

Optimal Economics

**Research Project to
Review the Current
Building Standards Fee
Structure and Future
Requirements**

Final Report

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1 Executive Summary

1. This report updates and extends earlier research on the relationship between fees and costs for Verification carried out in 2012 for the Building Standards Division (BSD) of the Scottish Government. The research involved analysis of the overall costs and revenues of Building Standards departments and the specific relationship between Verification costs and building warrant related fee income for each Scottish local authority, and Scotland wide.
2. In 2007-08, according to Scottish Local Government Financial Statistics, income from Building Standards exceeded expenditure by £5 million at the Scottish level. However, by 2012-13 expenditure exceeded income by £15.6 million though the gap narrowed to an excess of expenditure over income of £6.9 million in 2013-14.
3. The emergence of a deficit was the result of a fall in income driven by the sharp decline in development activity including house building. Most local authorities found it difficult to reduce costs rapidly by an equivalent amount. However, by 2013-14 substantial cost reductions and an upturn in income had helped narrow the overall financial deficit for Building Standards.
4. Turning to costs and income related specifically to verification, data from annual returns by local authorities to BSD show a dramatic improvement in 2013-14. In the 30 authorities for which data is available for that year, fee income increased by 21% between 2012-13 and 2013-14. Those authorities recorded a surplus of £4.6 million on Verification as compared to a deficit of £183,000 for the same authorities in 2012-13.
5. There remains considerable variation in the financial performance of individual authorities in financial terms. While the BSD Performance Returns for 2013-14 found most authorities to have a surplus on Verification activity, 13 out of 30 authorities were still in deficit in that year and the research for the present study identified 14 authorities as being always or mainly in deficit over the last four years. In contrast, ten authorities were always or mainly in surplus. Although there are variations in the financial performance of individual authorities from year to year, the performance of most authorities moves within a narrow “band”.
6. While it has been a variation of income which has been the main influence on the balance between costs and income at the national level, it is cost variation which accounts for most of the differences in financial performance between authorities. If we use income and cost per “case” as a standard measure we find that that mean costs per case vary much more between authorities than mean income.
7. While it would be possible for “good” financial performance to be secured by offering a relatively low quality service, an analysis of the comparative performance of authorities on service performance measures and financial performance found no clear evidence that good financial performance is obtained by poor service or that good service leads to poor financial performance.

2.1 Introduction

2.1.1 Optimal Economics was commissioned by the Building Standards Division of the Scottish Government Directorate for Local Government and Communities to undertake this research project. The aim of the project was to update earlier research on the relationship between fees and costs for Verification (the 2012 Fees Research). The work involved analysis of the current relationship between verification costs and building warrant related fee income for each local authority, and Scotland wide. This is the final report on the study.

2.1.2 The project was to consider the following aspects at local and national level:

- comparison of fee income and total verification costs (local and national level)
- comparison of fee income and verification “staff costs” (local and national level)
- variations between verification “staff costs” and “non-staff costs” for each local authority

2.1.3 Analysis was to be carried out on the financial returns made to the Scottish Government since the 2012 Fees Research was carried out, including:

- Scottish Local Government Financial Statistics 2011-12; 2012-13; and 2013-14
- BSD Annual returns data 2012-13; 2013-14
- BSD Performance returns 2013-14

2.1.4 This report sets out the findings of the analysis and considers the long term trends in the fee cost relationship both at the national level and with reference to individual local authorities. In 2012 BSD introduced a new performance monitoring framework based on Key Performance Outcomes (KPOs) for Building Standards departments in local authorities and the report considers the relationship between variation in net costs and performance as measured by KPOs.

2.2 Report Structure

2.2.1 This report is set out as follows:

- Section 3 presents the detailed findings of the research.
- Section 4 sets out the conclusions of the study.

3 Analysis of Costs and Income

3.1 Introduction

3.1.1 This section summarises the analysis undertaken in the study, considers long term trends and analyses the relationship between financial and other indicators of performance.

3.2 Scottish Local Government Financial Statistics

3.2.1 The Scottish Local Government Financial Statistics (LGFS) provide a comprehensive review of Scottish Local Authority financial activity. Under the heading Planning and Economic Development services, there are data available for the category “planning: building control¹.” Figure 1 sets out data from that series for the six years to 2013.

3.2.2 In 2013-14 total expenditure on “building control” activities across Scotland was £36.4million. Total income received was £29.5 million, giving an excess of expenditure over income² of £6.9 million.

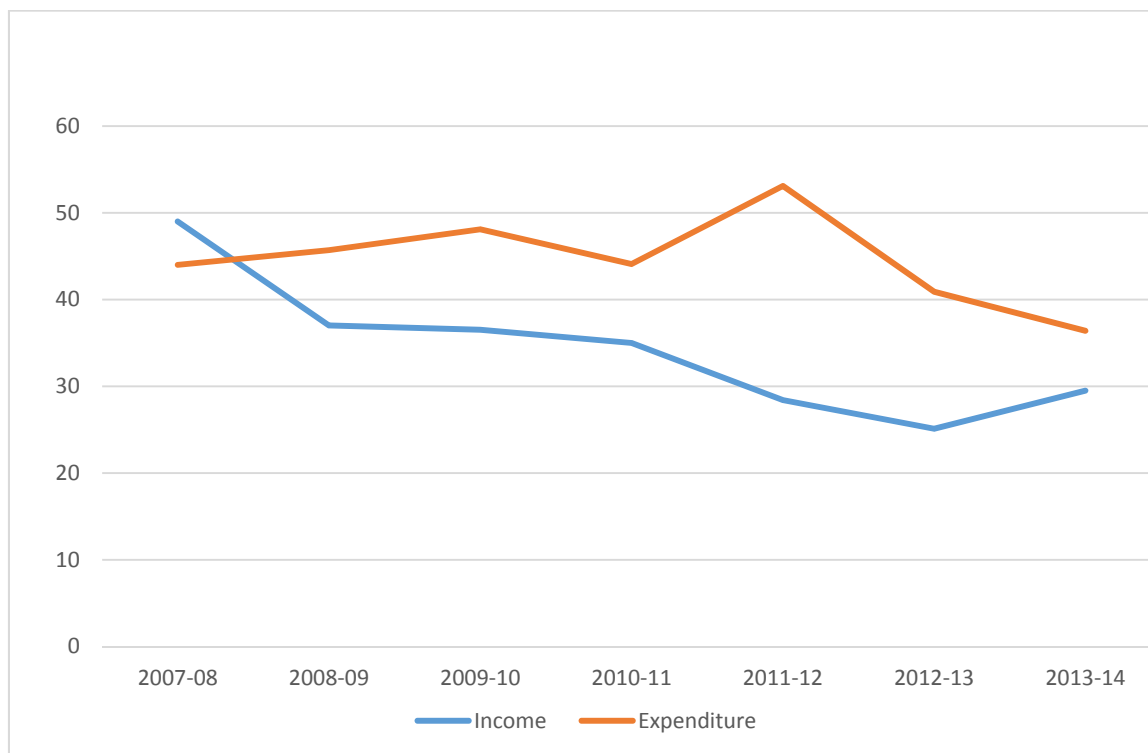
3.2.3 After 2008 there was a virtual collapse in the income received by local authority Building Standards sections. In 2007-08 the income to this service across all Scottish Local Authorities was £39 million; in 2013-14 it was £29.5 million, having recovered from a low of £25 million in 2012-13.

3.2.4 The fall in income after 2008 was driven by the impact of the recession on development activity including house building. However, local authorities were not able to reduce costs to match this income drop. Moreover, in 2011 the statistics show a sharp rise in costs followed by a sharp reduction in the subsequent year. The cost reduction begun in 2012-13 was sustained into the following year contributing, along with the rise in income, to a barrowing of the gap between income and expenditure.

¹ Note that Local Government Financial Statistics use the term building control and not building standards

² Income includes all income received by the authority for the provision of building control activities. It is not possible to identify warrant fees and verification costs within total income and expenditure

Figure 1 Local Authority Building Control Income and Expenditure (£m)



3.2.5 The composition of this increase in costs after 2010-11 cannot be established from the published data. While up to 2010-11 the cost data by service provided a cost breakdown which identified the major elements: employee costs; operating costs and support costs, from 2011-12 these costs are presented as Support Costs and All Other Expenditure. What can be said is that there was no significant rise in Support Costs in 2011 so the increase was in operational costs in the broad sense. It seems implausible that a “spike” of over £10 million could be accounted for by employee costs. As well as employee costs, “All Other Expenditure” includes property costs, supplies and services costs, transport (including car allowances) and plant costs, payments to agencies and other bodies, and direct administration costs.

3.2.6 It is impossible to draw any conclusions concerning the geographical distribution of the expenditure “spike” in 2011-12 as the statistics for that year do not break down Building Standards expenditure by local authority. That year’s data are presented at the authority level for Net Revenue Expenditure (costs less income) for all Planning and Development services. As Building Standards net expenditure is only about 5% of this figure it is impossible to draw any conclusions on comparative movement in costs.

3.2.7 The reduction in costs since 2011-12 has involved reductions in both support costs (down by 25%) and “all other expenditure” (down 33%).

3.2.8 Prior to 2008 the position across Scotland, and thus in most authorities, was that Building Standards was a service which more than covered its costs and, indeed, provided a net income to many authorities. Between 2008 and 2014 that was not the case.

3.2.9 An analysis of the 2013-14 LGFS data by local authority showed a very wide variation in the service costs per resident. Across Scotland the average was £6.80 per person but the range was from £3.10 in Inverclyde to £13.90 in Edinburgh (the figure for Clackmannanshire was £1.70 but that figure was affected by very large and abnormal items for inter-account and inter-authority transfers).

3.2.10 The variation in costs in 2013-14 did not reflect accounting issues such as whether or not central support costs were being charged to Building Standards. There was no clear relationship between the proportion of costs accounted for by central support and whether authorities had high or low per capita overall costs.

3.2.11 A per capita cost measure does not, of course, take direct account of workload and it might be expected that the highest cost authorities also had high levels of activity and thus of income. However, there was no clear correlation between high cost and high income levels and there were wide net cost differences between authorities.

3.2.12 Table 1 aims to bring variation in costs and in income together. In the table, authorities are divided three ways by Service Cost and three ways by Net Revenue Cost (income less cost). The authorities are divided into those with service and net costs 15% above the Scottish average, those with service costs and net costs 15% below average and those within the range. This gives nine categories of authority as shown in the table. Authorities which recorded a surplus are in bold type.

Table 1 Comparison of Building Standards Costs 2013-14 (LGFS)

Service Cost per capita	Net Revenue Cost per capita (surplus authorities in bold)		
	15% Above Average	Within +/- 15%	15% Below Average
15% Above Scottish	West Dunbartonshire, South Ayrshire, East Ayrshire, Argyll and Bute, Shetland, Eilean Siar, Edinburgh, Scottish Borders, Moray,		Aberdeenshire, Orkney, Highland
Within +/- 15%	Midlothian, Dumfries and Galloway, North Lanarkshire, Falkirk, East Lothian	North Ayrshire	Dundee, Stirling, Perth and Kinross
15% Below Average	Clackmannanshire ³		East Renfrewshire, Angus, Aberdeen City, Renfrewshire, East Dunbartonshire, West Lothian, Glasgow, Inverclyde, South Lanarkshire, Fife
Authorities in surplus are in bold			

³ Data for Clackmannanshire show no income and large transfers

3.2.13 The data show that of the twelve “high gross cost” local authorities three had such high income (Aberdeenshire, Orkney and Highland) that their net costs were low (two were in surplus). However, nine high cost authorities are still high cost even when allowance is made for income. Further, the eleven “low gross cost” local authorities are, with just one exception, also low net cost local authorities (and that exception is Clackmannanshire where the data appear anomalous). It appears that a group of authorities have managed to keep costs down. Moreover, seven of these low gross cost authorities recorded a surplus.

3.2.14 If we leave aside Aberdeenshire, Highland and Orkney (high cost and high income) and Clackmannanshire (where the data may not be accurate), the local authorities appear to divide almost equally into a high net cost group of fourteen authorities and thirteen low cost authorities with just one authority in the “middle ground”.

3.2.15 The LGFS data suggest that if all authorities had been able to match the cost performance of the lowest cost authorities then many more would have been in surplus. Thus if all authorities had at least matched the Inverclyde’s figure (£3.10 per capita) then all would have been in surplus (leaving aside Clackmannanshire which recorded no income).

3.3 BSD Data (Annual Returns and KPO Returns)

3.3.1 The local government financial statistics do not enable an assessment to be made of the costs and revenues of the different functions within building standards e.g. verification, enforcement, licensing and safety at sports grounds. Hence, BSD have been collecting more detailed information on verification costs from individual local authorities through the BSD Annual Return. In the previous report data were analysed for 2009-10 and 2010-11. This report analyses data from 2011-12, 2012-13 and 2013-14. However, the data for 2013-14 do not include figures for Glasgow and West Dunbartonshire which were not available at the time of writing. This section also analyses data on verification staff costs from Key Performance Indicator data for 2013-14.

3.4 BSD Annual Returns

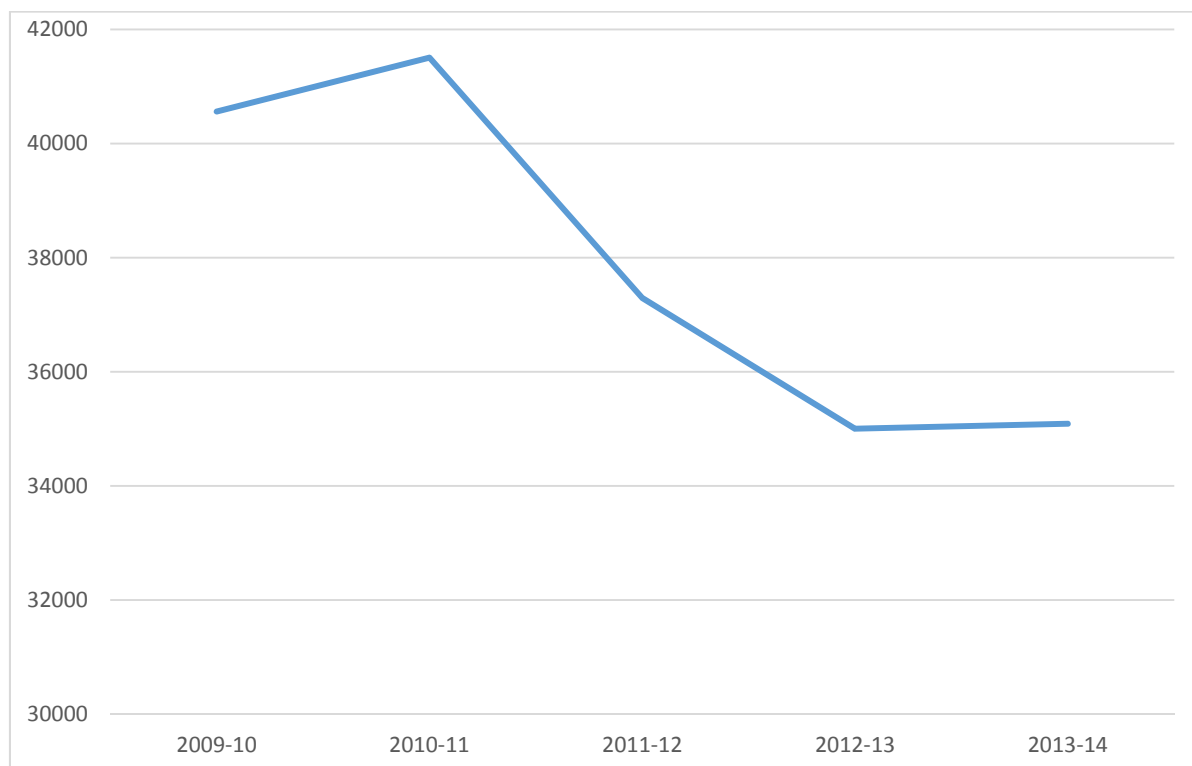
3.4.1 The number of building warrant applications across Scotland as a whole in the period 2009-10 to 2013-14 is shown in Figure 2. “Late” applications (for unauthorised work started without a building warrant) are included in the number of building warrant applications and accounted for 4% of applications. In 2012-13 (the last year for which data for *all* authorities were available) there were 35,000 warrant applications. For comparison, there were over 40,000 building warrant applications in 2009-10 and 2010-11.

3.4.2 Data for 2013-14 included in Figure 2 cover only the 30 authorities for which data were available at the time of writing. Consequently, the graph *understates* the recovery in warrant applications in that year. In the 30 authorities for which data were available the number of warrant applications rose by 8% in 2013-14. Nevertheless, even an 8% rise in the 2012-13 figure for *all* authorities would have left the number of applications below the 2009-10 figure.

3.4.3 A fall in warrant applications between 2011-12 and 2012-13 was evident in all local authorities but notably sharp in Fife, Glasgow and Highland. Among the thirty authorities for which we have 2013-14 data about two thirds experienced an

increase in the number of warrant applications between 2012-13 and 2013-14 with notably large increases in Highland, North Ayrshire, North Lanarkshire and Orkney.

Figure 2 Building Warrant Applications Scotland 2009-2014



Note: 2013-14 Figures are for 30 authorities

3.4.4 Figure 3 provides an analysis of income and expenditure related to Verification from the BSD Annual Returns. Data are included for all years from 2009-11 though the 2013-14 figures cover only thirty authorities.

3.4.5 In 2012-13 total expenditure on verification activities across Scotland was £28.6 million and total income⁴ received was £22.3 million so that the excess of expenditure over income was £6.3 million. This “gap” represents just over 40% of the net cost of Building Standards Services.

3.4.6 In 2011-12 income from Verification was almost the same as in the following year (£22.6 million) and expenditure was £26.3 million so that the excess of expenditure over income was £3.7 million. Between the two years there has thus been an increase of costs of over £2 million notwithstanding a fall in the number of warrant applications and a fall in income.

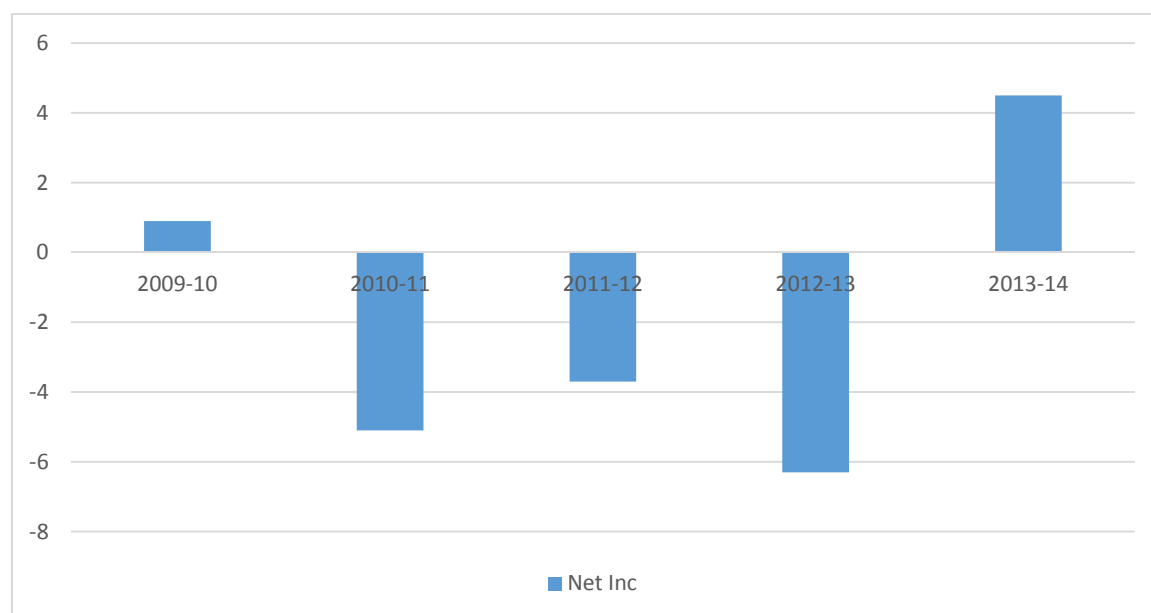
3.4.7 The results for thirty authorities in 2013-14 show a dramatic improvement. In the 30 authorities for which data are available fee income increased by 21% between 2012-13 and 2013-14. Expenditure on Verification in these authorities fell

⁴ Income includes building warrant fee income (including “late” building warrants), amendment to warrant fee income and income where a Completion Certificate is submitted where no warrant was obtained.

by 3%. Both figures were affected by a substantial rise in both income and costs in one authority (Edinburgh – where costs rose by £700,000 and income by £1 million). However, 23 out of 30 authorities experienced an increase in income and just under half of the authorities experienced an increase in costs. There is thus evidence of a clear improvement in financial performance with the 30 authorities recording a surplus of £4.6 million on Verification as compared to a deficit of £183,000 for the same authorities in 2012-13.

3.4.8 While the 2013-14 figures do not include Glasgow and West Dunbartonshire, it is unlikely that the inclusion of these authorities would remove the surplus. In 2012-13 Glasgow had a deficit of £370,000 and West Dunbartonshire a deficit of £58,000. Even if these had worsened substantially they would not eliminate or even greatly reduce the surplus.

Figure 3: Verification Net Income/Expenditure Scotland, £m 2009-2014



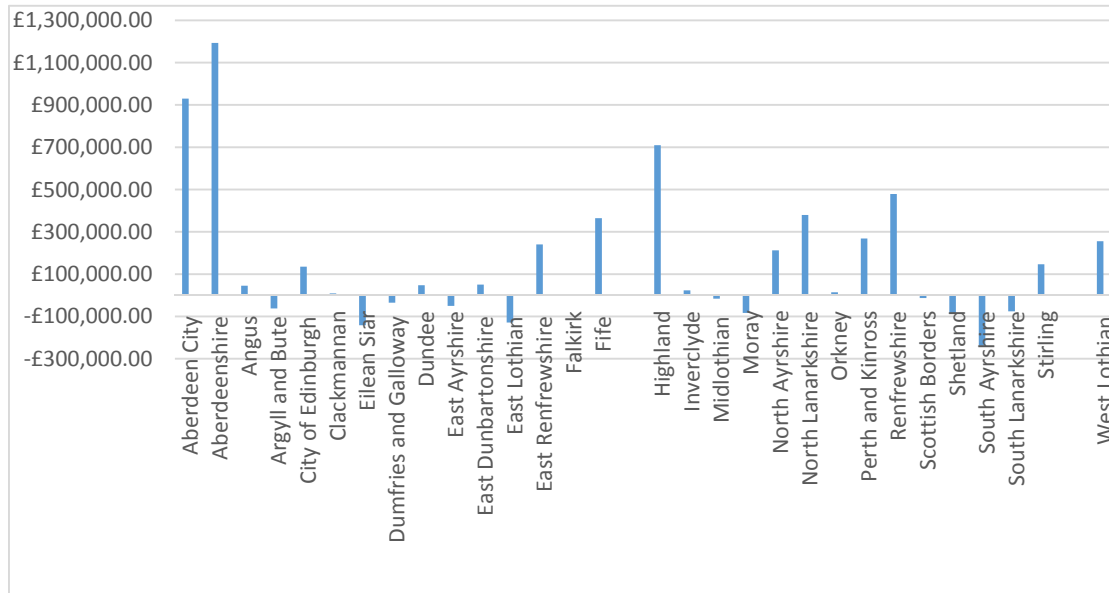
Note: Figures for 2013-14 are from returns provided by 30 authorities

3.4.9 The shifts in costs and income set out above were not reflected in the Local Government Finance Statistics. The relationship between movement in the balance of cost and income for Building Standards services and cost and income data for Verification is not simple. For example the deterioration in the net cost position between 2011-12 and 2012-13 shown above was not reflected in the Local Government Finance Statistics where the net cost of Building Control was seen to fall between 2011-12 and 2012-13. The Local Government Financial Statistics indicated a large drop in service costs which was not reflected in the reported costs of Verification. In contrast, the fall in Verification costs between 2009-10 and 2010-11 detailed in the earlier report was reflected in the Local Government Financial Statistics result. This may raise questions over the accuracy of the attribution of costs to Verification in the Annual Returns.

3.4.10 As noted above, the 2013-14 Annual Returns data exclude Glasgow and West Dunbartonshire. However, Figure 4 provides an analysis of Annual Returns

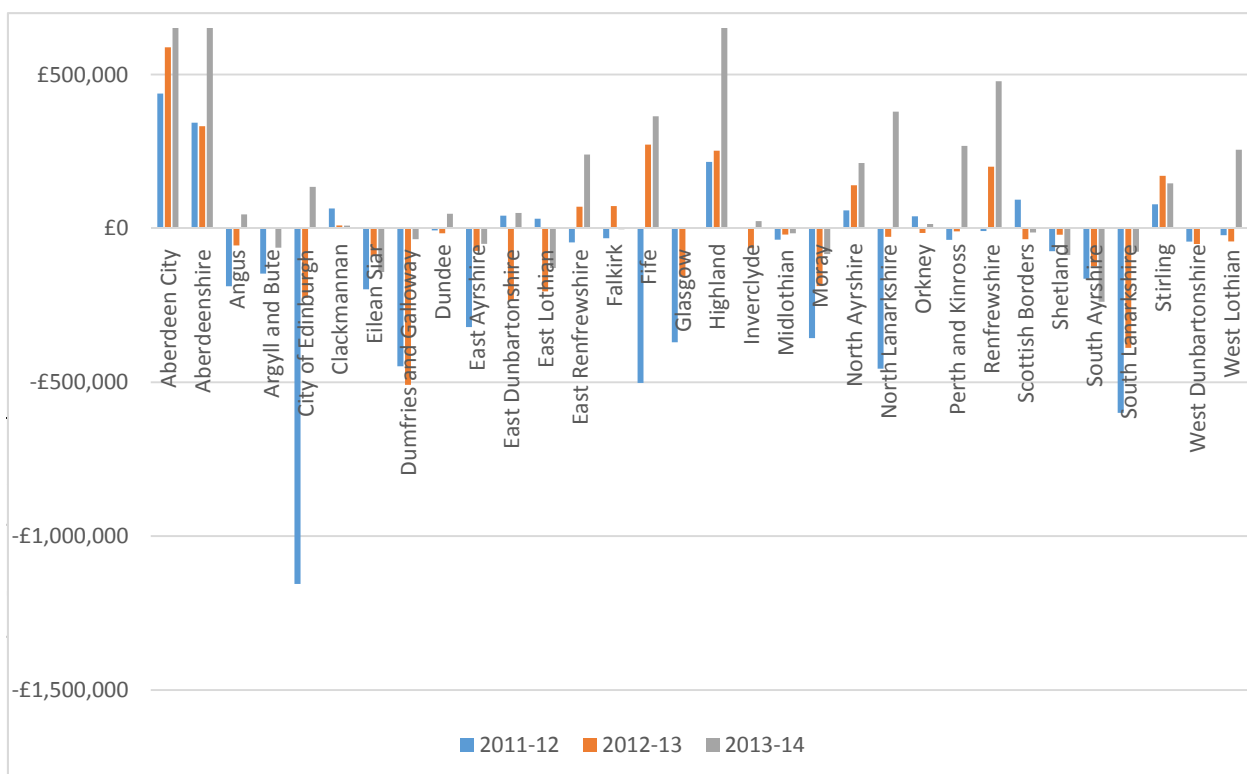
information relating to net income from verification for the 30 authorities for which we have data for 2013-14. As may be seen only ten authorities recorded deficits.

Figure 4: Net Income from Verification by Authority, £ 2013-14⁵



3.4.11 Figure 5 shows the position in all authorities in terms of fees from verification less expenditure on verification in 2011-12, 2012-13 and (for 30 authorities) in 2013-14 as reported in the Annual Returns. It is clear that 2013-14 represented a marked improvement over the previous two years in almost all authorities.

Figure 5: Net Income from Verification by Authority, £ 2011-12 - 2013-14⁶



3.4.12 Table 2 sets out a framework which has been used to analyse the disparity between fees and expenditure on verification by local authority which is measured as the difference between fees and expenditure (net expenditure) as a proportion of fees. The table identifies which authorities have an excess of expenditure over fees and which have expenditure is less than fees.

3.4.13 The table has ten “boxes” which have each been coded as S – surplus or D – deficit. The size of the surplus or deficit is identified by a number (1-5) so that S1 is the smallest category of surplus and D5 the largest category of deficit. This enables year by year comparisons to be made below.

Table 2: Framework for Analysis of Net Expenditure as a Proportion of Fees

Gap	Expenditure Lower than Fees	Expenditure Higher than Fees
0-10%	S1	D1
11-20%	S2	D2
21-30%	S3	D3
31-50%	S4	D4
>50%	S5	D5

3.4.15 Table 3 applies this framework to the four years from 2010-11 to 2013-14 (note that no data were available for Glasgow and West Dunbartonshire in 2013-14).

3.4.16 The patterns are varied but we can distinguish five groups which have been colour-coded by name in the table as follows:

- Consistently surplus (green) – 5 authorities
- Mainly surplus (yellow) – 5 authorities
- Mixed deficit/surplus (no colour) – 10 authorities
- Mainly deficit (orange) – 9 authorities
- Consistently deficit (red) – 5 authorities

Table 3: Surplus/Deficit Position by Authority

	2010-11	2011-12	2012-13	2013-14
Aberdeen	S5	S4	S4	S5
Aberdeenshire	S2	S2	S2	S5
Angus	S1	D3	D2	S1
Argyll & Bute	S5	D3	S1	D2
City of Edinburgh	D3	D5	D1	S1
Clackmannanshire	D3	S3	S1	S1
Eilean Siar	D2	D5	D4	D5
Dumfries & Galloway	D4	D5	D5	D1
Dundee City	D3	D1	D1	S1
East Ayrshire	D2	D5	D3	D1
East Dunbartonshire	S2	S1	D5	S2
East Lothian	D3	S1	D4	D4
East Renfrewshire	S4	D2	S2	S3
Falkirk	D2	S1	S2	D2
Fife	D3	D4	S3	S3
Glasgow	S2	D2	D1	-
Highland	S4	S1	S2	S4
Inverclyde	D1	S1	D3	S1
Midlothian	S3	D2	D1	D1
Moray	S4	D5	D4	D2
North Ayrshire	S2	S2	S3	S4
North Lanarkshire	S1	D5	D1	S4
Orkney	S4	S2	D1	S1
Perth & Kinross	D1	D1	D1	S3
Renfrewshire	S1	D1	S3	S5
Scottish Borders	S2	S2	D1	D1
Shetland Islands	S2	D4	D1	D5
South Ayrshire	-	D4	D3	D3
South Lanarkshire	S1	D5	D4	D1
Stirling	S4	S2	S4	S3
West Dunbartonshire	D1	D2	D3	-
West Lothian	S1	D1	D1	S4
Authorities in Surplus	19	12	11	18
Authorities in Deficit	12	19	21	12

3.4.17 Leaving aside the consistently surplus authorities it is possible to discern a trend towards improvement or deterioration in financial performance in some of the other authorities and these cases are identified in the table by shading of the scores with light green for improvement and pale blue for deterioration. This assessment considers financial performance over the four years (not just the most recent year) and indicates that among those authorities not in persistent surplus eight show clear evidence of sustained improvement over time and six show deteriorating performance. Of those six, three are rural authorities.

3.4.18 Drawing these points together we can conclude that we have:

- Ten authorities always or mainly in surplus
- Nine authorities mainly in deficit of which two are showing improvement and two deterioration
- Five authorities consistently in deficit of which one is clearly improving and two deterioration
- Two other authorities showing clear signs of deterioration
- Two others showing improvement
- Four other authorities with no clear pattern.

3.4.19 To put this another way, we have fifteen authorities where financial performance on the basis of annual returns is good or, at least, improving, thirteen where it is poor or deteriorating and four with no clear pattern.

3.4.20 Fee per building warrant (and associated cost per warrant) provides a measure of financial performance which is less sensitive to workload than overall costs and revenues. Across Scotland as a whole the average fee per building warrant application was £569 in 2011-12, £601 in 2012-13 and £645 (for 30 authorities) in 2013-14. All of these figures are well below the level of £688 in 2010-11 and indicated that the average value of work fell after 2010 and has not yet fully recovered. It follows that income has been driven down both by falling numbers of projects and a reduction in average project size.

3.4.21 The improvement in financial performance in the most recent year reflects both an increase in project size (thus average fees) and an increase in the number of applications. As noted above, for the thirty authorities for which we have 2013-14 data, the number of warrants increased between the two years by 8% from 32,413 to 35,089. However, neither activity levels nor project size have yet regained fully the levels of 2010-11.

3.4.22 Table 4 shows average fee per Building Warrant by authority over the last three years. The chart also notes any trend in fees (i.e. rising/falling) with a colour code (green rising, orange falling). There are certainly many more examples of a rising trend than a falling trend though in many cases there is not clear pattern.

Table 4: Average Fee per Warrant by Authority ⁷

	2011-12	2012-13	2013-14	Trend
Aberdeen	£696	£770	£967	Rising
Aberdeenshire	£698	£709	£863	Rising
Angus	£569	£507	£546	None
Argyll & Bute	£485	£495	£607	Rising
City of Edinburgh	£591	£571	£776	Rising
Clackmannanshire	£603	£576	£566	Falling
Eilean Siar	£639	£707	£634	None
Dumfries & Galloway	£558	£581	£542	None
Dundee City	£536	£449	£628	None
East Ayrshire	£447	£440	£640	Rising
East Dunbartonshire	£556	£156	£430	None
East Lothian	£608	£586	£481	Falling
East Renfrewshire	£424	£429	£589	Rising
Falkirk	£528	£640	£534	None
Fife	£435	£511	£554	Rising
Glasgow	£772	£906	-	-
Highland	£683	£835	£790	None
Inverclyde	£812	£590	£819	None
Midlothian	£624	£582	£735	None
Moray	£620	£667	£634	None
North Ayrshire	£278	£381	£340	None
North Lanarkshire	£440	£507	£617	Rising
Orkney	£822	£834	£744	None
Perth & Kinross	£606	£646	£743	Rising
Renfrewshire	£500	£530	£598	Rising
Scottish Borders	£532	£539	£583	Rising
Shetland Islands	£579	£1,009	£467	None
South Ayrshire	£448	£438	£519	Rising
South Lanarkshire	£560	£633	£454	None
Stirling	£611	£768	£640	None
West Dunbartonshire	£567	£533	-	-
West Lothian	£443	£514	£764	Rising
SCOTLAND	£569	£601	£646	Rising

3.4.23 The fee per warrant is not a variable that authorities can influence as it depends on the projects which come forward. However, it can be argued that both cost per warrant and the balance of fee and cost are figures which are influenced by the efficiency of authorities in carrying out verification.

3.4.24 Table 5 sets out cost per warrant by authority over the last three years. The table expresses each authority's figure as a ratio of the Scottish average and has been colour coded to show authorities with average cost 20% below the

⁷ Fee income for Building Warrants divided by number of warrant applications

Scottish average (green) and 20% above the average (orange). The 2013-14 figures are affected by the absence of data for Glasgow and West Dunbartonshire.

Table 5: Average Verification Cost per Warrant⁸ by Authority

	2011-12	2012-13	2013-14
Aberdeen	0.77	0.81	0.98
Aberdeenshire	0.74	0.86	0.67
Angus	1.18	1.02	1.04
Argyll & Bute	0.91	0.76	1.21
City of Edinburgh	1.39	1.07	1.48
Clackmannanshire	0.62	0.84	1.09
Eilean Siar	1.89	1.53	2.05
Dumfries & Galloway	1.24	1.50	1.04
Dundee City	0.86	0.85	1.04
East Ayrshire	1.24	0.84	1.32
East Dunbartonshire	0.77	0.77	0.76
East Lothian	0.87	1.46	1.24
East Renfrewshire	0.74	0.60	0.60
Falkirk	0.87	0.94	1.06
Fife	0.95	0.66	0.79
Glasgow	1.36	1.58	-
Highland	0.87	1.05	0.87
Inverclyde	1.31	1.23	1.33
Midlothian	1.03	1.00	1.41
Moray	1.35	1.26	1.17
North Ayrshire	0.40	0.52	0.46
North Lanarkshire	1.32	0.93	0.97
Orkney	1.01	1.32	1.23
Perth & Kinross	0.85	0.98	0.95
Renfrewshire	0.80	0.66	0.51
Scottish Borders	0.64	0.87	1.03
Shetland Islands	1.26	1.95	1.51
South Ayrshire	0.95	0.95	1.62
South Lanarkshire	1.36	1.38	0.98
Stirling	0.71	0.78	0.79
West Dunbartonshire	1.01	1.12	-
West Lothian	0.68	0.90	0.93
SCOTLAND	£541	£496	£433

3.4.25 While there is certainly a degree of fluctuation in performance, it is evident that there are some persistently high cost and persistently low cost authorities.

3.4.26 A high mean warrant cost may reflect a mean high project size and low costs could reflect low income. In Table 6 we can identify seven authorities which are always or usually low cost and we can compare these results with those in

⁸ Including amendments to warrants and CCs where no warrant issued

Table 4. The “low cost” authorities are Aberdeenshire, East Dunbartonshire, East Renfrewshire, Fife, North Ayrshire, Renfrewshire and Stirling. The comparison shows that all but one of these authorities were always or mainly in surplus.

3.4.27 Conversely, of the ten authorities with persistently or mainly high costs (Edinburgh, Eilean Siar, Dumfries and Galloway, East Ayrshire, East Lothian, Glasgow, Moray, Orkney, Shetland and South Lanarkshire) all but two were always or usually in deficit and in only one (Orkney) were high costs more than offset by high income. This analysis suggests that cost reduction is key to improving *relative* performance even although low income has been a key factor in the Scotland-wide level of performance in recent years.

3.5 Analysis of Data from KPO Returns

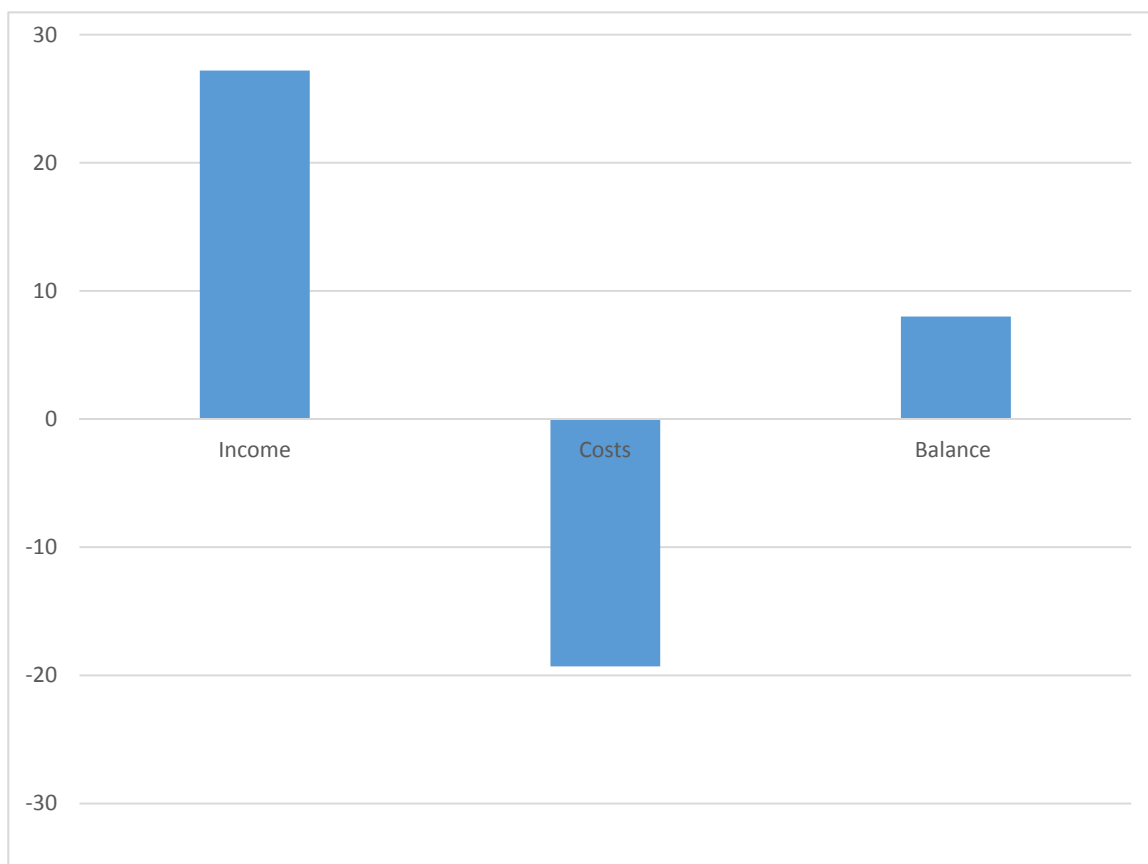
3.5.1 Reporting on a range of key performance outcomes (KPOs) began from 1 October 2012. The performance reporting covers KPOs 1, 2, 3 and 6, with KPO 6 covering financial governance. The quarterly performance returns, which are made to the Scottish Government, supplement the annual returns discussed above. From April 2014 the data collected in the annual returns has been incorporated into the quarterly KPO reporting regime. Financial reporting is now restricted to staff costs for verification with no reporting on the non-staff aspect of verification costs.

3.5.2 Reporting on KPO 6 covers financial governance and thus includes data on cost and incomes. The annual returns asked for costs from each local authority relating to their verification service. It was clear from the 2012 Fees Research that the non-staff costs of each local authority can vary. These can then skew any comparisons between local authorities. To address this, financial reporting of verification costs has changed under KPO 6 and since then focuses only on staff costs.

3.5.3 The calculation of staff costs of verification is achieved by applying to the staff costs of Building Standards departments the estimated proportion of time spent on verification. Analysis of the data shows that the estimated proportion of staff time spent on verification varies between authorities. Clearly, this impacts on estimated costs. The range for this value in 2013-14 was 48% to 100%. However, 25 authorities reported that Verification accounted for over 80% of staff time.

3.5.4 The KPO data have been used below to calculate similar indicators to those produced using the BSD returns. Figure 6 shows income and expenditure in relation to Verification at the Scottish level. These figures show an excess of income over cost of £8 million.

Figure 6: Verification Income and Costs Scotland 2013-14 KPO Data £m



3.5.5 From the thirty local authorities for which we had annual returns data in 2013-14 we eliminated those where the KPO figure exceeded the figure in the annual returns or was identical (indicating no non-staff costs in the annual return). In the remaining fifteen authorities, total staff costs (as per KPO 6) accounted for 85% of total Verification costs.

3.5.6 The figures quoted above are, of course for one year only and cover fewer than 50% of authorities. Purely for illustration, we have adopted 20% as a non-staff costs “add on.” If we were to increase the KPO cost estimate for 2013-14 by this factor to reflect non-labour costs then the surplus for the year would be to about £4 million. This would, represent an improvement on the previous year driven by a recovery in income from £22.3 million to £27 million between 2012-13 and 2013-14. It is also consistent with the improved position for the thirty authorities for which we have 2013-14 Annual Return data.

3.5.7 Figure 7 uses the KPO data to calculate the surplus/deficit per warrant application (as a standardised performance measure) in 2013-14.

Table 6: Surplus/Deficit as a Proportion of Fees 2013-14

	KPO Data	2013-14 Annual Return
Aberdeen	S5	S5
Aberdeenshire	S4	S5
Angus	S2	S1
Argyll & Bute	D2	D2
City of Edinburgh	S3	S1
Clackmannanshire	S1	S1
Eilean Siar	D5	D5
Dumfries & Galloway	D1	D1
Dundee City	S2	S1
East Ayrshire	D1	D1
East Dunbartonshire	D1	S2
East Lothian	D4	D4
East Renfrewshire	S4	S3
Falkirk	D1	D2
Fife	S4	S3
Glasgow	S5	-
Highland	S4	S4
Inverclyde	S2	S1
Midlothian	D2	D1
Moray	D1	D2
North Ayrshire	S4	S4
North Lanarkshire	S4	S4
Orkney	S1	S1
Perth & Kinross	S4	S3
Renfrewshire	S5	S5
Scottish Borders	D1	D1
Shetland Islands	D5	D5
South Ayrshire	D1	D3
South Lanarkshire	D1	D1
Stirling	S3	S3
West Dunbartonshire	S3	-
West Lothian	S4	S4
Authorities in Surplus	19	18
Authorities in Deficit	13	12

3.5.9 There is clearly a strong consistency between the annual returns measures and the KPOs in terms of rankings. The main systematic difference is that authorities which exclude non-labour costs from their annual returns figures will appear to perform comparatively better than those which do not in that data set. In the light of this, the decision to focus on a labour cost only measure in the KPO seems appropriate.

3.5.10 It was suggested above that adjusting labour costs by a factor of up to 1.2 would provide a reasonable estimate of total cost. On that basis we may consider that all authorities scoring S2 or better on the KPO 6 measure above will be more

than breaking even on verification. Out of thirty authorities in 2013-14, seventeen were achieving that.

3.6 Relationship between Financial and Other Performance Measures

3.6.1 It would be possible for “good” financial performance to be secured by offering a relatively low quality service. This issue was examined by considering the evidence provided by the Key Performance Indicators. It was possible to compare individual authority performance in relation to income and expenditure (KPO 6) with the authority’s performance on KPO 1 (mean time to issue a warrant) and KPO 3 (percentage of cases receiving a first response in 20 days). There was not sufficient data for analysis on KPO 2 (Quality of Compliance and specifically number of Construction Compliance Plans achieved)

3.6.2 While the range of performance was narrow it was possible to identify relatively good and poor performance on KPO 1 (mean time below 40 days was classified as good and over 50 days classified as poor) and poor performance on KPO 3 (under 90% of first responses in 20 days). A colour code of red (poor) and green (good) was used in Table 7 which sets out a comparison of performance against these two KPOs and financial performance as measured in KPO 6.

3.6.3 The evidence of the table is ambiguous, some authorities performed well on all three indicators, but of poorly performing authorities in terms of KPOs 1 and 3, 69% were in surplus as compared to 60% of all authorities. However, there was no such pattern with high performing authorities. There is, therefore, no clear evidence that “good” financial performance is obtained by poor service.

Table 7 Comparison of Performance on KPOs 1, 3 and 6 2013-14

Authority	KPO 6	KPO 1	KPO 3
Aberdeen	S5	45	71%
Aberdeenshire	S4	49	92%
Angus	S2	40	93%
Argyll & Bute	D2	41	99%
City of Edinburgh	S3	60	68%
Clackmannanshire	S1	42	98%
Eilean Siar	D5	39	100%
Dumfries & Galloway	D1	37	100%
Dundee City	S2	30	99%
East Ayrshire	D1	32	100%
East Dunbartonshire	D1	57	88%
East Lothian	D4	55	99%
East Renfrewshire	S4	45	100%
Falkirk	D1	45	100%
Fife	S4	37	98%
Glasgow	S5	53	73%
Highland	S4	59	88%
Inverclyde	S2	64	97%
Midlothian	D2	45	100%
Moray	D1	56	91%
North Ayrshire	S4	23	99%
North Lanarkshire	S4	53	97%
Orkney	S1	53	92%
Perth & Kinross	S4	42	99%
Renfrewshire	S5	47	87%
Scottish Borders	D1	63	96%
Shetland Islands	D5	44	79%
South Ayrshire	D1	30	98%
South Lanarkshire	D1	40	97%
Stirling	S3	51	78%
West Dunbartonshire	S3	54	95%
West Lothian	S4	50	100%

4.1 Introduction

4.1.1 The provision of a definitive answer to the development of the relationship between fees and costs is still affected by the uncertainties which exist in relation to the accuracy of cost data. While the shift in KPO 6 to a focus on labour costs has improved consistency of reporting, the “split” between verification and other work within the use of Building Standards department time varies from authority to authority and is still not known with certainty.

4.1.2 Nevertheless, a comparison of the “rankings” of authorities by financial performance using annual returns data and KPO 6 shows a high level of consistency.

4.2 Scotland Wide Trends

4.2.1 Considering the Local Government Financial Statistics reported in Section 3, we find that in 2007-08 income from Building Control exceeded expenditure by £5 million at the Scottish level. By 2012-13 expenditure exceeded income by £15.6 million.

4.2.2 Income fell steadily after 2008 – driven by the sharp decline in development activity including house building. Most local authorities found it difficult to reduce costs by an equivalent amount. In 2011 there was a sharp rise in costs followed by a sharp reduction in the subsequent year. In 2013-14 the gap between income and expenditure narrowed to a deficit of £6.9 million, the narrowing being the result of both cost reductions and an upturn in income.

4.2.3 The BSD Annual Returns data for 2013-14, while not entirely compatible with the data for earlier years due to missing cases, show a dramatic improvement on the previous year. In the 30 authorities for which data are available fee income increased by 21% between 2012-13 and 2013-14. Moreover, 23 out of 30 authorities experienced an increase in income and just under half of the authorities experienced an increase in costs. There is thus evidence of a clear improvement in financial performance with the 30 authorities recording a surplus of £4.6 million on Verification in 2013-14 as compared to a deficit of £183,000 for the same authorities in 2012-13.

4.2.4 Data from Performance Returns shows that income for most authorities in the most recent year exceeded direct staff costs. It was suggested above that a broad “mark-up” of 20% on staff costs for other costs would be reasonable. On that basis in over half of authorities the service generated a surplus and there was a Scotland wide surplus in 2013-14.

4.2.5 The evidence of the earlier report suggested that in “good times” the fee income from Verification has more than covered the costs of the service. A sharp drop in income caused by the recession combined with an inability to cut costs in line with income resulted in deficits. There is now evidence that as income has risen authorities are coming back into a position in which surpluses are being generated.

4.3 Variation between Authorities

4.3.1 There remains considerable variation in the performance of authorities in financial terms with 13 out of 30 authorities still in deficit on a KPO 6 basis in 2013-14 and 14 identified as always or mainly in deficit over the last four years. Of those deficit authorities only three show any signs of an improving financial trend.

4.3.2 Variations in deficits and surpluses depend on variation in both income and cost. If we use income and cost per “case” as a standard measure we find that mean costs per case vary much more than mean income (Average Deviation for cost in 2013-14 was £108 and for income £82). Variation in costs are thus the main cause of variation in financial performance.

4.3.3 Although there can be seen to be variations in the performance of individual authorities from year to year, most authorities move within a narrow performance “band”. Thus in classifying authorities in terms of deficits and surpluses, only eight authorities had performance which was too variable to be classified in these terms.

4.4 Relationship between Financial and other Performance Indicators

4.4.1 While it would be possible for “good” financial performance to be secured by offering a relatively low quality service, an analysis of the comparative performance of authorities on KPO 6 (financial), KPO 1 (mean time to issue a warrant) and KPO 3 (percentage of cases receiving a first response in 20 days) found no clear evidence that “good” financial performance is obtained by poor service.