u>or</u> draft document that, although yet to be formally approved, is in use operationally.
4	Process fully in place	Formally approved document covering all / almost all of the important issues.
5	Process fully in place <b>and</b> is clearly integrated into everyday working practice	Use of the document is clearly integrated into everyday working practice.

Source: Audit Scotland

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## Audit findings

### **Principle 1. Purpose: the council is clear about its reasons for transferring funds to an ALEO.**

19. The prime purpose of involvement with external bodies should be the achievement of the council's objectives in the most effective, efficient and economic manner.

### **Statements of good practice**

20. We reviewed evidence submitted by Dundee City Council against these statements of good practice:

- Statement 1 – the council operates within its statutory powers
- Statement 2 – the prime purpose of involvement with an ALEO is the achievement of the council's objectives in the most effective, efficient and economic manner.
- Statement 3 – council policy sets out procedures covering funding of an ALEO.
- Statement 4 – the council sets out its expectations on the use of funding.

### **Strengths and areas for improvement**

21. The Council has effective arrangements in place to:

- ensure it operates within its statutory powers. The Council's actions in relation to most ALEO's are safeguarded by service level agreements which have been drawn up in consultation with the Council's legal department and with reference to the Council's local guidelines 'Guidance on Funding External Bodies & Following the Public Pound'. ALEO's receiving >£45,000 must have a signed agreement which will include the use of funding and the Council has confirmed that this practice is consistently and comprehensively followed;
- carry out informal option appraisals for potential new significant funding of ALEO's and to implement a review programme of existing funding to ensure performance objectives are being met. The Council's involvement in the four ALEOs detailed in the submission has enabled it to meet the objectives of its Economic Development strategy i.e. retention of 'hi-tech' businesses in the area, promotion of economic development and assisting in the creation of employment. There is a corporate strategy link to individual funding decisions. Decisions by the Council to either set up companies or make a significant commitment to them are based on minuted committee decisions.

22. We consider the following areas merit renewed management attention:

- the reasons for incorporation are not always clear in relation to large investments. In most instances the council has gone into a limited company agreement with other public or private bodies as this was seen as the most appropriate mechanism to access finance which would not be available from internal budgets. Whilst we noted that officers carry out informal discussions and assessments in determining

how a new organisation will be set up, there is little evidence of any formal decision making process in this area.

## **Recommendations**

- When establishing an arms length organisation, the Council should conduct a formal option appraisal to identify the optimum type of organisation, its governance arrangements, and the nature of the council's funding commitment. ***See Action Plan No. 1***

## **Principle 2. Financial regime: the council has a clear and robust financial management regime in place.**

23. The council should spell out clearly the extent of its financial commitment to the external body and the nature of the financial relationship, e.g. shareholding, grant, loan, contractual payments.

### **Statements of good practice**

24. We reviewed evidence submitted by Dundee City Council against these statements of good practice:

- Statement 5 – before entering into an arrangement with an ALEO, the council conducts a risk assessment of it. The assessment extends well beyond financial risk to areas such as reputational risk.
- Statement 6 – the council defines the extent and nature of its involvement with an ALEO.
- Statement 7 – a written agreement between the council and an ALEO refers to the minimum standard of management arrangements which the organisation needs to have in place and any specific or additional responsibility and accountability which is being vested in a board or management committee.
- Statement 8 – at the outset of a new relationship with an ALEO, the council specifies minimum arrangements for accounting and audit purposes.

### **Strengths and areas for improvement**

25. The Council has effective arrangements in place to:

- maintain and review a central database of all departments' funding arrangements with ALEOs;
- maintain a scheme of delegated financial management arrangements in relation to the funding of ALEOs. Finance staff within service departments are delegated this duty of financial management;
- routinely report all ALEO funding arrangements to committee;
- ensure, through training, that departments use a set of standard contracts/letters of engagement when committing to financial support, including reference to audit arrangements;
- ensure it does not enter into 'open-ended' commitments between the council and the ALEO on the size and nature of the financial commitment to the body. Through the service level agreements the ALEOs receive a fixed and finite amount of funding, usually on an annual basis, and they do not have the power to commit council funds;
- set out good practice in financial administration and management. The 'Guidance on Funding External Bodies and Following the Public Pound' includes a section on 'Areas to be considered for inclusion within a formal agreement with an External body'. One such area is 'minimum standards of management arrangements and accounts etc required by the council'. The guidelines however,



contain no reference to any specific or additional responsibility and accountability which may be vested in a board or management committee.

- ensure the finance department monitoring arrangements, as per the local guidelines, are highlighted within the service level agreements and expanded upon where necessary. The Council's arrangements with the ALEOs are generally tailored to the length of involvement with the body, the robustness of the corporate governance arrangements, the financial involvement and the anticipated duration of the funding arrangements.

26. We consider the following areas merit renewed management attention :

- whilst the Council displays many aspects of a sound risk assessment framework in relation to ALEO's, this process has not been formalised. .

## Recommendations

- The Council should have a formal risk assessment framework in place relating to ALEO's that;
  - identifies the objectives of the service delivery approach;
  - identifies potential areas of risk, both financial and non-financial;
  - evaluates the significance of risks identified;
  - implements procedures to address risks;
  - monitors and reviews risk procedures. **See Action Plan No.2**

## **Principle 3. Monitoring: the council has robust arrangements for monitoring its relationship with an ALEO.**

27. The council should make clear any requirements which it has of external bodies to operate in a particular way. The council should also stipulate how it intends to monitor the relationship between itself and the external body. Regardless of representation on committees or boards, the council should insist on regular monitoring and reporting back by such bodies.

### **Statements of good practice**

28. We reviewed evidence submitted by Dundee City Council against these statements of good practice:
- Statement 9 – the council makes clear any requirements which it has of ALEOs to operate in a particular way, e.g. in relation to policies on personnel and environmental issues.
  - Statement 10 – the council stipulates how it intends to monitor the relationship between itself and an ALEO.
  - Statement 11 – monitoring reports on an ALEO are regularly submitted to the council (or a committee or its equivalent as appropriate), which takes appropriate action.

### **Strengths and areas for improvement**

29. The Council has arrangements in place to:
- ensure ALEO's are aware of the good practices required by them if they are to be eligible for funding. ALEO's should operate in specific ways on matters such as personnel policies and environmental issues. The 'Guidance on Funding External Bodies and Following the Public Pound' includes reference to policies such as equal opportunities, recruitment & selection policies and procedures, and policies regarding conditions of employment;
  - monitor the relationship between itself and an ALEO. Each department has a monitoring officer who monitors the relationship between the Council and the ALEO. This is particularly important where an ALEO is either funded to a significant level or carries a significant risk. The finances of the ALEO must be deemed satisfactory before funding for future years is given. The monitoring arrangements with ALEOs are established at the outset of any funding relationship and these arrangements are included in the relevant service level agreements. However, from a review of the agreements, these requirements are not always clearly set out. ALEO's are asked to maintain information and management records as required under the funding arrangements and to supply these when required. Evidence that the ALEO has sufficient financial resources to enable it to continue performing is also requested.
  - monitor the financial performance of ALEOs. The guidance provides a proforma, issued as part of the Council's budgeting process, which details the previous year's funding and monitoring arrangements for the ALEO. The council updates the information held on an annual basis. If any significant events affecting funding arrangements occur during the financial year, they are formally notified to a dedicated

officer within the Finance department. In addition, these arrangements are included in the Council's Internal Audit Strategic Plan and are therefore subject to periodic review.

30. We consider the following areas merit renewed management attention:

- the monitoring processes for accounting for the use of council funds and non-financial performance measures vary from one ALEO to another and between departments. Due to the volume and diversity of organisations the Council funds it is acknowledged that there may not be a consistent format for collecting performance information across all areas of council activity. In some instances, however, only financial activity is measured. It is, therefore, difficult to establish the success of council funding in terms of outcome and value and it is not possible to determine what the body has achieved in relation to the Council's objectives. Monitoring reports tend to be submitted to committee annually rather than on a level and frequency consistent with the financial and non-financial risks to the Council.
- the measures in place to alert the Council should a problem arise between the formal monitoring stages, and the measures to be taken by the Council to guard against its funding of an ALEO being misappropriated are not adequately defined. In relation to ALEOs substantially funded by the council, member/officer representation on a management committee or board, and attendance at board meetings by Council monitoring officers is deemed sufficient.

## Recommendations

- monitoring arrangements with ALEOs which are established at the outset of any funding relationship should be included in the relevant service level agreements. **See Action Plan No 3**
- Accounting information on the use of council funds and non financial performance measures should be consistently collected across the Council. The inclusion of non-financial performance measures within the monitoring process is essential in order to establish whether the ALEO has actually achieved the council's objectives. To enable appropriate action to be taken, financial and non financial monitoring reports should be submitted at a level and frequency consistent with the risks to the Council rather than on an annual basis. **See Action Plan No 4**
- Measures should be in place to alert the Council should any problems arise between formal monitoring stages for any ALEOs. These procedures should be documented in the local guidelines. **See Action Plan No 5**

## **Principle 4. Representation: the council is clear about the purpose of any officer or member representation on ALEOs, and representatives discharge their responsibilities with due regard to the objectives of the council.**

31. The council should consider very carefully the question of representation on the boards of companies which are subject to its control and, to an even greater extent, on bodies which are not subject to its control.

### **Statements of good practice**

32. We reviewed evidence submitted by Dundee City Council against these statements of good practice:
- Statement 12 – the council appoints members or officers to sit on ALEOs where this is necessary and appropriate.
  - Statement 13 – the council ensures that any officers or members selected to represent the council on an ALEO are suitable for the positions they are to hold.
  - Statement 14 – the council ensures that all members and officers involved in an ALEO understand their respective responsibilities to the council and to the ALEO.
  - Statement 15 – the council has a register of declarations of interest which includes potential conflicts of interest that may arise from officers and/or members being involved with an ALEO.
  - Statement 16 – the council has taken steps to safeguard itself from risks incurred by members and officers in their dealings with ALEOs.

### **Strengths and areas for improvement**

33. The Council has arrangements in place to:
- appoint members or officers to sit on ALEO's where this is necessary and appropriate. Representation is considered on a case by case basis and is dependent upon the size and nature of the ALEO. Historically, only Convenors and Chief Officers of the sponsoring department have sat on the boards of ALEO's. Members and officers are only appointed to sit on the board/management team of an ALEO where their role is deemed to be specific i.e. connected to the Councils' objectives and important in assisting liaison between the council and the ALEO.
  - maintain a segregation of duties between officers with an advisory role in respect of ALEO's, officers with a financial monitoring role and officers making funding recommendations;
  - maintain a Register of Interests. The Council has a standard policy requiring members and officers to disclose any conflicts of interest.

- prompt members/officers and ALEOs when the organisations indemnity cover needs to be renewed. As per the guidelines, 'Guidance on Funding External Bodies and Following the Public Pound' members and officers acting in a decision making role within an ALEO are not covered by the Council's official indemnity policy. ALEOs are expected to be suitably insured and there should be standard clauses to this effect within the service level agreements. Officers and members who are appointed to outside bodies as Directors should satisfy themselves that appropriate insurance cover is in place.

34. We consider the following areas merit renewed management attention :

- In May 2001 the Council issued "*Companies, Trusts and Other Outside Organisations Guidance to Elected Members and Officers*" which clearly sets out the individual's responsibilities to both the Council and the ALEO. This document has not, however, been reviewed since it was originally published and does not currently cover, for example, dispensations granted by the Standards Commission with effect from May 2003.

## Recommendations

- The Council should regularly review the "*Companies, Trusts and Other Outside Organisations Guidance to Elected Members and Officers*" to ensure it is kept up to date. **See Action Plan No 6**

## **Principle 5. Limitations: in entering into a substantial funding commitment with an ALEO, the council lays down a timetable for the achievement of its objectives.**

35. In entering into a substantial funding commitment with an external body the council should lay down a timetable for the achievement of the objectives. Clear limits should be set on the extent to which the council will become involved financially with the body and its affairs.

### **Statements of good practice**

36. We reviewed evidence submitted by Dundee City Council against these statements of good practice:
- Statement 17 – in entering into a substantial funding commitment with an ALEO, the council lays down a timetable for the achievement of its objectives.
  - Statement 18 – the council sets clear limits on the extent to which it will become involved financially in an ALEO and in its affairs.
  - Statement 19 – the council sets out ground rules at the outset for terminating the funding agreement and separating its interest from that of the ALEO.

### **Strengths and areas for improvement**

37. The Council has effective arrangements in place to:
- ensure that when it enters into a new arrangement to fund an ALEO, it takes steps to limit its liability in all types of financial support; capital, revenue and loans. The arrangements in place for the Council to withdraw its funding and wind up its involvement are clearly stated in the service level agreements e.g. in the case of substantial funding arrangements with limited companies, the Council would seek an appropriate share of the ALEO's net asset value together with any outstanding loan repayments;
  - terminate funding agreements where necessary. The Council specifies the conditions upon which the funding is made, and if those conditions are not met, funding can be withheld. In recent years there has been a move towards stipulating within the service level agreements what performance targets have to be met by the ALEOs to ensure future funding. This allows the Council and the funded body to be clear about the environment or conditions under which funding for the organisation may cease.

## **Principle 6. Accountability: the council makes arrangements for suitable access by external audit.**

38. The external auditors appointed by the Accounts Commission will be required to review, as part of the annual audit, the arrangements councils have made for substantial funding agreements and will measure councils' compliance with this guidance. In cases where they have concerns over issues of probity and regularity they will make these known to the council and the Controller of Audit.

### **Statements of good practice**

39. We reviewed evidence submitted by Dundee City Council against these statements of good practice:
- Statement 20 – the council ensures that its external auditor has a right of access to key records in an ALEO and, if appropriate, its accounts and financial arrangements so that s/he may follow the trail of public money from the council through the ALEO to its destination.
  - Statement 21 – the external auditor is able to seek, through the council, any explanations which s/he considers necessary from representatives of an ALEO.
  - Statement 22 – the external auditor has access, through the council, to an ALEO's external auditors.

### **Strengths and areas for improvement**

40. The Council has effective arrangements in place to:
- ensure that its external auditor has suitable access to the key records of ALEOs. Arrangements for audit access to records and, through the council, to the ALEO's external auditors are highlighted in the local guidance. A review of service level agreements found that some contained clauses whereby the ALEO permitted duly authorised staff or agents of the Council to examine the records of the body at any reasonable time and to provide suitable oral or written explanations if reasonably required by the Council or their auditors.
41. We consider the following areas merit renewed management attention:
- The earlier work carried out by Audit Scotland and the more recent publication of the Accounts Commission's findings raised general concerns about councils' funding of ALEO's. We were advised that the Council had started reviewing the arrangements it has in place to ensure it complied with the Code but this exercise has still to be concluded.

### **Recommendations**

- All service level agreements should contain clauses whereby the ALEO's permit duly authorised staff or agents of the Council together with the Council's internal/external auditors right of access to key records. Arrangements for audit access to ALEO's which are already being funded should be reviewed and monitored on a regular basis. **See Action Plan No 7**

- The Council should conclude its current ongoing review of the arrangements it has in place to ensure it is complying with the *Following the Public Pound Code*. **See Action Plan No 8**