

**MINUTES OF THE MEETING OF THE  
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 17 MARCH 2014  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

**1**

**Committee Members Present:**

Councillor K McLeod (Convener)  
Councillor S Brown  
Councillor J Caldwell  
Councillor S Currie  
Councillor A Forrest  
Councillor J Goodfellow  
Councillor F McAllister  
Councillor J Williamson (Items 1 – 12 & 17)

**Other Councillors Present:**

Councillor J McMillan (Items 15 & 16)

**Council Officials Present:**

Mr A McCrorie, Depute Chief Executive (Resources and People Services)  
Ms M Patterson Depute Chief Executive (Partnerships and Community Services)  
Mr J Lamond, Head of Council Resources  
Mr T Shearer, Head of Communities and Partnerships  
Mr R Montgomery, Head of Infrastructure  
Mr D Proudfoot, Head of Development (Interim)  
Ms S Fortune, Service Manager – Business Finance  
Mr J Cunningham, Service Manager – Benefits  
Ms K MacNeill, Service Manager – Licensing, Admin and Democratic Services  
Ms M Ferguson, Service Manager – Legal and Procurement  
Mr A Cruickshank, Service Manager – IT Infrastructure  
Mr P Vestri, Service Manager - Corporate Policy  
Ms T Leddy, Area Manager (Adult Wellbeing)  
Ms M Garden, Internal Audit Manager  
Mr S Allan, Senior Auditor

**Clerk:**

Miss F Currie, Committees Assistant

**Visitors Present:**

Mr S Burden, KPMG LLP

**Apologies:**

None

**Declarations of Interest:**

None

The Convenor advised the meeting that there would be a change to the Agenda order and Item 17 would be taken after Item 7.

**1. MINUTE OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 20 JANUARY 2015 FOR APPROVAL**

The minute of the Committee's meeting on 20 January 2015 was approved.

**2. DEVELOPMENT RISK REGISTER**

A report was submitted by the Chief Executive presenting to the Committee the Development Risk Register for discussion, comment and noting.

The Service Manager – Corporate Policy, Paolo Vestri, presented the Risk Register inviting Members' to note the 15 High risks, 34 Medium risks and 10 Low risks, as outlined in the report.

**Decision**

The Committee agreed to note the Development Risk Register and, in doing so, that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk;
- the total profile of the Development risk can be borne by the Council at this time in relation to the Council's appetite for risk;
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Development and are likely to be a feature of the risk register over a number of years; and
- while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Development Local Risk Working Group (LRWG). The Head of Development has lead responsibility.

**3. COMMUNITIES & PARTNERSHIPS RISK REGISTER**

A report was submitted by the Chief Executive presenting to the Committee the Communities & Partnerships Risk Register for discussion, comment and noting.

Mr Vestri presented the report drawing Members' attention to the risks as outlined.

In response to questions from Members, the Head of Communities & Partnerships, Tom Shearer, confirmed that while the Scottish Government's Right to Buy Scheme would close in August 2016, the Council's 'pressurised area' status suspension would expire in March 2016. He advised Members' that a possible extension had been ruled out by the Scottish Government and that the Council would need to re-apply for a further suspension, at a significant cost. He stated that this cost had to be weighed against any potential risk of future Right to Buy applications. It was his opinion that based on the number of potential tenants, the risk was relatively low.

Mr Shearer also confirmed that some tenants in newly built Council properties would be eligible to access Right to Buy during the period March to August 2016.

In response to questions from the Convenor, Mr Shearer stated that there may be a small number of Council properties at risk of containing asbestos and it was right to include this in the Risk Register. He confirmed that where a property was taken over by a Housing Association, it would be the Association that was liable for any removal of asbestos.

### **Decision**

The Committee agreed to note the Communities & Partnerships Risk Register and, in doing so, that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk;
- the total profile of the Communities & Partnerships risk can be borne by the Council at this time in relation to the Council's appetite for risk;
- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Communities & Partnerships and are likely to be a feature of the risk register over a number of years; and
- while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Communities & Partnerships Local Risk Working Group (LRWG). The Head of Communities & Partnerships has lead responsibility.

## **4. COUNCIL RESOURCES RISK REGISTER**

A report was submitted by the Chief Executive presenting to the Committee the Council Resources Risk Register for discussion, comment and noting.

Mr Vestri presented the report drawing Members' attention to the risks as outlined.

Councillor Currie raised questions over management of financial pressures, efficiency savings and monitoring of risk control measures. The Head of Council Resources, Jim Lamond, advised that as Chief Finance Officer he was confident that the budget approved in February 2015 properly took into account all of the information available at the time and was a competent and appropriate budget. However, he acknowledged that circumstances do change and control measures were in place to respond to such changes. There were opportunities at Cabinet and Council to monitor progress towards efficiency savings, and he saw no reason why this monitoring role could not be extended to the Audit & Governance Committee.

### **Decision**

The Committee agreed to note the Council Resources Risk Register and, in doing so, that:

- the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk;
- the total profile of the Council Resources risk can be borne by the Council at this time in relation to the Council's appetite for risk;

- although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Council Resources and are likely to be a feature of the risk register over a number of years; and
- while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Council Resources Local Risk Working Group (LRWG). The Head of Council Resources has lead responsibility.

## **5. SCOTLAND'S PUBLIC FINANCES – ACCOUNTS COMMISSION REPORT**

A report was submitted by the Depute Chief Executive (Resources and People Services) to provide the Committee with a summary of the Accounts Commission report, *'Scotland's Public Finances – A follow up audit: Progress in meeting the challenges'* and the Council's actions in relation to the report's key messages.

The Service Manager – Business Finance, Sarah Fortune, presented the report outlining the findings of the Accounts Commission report and the Council's approach to budget planning. She drew Members' attention to the Commission's recommendations on the use of benchmarking and options appraisal and the Council's longer term capital finances plans and five year approach to the Housing Revenue Account. She concluded that the report had identified room for improvement and the Council would take cognisance of the recommendations.

Responding to a question from Councillor Williamson, Ms Fortune advised that there were no plans at present for further Members' training; however she would consider scheduling a future event if it was thought appropriate.

Councillor Currie asked about the possibility of longer term budget-setting and reporting arrangements, and scrutiny of joint NHS and Council budgets linked to the Integrated Joint Board. Mr Lamond acknowledged the suggestion in the report of a move towards longer term budget-setting, for example, over five years rather than three. This approach could be very challenging but he agreed that, where possible, it was important to take a longer term view. He also accepted that there was scope for the Audit & Governance Committee to have a greater scrutiny role.

In relation to the Integrated Joint Board, Mr Lamond agreed that there would be very real challenges ahead in delivering outcomes and it would be important for officers and Members on the Board to try to influence some longer term priorities.

Councillor Goodfellow commented that it would be difficult for local authorities to work towards longer term budget strategies, such as five or ten years, when they could not be sure of their income from the Scottish Government beyond the next three years.

Councillor Currie agreed with Councillor Goodfellow's remarks, however, he said his concerns were reserved for the Integrated Joint Board. In particular, how longer term financial planning might address keys issues such as delayed discharges and how this Committee could become involved to ensure that robust scrutiny arrangements were in place.

### **Decision**

The Committee agreed to note the Accounts commission report and the approach being taken to address future financial challenges.

## **6. COMMUNITY PLANNING: TURNING AMBITION INTO ACTION (AUDIT SCOTLAND, NOVEMBER 2014)**

A report was submitted by the Depute Chief Executive (Resources and People Services) to review the findings and recommendations of the Audit Scotland report '*Community Planning: Turning ambition into action*' (November 2014).

Mr Vestri presented the report summarising the findings of the Audit Scotland update which assessed the progress of eight Community Planning Partnerships (CPPs) across Scotland against four key themes. He advised Members' that many of the findings and recommendations of the report were relevant to the East Lothian Partnership. The Improvement Plan approved by the Partnership following a recent self assessment exercise addressed these issues and would assist the Partnership in making further progress against key outcomes.

### **Decision**

The Committee agreed to note the comments on progress being made by East Lothian Partnership to address the issues raised in the Audit Scotland report.

## **7. ANNUAL WORK PLAN 2014/15**

The Annual Work Plan 2014/15 was presented to the Committee for noting. Mr Vestri advised Members that the Plan covered agenda items for the next two meetings and he would present the 2015/16 Work Plan to the Committee at its May meeting.

Councillor Currie expressed concern over the large number of agenda items for each meeting and the effect this had on the Committee's ability to properly scrutinise individual issues. He asked whether it might be possible to add an additional meeting of the Audit & Governance Committee to the Council's Committee Schedule for 2015/16. The Convenor said he would discuss this with officers.

### **Decision**

The Committee agreed to note the contents of the annual work plan for 2014/15.

## **SUMMARY OF PROCEEDINGS – EXEMPT INFORMATION**

The Committee agreed to exclude the public from the following business containing exempt information by virtue of Paragraph 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

### **(a) Investigation – Purchase of the Site of the Former Bowling Club at Limeylands Road, Ormiston**

The Depute Chief Executive (Resources and People Services) submitted a report informing the Committee of the findings from Internal Audit's investigative work on the purchase of the site of the former bowling club at Limeylands Road, Ormiston.

The Committee considered the report and accepted the findings that there had been no breach of the Council's Standing Orders or other processes but, following an amendment proposed by Councillor Currie and seconded by Councillor McAllister,

added a further recommendation that the purchase did not represent Best Value for the Council. The report, as amended, was approved by 4 votes to 3 with 1 abstention.

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## **8. INTERNAL AUDIT REPORT – SELF DIRECTED SUPPORT**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Self Directed Support.

The Internal Audit Manager, Mala Garden, presented the report advising Members that the main objective of the audit was to ensure that the internal controls in place in respect of Self Directed Support were operating effectively. She outlined the main findings and confirmed that the recommendations had been accepted by Management.

In response to questions from Members, Ms Garden explained that as Self Directed Support was relatively new, she had agreed a longer than usual timescale for completion of the recommendations. She also confirmed that a traffic light risk assessment process was in place to allow officers to identify and address any high risk payments.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **9. INTERNAL AUDIT REPORT – TYNE ESK LEADER PROGRAMME**

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

Ms Garden presented the report which had been included in the 2014/15 audit plan, at the request of the Scottish Government, following concerns about compliance with EU regulations. She summarised the main findings and action plan confirming that all of the recommendations had been accepted by Management.

Responding to questions from Members, Ms Garden confirmed that while all monies had been used for the purpose of the grants, payments had not always come from the applicant's bank account. However, this had been addressed and now only payments from an applicant's bank account would be reimbursed. She also advised that the requirement for bank statements had been tightened and that quotes were only required for expenditure over £1000 to show Best Value.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **10. INTERNAL AUDIT REPORT – PARTNERSHIP FUNDING**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Partnership Funding.

Ms Garden presented the report summarising the main findings of the audit. She outlined the recommendations contained in the Action Plan and advised Members that these had been accepted by Management.

Councillor Currie welcomed the recommendation that a consistent approach be adopted for the reporting of all grant awards. However, he urged officers to consider the timing of these awards and to make their decisions as soon as possible after the Council budget was approved. He also stressed the need to tailor the requirements of the application process to the size of the organisation: small groups with one or two members of staff could not be expected to provide the same volume and complexity of information as larger organisations.

Mr Shearer welcomed the audit report findings and recommendations. He said that previously awards had been dealt with by several different areas but they had now been pulled together under a One Council approach. However, he acknowledged Councillor Currie's remarks and advised that he was looking at benchmarking against other local authorities to identify options for best practice.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **11. INTERNAL AUDIT REPORT – KNOX ACADEMY**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Knox Academy.

Ms Garden presented the report which had been undertaken as part of the 2014/15 audit plan. She summarised the main findings and action plan confirming that all of the recommendations had been agreed by Management.

Councillor Williamson congratulated Knox Academy on a positive report.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **12. INTERNAL AUDIT REPORT – MEMBERS' GIFTS AND HOSPITALITY**

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

Ms Garden presented the report advising Members that the main objective of the audit was to ensure that adequate internal controls were in place and operating effectively. She outlined the main findings and confirmed that the recommendations had been accepted by Management.

The Service Manager – Licensing, Administration and Democratic Services, Kirstie MacNeill, responded to a question from Councillor Currie on Associated Committees.

She confirmed that where Members' attend events related to their duties as a Councillor these did not need to be declared.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

*Sederunt: Councillor Williamson left the meeting.*

## **13. INTERNAL AUDIT REPORT – NON-DOMESTIC RATES**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Non-Domestic Rates.

Ms Garden presented the report summarising the main findings of the audit. She referred Members to the recommendations contained in the Action Plan, all of which had been agreed by Management.

### **Decision**

The Committee agreed to note the contents of the Executive Summary and Action Plan.

## **14. INTERNAL AUDIT – FOLLOW-UP REPORTS**

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

Ms Garden presented the report, outlining recommendations that remained outstanding in two areas which had been the subject of previously issued audit reports. She advised Members that in both cases revised dates of completion had been agreed with Management.

### **Decision**

The Committee agreed to note the findings of Internal Audit's follow-up work on Procurement – Scheme of Delegation and Pencaitland Primary School.

*Sederunt: Councillor McMillan joined the meeting.*

## **15. INTERNAL AUDIT PLAN 2015/16**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of Internal Audit's operational plan for 2015/16.

Ms Garden presented the annual audit plan advising Members that it had been prepared in accordance with Public Sector Internal Audit Standards (PSIAS) and taking account of factors such as the Council Plan, corporate and departmental risk registers and previous audit work. She outlined the main focus of the work, key

factors to be considered and the importance of the plan given its contribution to the annual Controls Assurance Statement.

Responding to a question from Councillor Currie, Ms Garden confirmed that while neither Enjoy Leisure nor Musselburgh Joint Racing Committee had been included in the audit plan, there was no reason why they could not be added under "Special Projects" should the Committee request it.

Councillor Currie suggested that the Musselburgh Joint Racing Committee be added to the audit plan and the Committee members raised no objections.

Councillor Goodfellow asked for clarification of the types of audit work outlined in the report and where the report on the purchase of Ormiston Bowling Club came in this list. Ms Garden explained the main audit areas – Financial and Non Financial, Statutory, Best Value and Investigations – and confirmed that the report on the purchase of Ormiston Bowling Club came under the heading 'Investigations'.

Councillor Goodfellow raised a Point of Order citing a potential breach of Standing Orders. He questioned the competence of the amendment to the recommendations of the Ormiston Bowling Club investigation report, as the audit was not completed under the heading of Best Value. After consultation with the Clerk, the Convenor ruled that there had been no breach of Standing Orders.

**Decision**

The Committee agreed to approve the audit plan for 2015/16, as amended.

**16. INTERNAL AUDIT PROGRESS REPORT 2014/15**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of Internal Audit's progress against the annual audit plan for 2014/15.

Ms Garden presented the report which had been prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

**Decision**

The Committee agreed to note the contents of Internal Audit's progress report 2014/15.

Signed .....

Councillor Kenny McLeod  
Convener of the Audit and Governance Committee



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2

# East Lothian Council

Audit and Governance Committee update

Audit: Year ended 31 March 2015

6 May 2015

For Audit and Governance Committee consideration on 19 May 2015

**The contacts at KPMG in connection with this report are:**

**Andy Shaw**

*Director, KPMG LLP*

Tel: 0131 527 6673

Fax: 0131 527 6666

andrew.shaw@kpmg.co.uk

**Sarah Burden**

*Manager, KPMG LLP*

Tel: 0131 527 6611

Fax: 0131 527 6666

sarah.burden@kpmg.co.uk

**Laura Nelson**

*Senior associate, KPMG LLP*

Tel: 0131 451 7725

Fax: 0131 527 6666

laura.nelson@kpmg.co.uk

	<b>Page</b>
<b>Significant risks and other matters update</b>	2
<b>Control framework: governance arrangements</b>	4
<b>Control framework: systems controls</b>	8
<b>Appendix one: audit timeline</b>	12
<b>Appendix two: data analytics</b>	13
<b>Appendix three: action plan</b>	14

**About this report**

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

This report is for the benefit of East Lothian Council and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out within our audit strategy.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

**Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to East Lothian Council, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

The purpose of this document is to update the audit and governance committee on our progress on the audit of East Lothian Council (“the Council”) for the year ended 31 March 2015.

We provide an update on the significant risks and other audit focus areas identified in our audit strategy document.

Significant risks identified were in respect of management override of controls and financial position.

## Introduction

We have completed the interim audit, where we tested a selection of entity wide, process level and general IT controls and held discussions with management to update our understanding of the key business and audit focus areas for the Council.

This report provides the audit and governance committee with an update on:

- significant risks and other matters identified in the audit strategy document (pages two to four); and
- the results of our control framework testing, encompassing overarching governance and systems controls (pages five to eleven).

## Significant risks

In the audit strategy and plan document, we identified management override of controls and financial position as significant risks. Our audit procedures are inherently designed to consider the risk of management override of controls. The interim testing did not identify instances where management override of controls had occurred, and controls tested were found to be operating effectively.

As outlined in the audit strategy and plan document, the Council is operating in a challenging economic environment, with funding constraints and increasing expenditure pressure. We have reviewed the Council’s performance in these areas at the time of our interim audit work and provide narrative opposite.

We will provide an updated list of significant risks and other matters in the annual audit report, which will be reported to the audit and governance committee in September 2015.

## Financial Position - Revenue

The Council acknowledges the need to maintain efficient departments and respond to the challenge of funding restrictions. The Council forecasts continued utilisation of un-earmarked reserves in 2015-16 and 2016-17. This gives rise to challenge and inherent risk for the Council as there remains some uncertainty over future funding levels and the full impact of expenditure pressures.

The 2014-15 budget was approved in February 2014, along with an outline budget for the following two years. A quarterly financial review is reported to Cabinet. Following the Audit Scotland report ‘*An overview of local government Scotland in 2015*’ the audit and governance committee requested changes to the reporting of financial position to the Council. Management is considering ways to improve reporting of strategic financial management. The quarter three position reports an underspend against budget of £2.1 million as at 31 December 2014, primarily relating to the devolved school management budgets.

The Council assigns a red, amber or green (‘RAG’) rating to assess progress against efficiency savings and reports this to Cabinet. In quarter three, the majority of business groups were on target to achieve their efficiency savings. One business group is assigned a ‘red’ rating and one an ‘amber’ rating. We will assess progress against efficiency savings during the final audit.

Management budgeted for a transfer to reserves of £170,000 in 2014-15. The forecast transfer to/from reserves as at year end is not included within the quarterly financial review to Cabinet, although the forecast year end position is internally calculated. Management expects a higher year end transfer to reserves than initially budgeted. These additional reserves available at year end will be transferred to the general services capital fund or cost reduction fund. An expectation of the year end position has been built into the approved three year budget for 2015-16 to 2017-18.

We provide an update on the significant risks and other audit focus areas identified in our audit strategy document.

Other matters noted in the audit strategy document were in respect of the accounting for:

- **property, plant and equipment;**
- **provisions; and**
- **participation in the Lothian Pension Fund.**

Financial risk ratings are assigned by management to each business group. Two out of the 25 business groups, children's wellbeing and adult wellbeing, were classified 'high' risk in quarter three. This is consistent with quarter two, but an increase from quarter one where no business units were 'high' risk.

### Financial Position - Capital

At the end of quarter three, general services capital expenditure of £10.1 million had been incurred and £10.6 million of housing capital expenditure. This represented 47% and 48% of the annual budgets respectively and management identified that the majority of capital projects were underspent as at 31 December 2014. Although management anticipates 90% of capital spend will be incurred by the year end, underspends on some projects is forecast due to slippage.

### Other matters

#### Property, Plant and Equipment

Under the Council's rolling basis of revaluations, non-operational assets will be subject to valuation in 2014-15; a valuation report will be produced as at 31 March 2015 by external valuers. We will liaise with our internal valuation experts to review the methodology and assumptions used. As part of our year end procedures we will review the accounting treatment of the valuations to ensure appropriate recognition and disclosure in the financial statements.

The requirements of the *Code of practice on transport infrastructure assets* ("the transport code") will be applicable to local authorities from 1 April 2016. Management has begun to establish the replacement cost and annual depreciation for assets in preparation for this change in accounting policy. We will update our understanding of management's progress in preparation for the transport code during year end procedures.

### Provisions

We have discussed the holiday pay and landfill site provisions with management. Based on these discussions, the previous year's audit work and our current understanding, we are not expecting that these areas will have a material impact on the financial statements. We will remain alert to any legislative changes and consider the Council's position in detail as part of our year end procedures.

Management is reviewing the bad debt provision, and drafting a policy for how bad debt provisions should be calculated for each category of debtor. We will review the bad debt calculations and the reasonableness of provisions during our year end procedures.

### Pensions

The Council accounts for its participation in the Lothian Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants, Hymans Robertson. We tested the operating effectiveness of controls designed to ensure that data returns submitted to Lothian Pension Fund are complete and accurate and found these to be operating effectively.

During our year end audit procedures we will:

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



## Control framework: governance arrangements

The Council's governance arrangements remain largely unchanged from the prior year.

Our interim audit fieldwork was based on gaining an understanding of the strategic and operating culture and framework in which services are delivered. We have set out below the key elements of the governance and entity level control framework, as tested during the interim visit.

Test	Description	Results
Risk management	<p>A corporate risk register is in place and is supported by service level risk registers. The Council risk management group meets regularly to discuss risk management and membership includes one member of each local risk group. This facilitates identification of emerging risks at the service level to be fed into the corporate register.</p> <p>Service risk registers were recently updated and approved by the audit and governance committee during 2015. This will be followed by a review of the corporate risk register, to be approved by the audit and governance committee in May 2015. The risk management strategy was updated and approved by the audit and governance committee in January 2015.</p> <p>Risk registers are produced and maintained on spreadsheets, and management intends for these to be maintained on the Aspireview performance system. The Council had planned to do this in 2013-14 although as at February 2015 this was outstanding.</p>	Design of controls satisfactory.
Procurement	<p>In 2013-14 new procurement policy and related procedures were approved, with a policy review scheduled for 2015-16. Procurement training was provided to the procurement team and 20 to 30 other members of staff. Tendering thresholds were revised in the updated procedures in line with the EU requirements. These were implemented within the new procurement policies and procedures.</p> <p>The volume of off-contract spend is monitored on a quarterly basis by the procurement department. The number of new suppliers is also being monitored, and quarterly reports are produced for heads of service. Payment cannot be made to new suppliers without authorisation from procurement.</p>	Design of controls satisfactory.

## Control framework: governance arrangements (continued)

Test	Description	Results
Related parties	<p>Separate registers of interest exist for chief officers and elected members. Members are required to declare relevant interests during meetings if appropriate.</p> <p>We reviewed these registers of interests to confirm that all registers are up to date, and will verify that related party transactions have been appropriately disclosed in the financial statements during our year end procedures. As the process to update the registers of interest takes place in January to February, one was outstanding during our interim audit. We will review this as part of our year end procedures.</p>	Satisfactory.
Organisation-wide policies	<p>Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. These should be updated in a reasonable timeframe to reflect new requirements, and be easily accessible to all staff on the intranet.</p> <p>We identified a number of policies in the 2013-14 interim management report which had not been updated in what we considered to be a reasonable timeframe. We recommended that management identify policies to be reviewed and updated on an annual basis.</p> <p>The whistleblowing policy and gifts and hospitality guidance have both been updated since our last review. We reviewed a number of policies and found the content to be appropriate and the policies to be easily accessible to employees on the intranet.</p> <p>We will continue to review management's progress against updating policies during the final audit.</p>	Satisfactory.

## Control framework: governance arrangements (continued)

The work of internal audit continues to provide assurance over the key risks identified in the corporate risk register.

Test	Description	Results
Internal audit	<p>The annual internal audit plan is aligned to the financial year and directors are consulted, the risk register considered as part of planning. The 2014-15 plan was approved in March 2014. Input from external audit is requested to facilitate an efficient approach to controls testing. Consistent sample sizes are used for financial system audits, and provide coverage of the full financial year.</p> <p>We will review relevant internal audit files, findings and recommendations as part of our year end procedures and assess any impact on our substantive audit work. For substantive audit procedures, we intend to place reliance on internal audit reports on:</p> <ul style="list-style-type: none"> <li>■ borrowing;</li> <li>■ pensions;</li> <li>■ cash handling and banking;</li> <li>■ national fraud initiative;</li> <li>■ non-domestic rates; and</li> <li>■ statutory performance indicators.</li> </ul> <p>We will continue to review the findings from other internal audit reviews in order to assist in our overall risk assessment of the Council.</p>	Satisfactory. No additional risk areas identified through review.

## Control framework: governance arrangements (continued)

We have provided an update on other governance matters at the Council where our audit work is ongoing.

Area	Description	Update
Charitable trusts	As in 2013-14, all charitable trust funds registered with the Office of the Scottish Charity Regulator (“OSCR”) will require an audit. In the prior year, the Council had one registered charity, the Dr Bruce Fund. Management reviewed other charitable funds and confirmed with OSCR that no other funds require an audit. No changes have been identified during 2014-15.	We will audit the financial statements of the Dr Bruce Fund for the 31 March 2015 year end, in July 2015.
National fraud initiative (“NFI”)	We prepared a return to Audit Scotland in December 2014, assessing management’s participation in the NFI against Audit Scotland criteria. The return identified that the Council had participated in the optional matching exercise in October 2014, and that the exercise was still ongoing. There will be further data matching exercises throughout 2015, and we will submit another return to Audit Scotland in June 2015, assessing management’s progress and procedures to complete the exercise.	We will submit a return to Audit Scotland in June 2015.
Integration of health and social care	<p>In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. The Council agreed that in conjunction with NHS Lothian, the body corporate model should be adopted and the scheme of integration should be based on this model.</p> <p>Integration schemes must be submitted to Scottish Ministers for approval by 1 April 2015. The East Lothian integration scheme was approved by Councillors on 10 March 2015, and has been submitted to Scottish Ministers. Strategic plans are required to be submitted by 1 April 2016. A shadow strategic planning group has been implemented and a strategic plan drafted. Consultation on the draft strategic plan was completed in February 2015.</p> <p>Auditors are required to consider the Council’s progress in the integration of health and social care, and we will report the findings in the annual audit report.</p>	Progress to date is in line with most other local authorities. We will provide a further update to progress on the integration of health and social care within our annual audit report.

Where an audit objective has a controls approach, we have updated our understanding of accounting and reporting activities over each significant account and identified and tested key financial controls as well as reviewing higher level organisational controls.

We have evaluated the design and implementation of these controls and, where appropriate, tested the operating effectiveness.

Our audit does not seek to test all transactions or controls established by management. Testing of the design and operation of key financial controls for the purposes of our financial statements audit, however, confirms that, with the exception of some weaknesses reported, those controls are designed appropriately and operating effectively.

Test	Description	Results
Income and expenditure	<p>The Council has a robust budget setting process, with involvement from key members of staff.</p> <p>Performance against budget is monitored on a regular basis and through various measures, including daily and monthly 'management reporter' reports, quarterly business group reports and regular discussions with budget holders.</p> <p>Elected members are kept informed of progress through quarterly financial summary reports prepared by the finance department and presented to cabinet. These reports are sufficiently detailed and provide appropriate qualitative and quantitative information. Management reports progress against the achievement of efficiency saving targets as part of these reports. Our testing confirmed that budget monitoring arrangements are designed, implemented and operating effectively.</p> <p>The payment run control was found to be designed, implemented and operating effectively.</p>	Satisfactory – no exceptions identified.
Staff costs	<p>An exception 'CAL' report is prepared for each payment run. This shows any variances from the previous payment run, which are then investigated. We tested a sample of two months' CAL reports to verify that they had been prepared for each payment run and the variances investigated.</p> <p>Returns are prepared to the Lothian Pension Fund on a monthly basis, showing the total employer and employee contributions to the fund. A year end return is prepared which shows this information by person. We tested a sample of two monthly returns and will review the year end return during our substantive audit procedures.</p>	Satisfactory – no exceptions identified.

## Control framework: systems controls (continued)

Weaknesses were identified in relation to bank reconciliations and journals. We have assessed the impact of control weaknesses on our audit approach and due to the minor nature of these we do not consider it necessary to increase our substantive audit testing as a result.

Test	Description	Results
Treasury	<p>Management has identified weaknesses in the bank reconciliation process. In our 2013-14 interim report we noted that progress had been made in this area and bank reconciliations were being completed six weeks after the period end. During our 2014-15 interim testing we identified that bank reconciliations were behind schedule, and the October 2014 reconciliation was completed in February 2015. We will review progress and substantively audit the year end bank reconciliation during our financial statement audit.</p> <p>Bank reconciliations are carried out by comparing the bank statement balance at the month end to the ledger balance at the date the reconciliation is prepared. Although this results in fewer timing differences, we consider this to be an unusual approach and a more efficient approach could be adopted, by reconciling at coinciding dates.</p> <p>During our 2013-14 audit two previously unidentified bank accounts were identified. We recommended in our 2013-14 annual audit report that these bank accounts be closed, and management investigates the possibility of there being any other unidentified accounts. Work has been undertaken to ensure no further bank accounts exist, however due to changes in staffing this work is still ongoing and only one account has been closed.</p>	<p>At the time of our review, bank reconciliations had been completed and reviewed to the end of October 2014. The November bank reconciliation was in progress.</p> <p><b>Recommendation one</b></p> <p>We recommended in our 2013-14 annual audit report that previously unidentified bank accounts should be closed. Work has been undertaken to ensure there are no further unidentified bank accounts. However only one of these accounts has been closed.</p>
Journals	<p>We noted in our 2011-12 and 2012-13 annual audit reports that there was an increased risk over fraudulent or erroneous journals not being identified on a timely basis, due to improvement scope with authorisation of journals. A new authorisation control was introduced during 2013-14, whereby a random sample of journals is reviewed from each journals folder.</p> <p>This control, as designed, has been implemented and is operating effectively. From each of the 11 folders sampled, at least one journal entry had been reviewed, with at least four reviewed in the seven most recent folders. Whilst this satisfies managements control, we consider there is further scope for improvement in this process to enhance the risk based nature of the review.</p>	<p>This control, as designed, has been implemented and is operating effectively. We consider there is further scope for improvement to enhance the risk based nature of the review.</p>

## Control framework: systems controls (continued)

Our audit approach for 2014-15 involves testing the design, implementation and operating effectiveness of the Council's general IT controls over financial systems.

Our planning for the 2014-15 audit determined that we would test the design, implementation and operating effectiveness of a number of general IT controls to give us comfort over the information produced by IT systems and used as the basis of our audit work. Our testing gave us comfort over the controls in place for system access and program changes for Great Plains, Chris21 and Orchard.

Test	Description	Results
System access controls	<p>As part of systems access controls, we have looked at starters, leavers and super users for Great Plans, Chris21, Orchard and the IT network.</p> <p>We tested a sample of 25 new starters, agreeing their network and systems access to supporting documentation, such as acceptable use policy forms and IT service desk requests.</p> <p>From the sample of leavers, 24 out of 25 were processed in a timely manner. One leaver was not processed in a timely manner as the line manager did not complete the appropriate paperwork, leading to overpayments being made. Action has been taken to recover these overpayments. We extended the sample of leavers and our testing in this area is ongoing.</p> <p>Super users were deemed appropriate based on the individual's job titles. However super users on the Chris21 system are able to delete audit logs, and these are deleted on a regular basis.</p> <p>There is a user account 'TRAIN1', which has enhanced (although not full super user) access. This account was previously used for training purposes but is no longer required. There is an additional super user account used for system updates and generic changes.</p> <p>Password controls were found to be designed, implemented and operating effectively.</p>	<p>Satisfactory overall, although we have raised a recommendation in relation to Chris21 audit logs and super user accounts.</p> <p><b>Recommendation two</b></p> <p>One leaver was not processed in a timely manner, leading to overpayments being made. Our testing of leavers is ongoing following an extension of our sample.</p> <p><b>Recommendation three</b></p>
System changes and IT policies	<p>Requests for a system change are sent via an authorised change request form to the central IT services helpdesk. If approved by an authorised approver, the changes are made and the helpdesk item is closed. Our testing found that from a sample of six changes all were appropriately authorised.</p> <p>There is an IT security policy in place which is sufficiently detailed and widely available to staff on the Council's intranet. The policy was formally reviewed in January 2013, and the change history sheet updated to show this. The policy was reviewed during 2014, however as only minor changes were made, this was not updated on the change history sheet.</p>	Satisfactory.



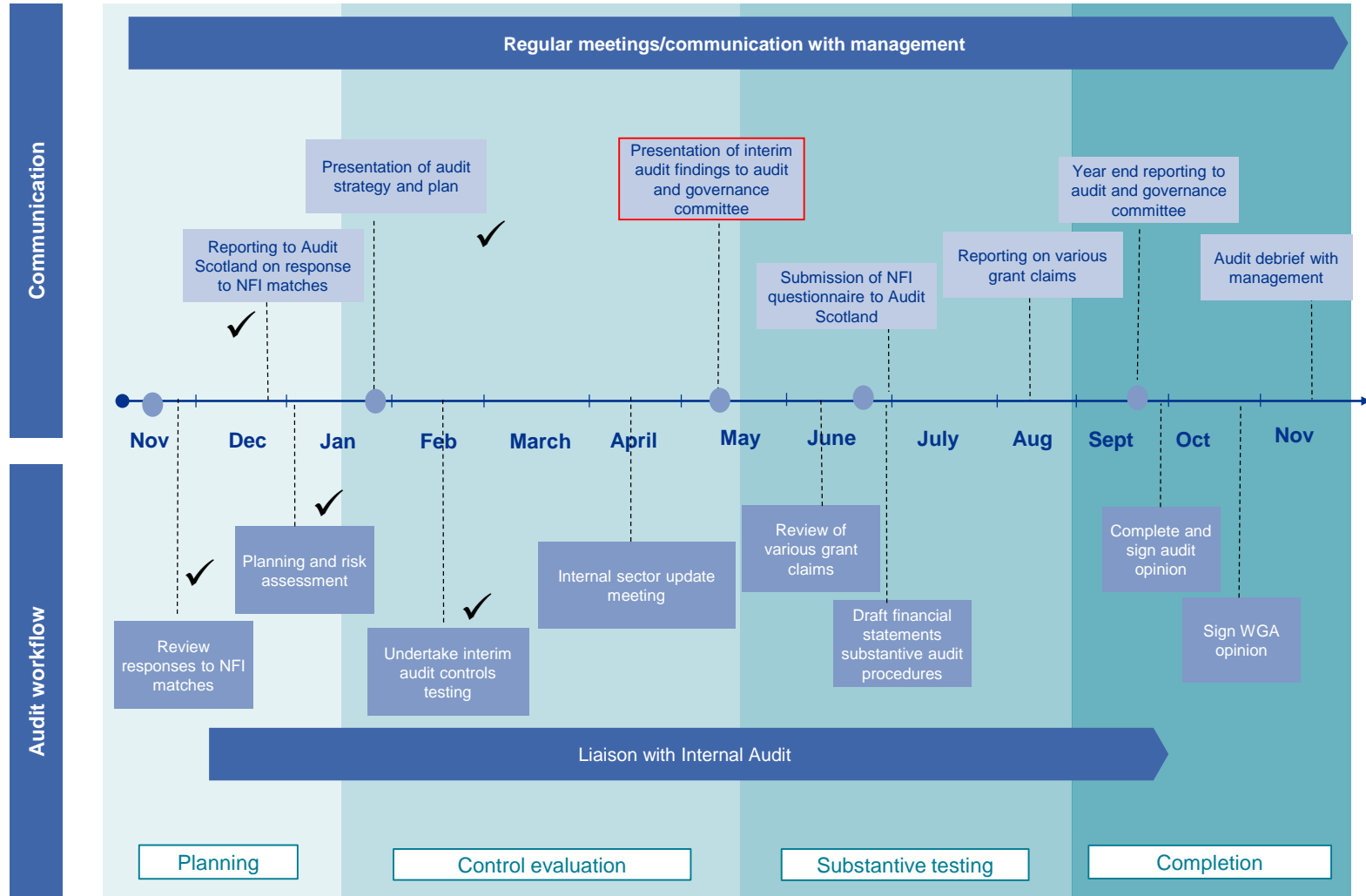
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# Appendices



# Appendix one Audit timeline and communications

Progress against the 2014-15 audit timeline communicated in our audit strategy document is shown opposite.



**Data analytics supplements existing control and substantive testing.**

**Data analytics takes mass data sets and analyses them to draw out potential control weaknesses or value for money concerns.**

**As part of our interim work, we reviewed payroll and supplier information.**

**At the final audit we propose to use data analytics in core areas of our substantive work including debtors and journals.**

We have identified the following areas to perform data analytics procedures. Our work on supplier details and payroll is in progress and we have reported our findings to management. We will perform further analysis on journals and debtors during our financial statements audit and report our findings in the annual audit report.

Audit area	Proposed analysis
Supplier details	<ul style="list-style-type: none"> <li>■ Duplicate addresses in payroll and supplier details</li> <li>■ Suppliers with missing information</li> <li>■ Duplicate bank details within supplier listing</li> </ul>
Payroll	<ul style="list-style-type: none"> <li>■ Absence by department</li> <li>■ Absence by type</li> <li>■ Overtime payments (where paid) by department</li> <li>■ Overtime payments (where paid) by cost</li> </ul>
Journals	<ul style="list-style-type: none"> <li>■ Value and number of journals by individual users</li> <li>■ Number of journal postings per period</li> <li>■ Number of low-value journals posted (e.g. &lt;£1,000)</li> </ul>
Debtors	<ul style="list-style-type: none"> <li>■ Comparison of bad debt provision between local authorities</li> <li>■ Debtors days analysis and comparison between local authorities</li> </ul>

The action plan summarises specific recommendations arising from our work, together with related risks and management’s responses.

### Priority rating for recommendations

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

### Finding(s) and risk(s)

### Recommendation(s)

### Agreed management actions

#### 1 Bank reconciliations

#### Grade two

Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner.

The October 2014 bank reconciliation was completed on 12 February 2015. During our interim testing, the November bank reconciliation was in the process of being prepared. There is a risk that the year end bank reconciliations are not completed in a timely manner and an accurate cash balance is not reflected in the financial statements.

Bank reconciliations should be brought up to date and should be completed within six weeks of the period end.

Agreed. Work is ongoing to review the current bank reconciliation process.

**Responsible officer:** Service manager – corporate finance

**Implementation date:** June 2015

## Appendix three

### Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>2 Chris21 audit logs and users</b>		
<p>Audit logs are deleted from the Chris21 system on a weekly basis for 'housekeeping' purposes. A PDF copy of the audit log is automatically created, and a second PDF report created when the audit log is deleted. These reports are sequentially numbered, however not all reports are saved. There is a risk that unauthorised or inappropriate changes are made to system data and there is no evidence to support the changes.</p> <p>There are generic user accounts on Chris21 which were previously used for training. These accounts are no longer required, and there is a risk that they could be accessed and changes made in the system.</p>	<p>All system audit logs should be retained on file, in sequential order.</p> <p>Any generic user accounts should be disabled to ensure these can no longer be used.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>Agreed. Audit logs have been implemented and training accounts have been disabled.</p> <p><b>Responsible officer:</b> Service manager – HR and payroll</p> <p><b>Implementation date:</b> May 2015</p>
<b>3 Processing of leavers</b>		
<p>From a sample of 25 leavers, one was not processed until two months after leaving the Council as the leavers documentation was not processed in a timely manner. This led to a gross overpayment of £3,981.32. The Council is taking action to recover this overpayment.</p> <p>There is a risk that overpayments are made to Council employees and are not recoverable.</p>	<p>Management should reiterate the importance to line managers of completing leavers documentation in a timely manner.</p> <p>Management should ensure all appropriate action is taken to recover any overpayments made.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>Agreed. Arrangements have been put in place to reinforce the need for clear documentation.</p> <p><b>Responsible officer:</b> Service manager – HR and payroll</p> <p><b>Implementation date:</b> May 2015</p>



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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Chief Executive

**SUBJECT:** Corporate Risk Register 2015

**3**

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## **1 PURPOSE**

- 1.1 To present to Audit and Governance Committee the Corporate Risk Register 2015 (Appendix 1) for discussion, comment and noting.

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that Cabinet agrees the Corporate Risk Register for 2015.

- 2.2 In doing so, Cabinet is asked to:

- note that the relevant risks have been identified;
- note that the significance of each risk is appropriate to the current nature of the risk;
- note that the total profile of corporate risk can be borne by the Council at this time in relation to the Council's appetite<sup>1</sup> for risk;
- recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2015, many are in fact longer term corporate risks for the Council that are likely to be a feature of the risk register over a number of years; and,
- note that the Council Management Team will reviews all risks in the Corporate Risk Register on a regular basis.

## **3 BACKGROUND**

- 3.1 In keeping with the Council's risk management strategy, the Corporate Risk Register has been updated following a review by the Corporate Risk Management Group on behalf of and in consultation with Council Management Team.

<sup>1</sup> How much risk the council can bear, or could be willing to take in pursuit of an opportunity (if it were judged to be (1) worthwhile pursuing and (2) the council was confident in its ability to achieve the benefits and justify the risk).

- 3.2 In presenting the draft Corporate Risk Register 2015 to Cabinet for approval, the Council Management Team would wish to draw the Committee's attention to methodology used to create the Register. All risks have been evaluated using the standard (5x5) risk matrix which involves multiplying the likelihood of occurrence of a risk (scored 1-5) by its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).
- 3.3 The Council's response in relation to adverse risk or its risk appetite is such that:
- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position
  - High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place
  - Medium risk is tolerable with control measures that are cost effective
  - Low risk is broadly acceptable without any further action to prevent or mitigate risk.
- 3.4 The 2015 Corporate Risk Register includes 1 Very High risk, 7 High risks and 6 Medium risks.
- 3.5 In accordance with the Risk Management Strategy 'Very High' and 'High Risks' identified in the Corporate Risk Register will be subject to closer scrutiny by the Council Management Team, the Cabinet and the Audit and Governance Committee.

#### **4 POLICY IMPLICATIONS**

- 4.1 In noting this report the Council will be further establishing a policy that will ensure risk management principles are embedded across the Council.

#### **5 EQUALITIES IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – It is the consideration of the Corporate Risk Management Group that recurring costs associated with the measures in place for each risk are proportionate to the level of risk.
- 6.2 The financial requirements to support the Corporate Risk Register for 2015 should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.
- 6.3 Personnel – There are no immediate implications.



6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

## 7 BACKGROUND PAPERS

7.1 Appendix 1 – Corporate Risk Register

<b>AUTHOR'S NAME</b>	Paolo Vestri
<b>DESIGNATION</b>	Service Manager - Corporate Policy and Improvement
<b>CONTACT INFO</b>	<a href="mailto:pvestri@eastlothian.gov.uk">pvestri@eastlothian.gov.uk</a> 01620 827320
<b>DATE</b>	5 <sup>th</sup> May 2015



## Appendix 1 - East Lothian Council Corporate Risk Register

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 1	<p>Financial pressures:</p> <p>If the council's financial pressures were not to be successfully planned for and managed effectively over the medium to longer term (i.e. the next 3 and possibly up to 7 years), there would be a serious risk of unplanned/ reactive budget realignments with significant adverse impact on availability and quality of both front-line services and required investment in the Council's infrastructure and asset base.</p> <p>Over the medium term it is highly likely that the Council's income will, at best, remain static and may even reduce. At the same time it will have specific cost and demand pressures to deal with. These include:</p> <p>(1) demographic change and social-economic pressures - increasing pupil and elderly numbers;</p> <p>(2) general inflationary pressures and contractual commitments including pay and pensions;</p> <p>(3) specific cost pressures such as the affordability of the increasing number of high-cost individual care packages; and</p> <p>(4) potential financial costs associated with legislative changes such as a number of environmental issues, delivery of increased childcare commitments and Free School Meals for all P1-P3 school children.</p>	<p>The Council has well developed short to medium term financial planning arrangements. These include:</p> <ul style="list-style-type: none"> <li>• Three year General Services revenue budgets;</li> <li>• Six year General Services capital plan budgets;</li> <li>• Ten year Housing Revenue Account revenue and capital budgets.</li> </ul> <p>In addition, it has cost control and financial management arrangements for managing in year budget performance. Both of which provide mitigating controls in terms of the immediate financial risk and pressures the Council is faced with.</p> <p>There continues to remain significant uncertainty in terms of the longer term financial projections for the public sector with the expectation that the current austerity measures will remain in place until at least 2019/20. The current financial strategy covers the medium term planning period of the next 3 financial years however this is likely to be extended to ensure that the Council is placed to meet the future challenges if current forecasts emerge.</p> <p>Partnership working with Midlothian Council and other partners is being developed to increase capacity to provide services within existing resources. The Council has also made significant progress towards implementation of the new Integrated Health and Social Care Partnership with effective shadow arrangements now in place and the statutory Integration Scheme close to being finalised.</p>	4	5	20	<p>CMT/Managers continue to follow the financial strategy i.e. cost control/ cost minimisation to ensure delivery of agreed savings. This is also being monitored closely through the continued operation of the Chief Executive's Budget Review Group.</p> <p>Through the Corporate Asset Group, the Council implement will implement the approved Asset Management Strategy and related action plan.</p> <p>CMT will continue to monitor the impact of council restructuring and service re-design that flows from Efficient Workforce Management Planning.</p> <p>Further consideration will be given to increasing income where possible.</p> <p>The Workforce Development Plan is a key part of the Council's response to increasing financial pressures. It aims to support transformational change, build and sustain leadership and management capacity, sustain a skilled, flexible and motivated workforce and develop the workforce for the future.</p>	3	4	12	<p>Chief Executive</p> <p>Depute Chief Executive – Resources and People Services</p> <p>Head of Council Resources</p> <p>Council Management Team</p>	<p>Actions ongoing and continuously reviewed.</p> <p>Monitoring arrangements will continue to be applied.</p>	<p>Risk reviewed by CMT in May 2014 and current score increased from 15 to 20.</p> <p>Risk further reviewed by Head of Council Resources and Service Manager Business Finance Feb 2015 with no changes to scores.</p> <p>This risk is also included in the Council Resources Risk Register.</p>

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 2	<p><b>Duty of Care</b></p> <p>The Council has a responsibility to provide care and support for the people of East Lothian and East Lothian's environment. Any breach of this duty of care may compromise health, safety and wellbeing, impacting on, for example, the protection of children and adults.</p> <p>Failure to fulfil the duty of care could also result in serious harm/death to an individual/s, prosecution, having to pay compensation and have a negative impact on the reputation of the Council.</p> <p>The duty of Care is at the heart of the Council's approach to risk management.</p> <p>The likelihood of this risk occurring is influenced by a range of factors including for example:</p> <p>(1) Complexity of partnership arrangements in the care sector;  (2) Number of vulnerable people in East Lothian;  (3) Levels of deprivation in East Lothian;  (4) Increased population and more complex service demands presented by an increasing number of service users whilst resources have reduced.</p> <p><b>Adult Wellbeing:</b> More than half of the care provided is purchased from private and voluntary sector agencies. The risks associated with purchased care are well understood and monitored through contract compliance and monitoring of care providers in association with the Care Inspectorate.</p> <p><b>Children's Wellbeing:</b> Duty of care operates in individual agency and partnership working with other universal and specialist agencies, some of which operate under contractual/service level agreements, all of which operate under defined professional standards of practice, policies and procedures and directly with families and carers all of which is monitored in association with Care Inspectorate and other inspection agencies.</p>	<p><b>Corporately</b></p> <p>Comprehensive suite of corporate health and safety policies apply to all aspects of service delivery council-wide.</p> <p>Robust HR recruitment policy in place on procedures laid down by Disclosure Scotland and the Protecting Vulnerable Groups scheme and training sessions are in place for all managers and staff to make them aware of the policy and processes to be followed to comply with the PVG scheme.</p> <p>For Social Work and Health Services the Council follows safe recruitment procedures as described by the Care Inspectorate.</p> <p>Details of the posts which are subject to the Disclosure process are published on the Council intranet.</p> <p>Risk assessments and risk management are central to the care planning process.</p> <p>Frameworki and service specific systems are used to identify and record risk factors in a structured and consistent manner.</p> <p>E-Learning for all employees: GIRFEC, Child Protection and Adult Protection, Health &amp; Safety.</p> <p>Inspection of Regulated Services by Care Inspectorate and HMIE .</p> <p>East and Midlothian Public Protection Committee (EMPPC) is established. It has a standing sub-group which will focus on Performance and Quality Improvement across all areas of public protection work, and it has developed and is beginning to implement a consistent framework for self evaluation, audit and scrutiny.</p> <p>Annual Chief Social Work Officer's Report to Council.</p> <p>Regular public protection performance reporting to PPRC.</p>	4	4	16	<p>Implementation of Action Plans following on from all Regulated Services inspections.</p> <p>Ongoing review of performance under the work plans of the PPU Performance &amp; Quality Improvement Sub Group to the Public Protection Committee.</p> <p>New obligations of the Children &amp; Young People Bill introducing the 'Named Person' role will be further developed and implemented during 2015/16.</p> <p>Community Planning Inspection of Services for Children: the Care Inspectorate's report on such was published on 10 April 2014. A multi-agency improvement plan has been developed and is reflected in the work of the Children's Strategic Partnership, Critical Services Oversight Group (CSOG), the ELP/RPP.</p>	3	4	12	<p>Depute Chief Executive – Partnerships and Community Services</p> <p>Depute Chief Executive – Resources and People Services</p> <p>Director of East Lothian Health and Social Care Partnership</p> <p>Critical Services Oversight Group</p> <p>Council Management Team</p>	<p>Actions ongoing and continuously reviewed.</p>	<p>Risk reviewed and updated April 2015 by CMT with further review planned throughout 2015/16.</p>

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 3	<p>Information Security and Data Protection</p> <p>Failure to have comprehensive council wide Information Security Management measures in place will put at risk the availability, integrity and confidentiality of the councils information and may cause a Council wide failure of central I.T. systems (incl. Telephony) caused by a malicious attack by hackers, virus, trojan, disclosure of information or Fire/Flood event.</p> <p>Attacks via spam emails containing infected ransomware attachments are on the increase amongst local authorities and should these emails manage to break through Firewalls and IDS there is a high possibility of file encryption at both a local and network wide levels.</p> <p>The Cabinet Office has introduced zero tolerance for all LA's connected to the PSN network. All Scottish LA's use the PSN to register Births, Marriages &amp; Deaths and connection to DWP for benefit provision. We have to re-accredit to this network every year and must meet stringent requirements. Failure to do so would mean disconnection from the PSN.</p> <p>Breach of the Data Protection Act, other confidentiality requirements, any relevant laws or duty of care through the loss or wrongful transmission of information (including information stored electronically) could result in</p> <ul style="list-style-type: none"> <li>- harm to individuals;</li> <li>- legal action;</li> <li>- fines of up to £500,000.</li> <li>- requirement to pay compensation;</li> <li>- adverse publicity;</li> <li>- damage to reputation.</li> </ul>	<p>The Council uses the international standard ISO 27001:2013 as the framework for its Information &amp; I.T. Security Management system. This includes objectives, policy framework, internal audit, management support and treatment, training and awareness, risk assessment, measurement of effectiveness, management review, non-conformity management and continual improvement.</p> <p>As part of the security controls required by the standard to mitigate risks, several control areas are set out :</p> <ul style="list-style-type: none"> <li>Information security policy;</li> <li>Information security organisation;</li> <li>Human resources security;</li> <li>Asset management;</li> <li>Access controls and managing user access;</li> <li>Physical &amp; Environmental security of all sites/equipment</li> <li>Secure communications, Data handling and Data Protection (including paper documents etc);</li> <li>Secure acquisition, development, and support of information systems;</li> <li>Security for suppliers and third parties;</li> <li>Information Security Incident management;</li> <li>Business continuity/disaster recovery (to the extent that it affects information security);</li> <li>Compliance - ELC takes measures to avoid breaches of law, statutory, regulatory or contractual obligations (incl. DP Act and Public Records Act).</li> </ul> <p>There is a Council IS Forum hosted by the IT Security Officer. IS, DP and Records Management Awareness training now forms part of our induction process for new employees. Data Protection and Information Security awareness training is mandatory for all employees and must be renewed every two years. An online system reports who has completed training and when to the Data Protection team.</p> <p>IT health checks of PSN requirements on the existing infrastructure are carried out annually. New systems being introduced to our infrastructure will be risk assessed and security checked before introduction to ensure they meet criteria.</p> <p>The Data Protection Officer carries out a series of "health checks"/audits in various Council departments to ensure compliance and to improve practice.</p> <p>The Council's Records Management Plan was adopted in 2014 and approved by the Keeper in January 2015. This 5 year plan covers how the Council manages its records and includes links to our information security and data protection policies.</p>	4	4	16	<p>An implementation group has been formed to ensure improvements are made in relation to the Record Management Plan.</p> <p>I.T. is purchasing additional logging system licenses which will allow closer inspection of any suspected malicious activity on I.T. infrastructure.</p>	3	4	12	<p>Depute Chief Executive – Resources and People Services</p> <p>Head of Council Resources</p>	July 2015	<p>Information Security and Data Protection risks combined to create this new risk in April 2014.</p> <p>Risk reviewed March/April 2015 with new measures now in place although risk score remains at 16 due to the increase of attacks via spam emails containing infected ransomware attachments amongst local authorities.</p>

Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 4	<p>Climate Change</p> <p>As the incidence of flooding and coastal erosion increases as an impact of Climate Change, there is an increased risk of disruption to road and path networks, impact on public safety, damage to roads, property, harbours and natural heritage sites and an associated increase in claims against the Council.</p>	<p>Flooding and drainage issues are considered when processing planning applications. Inspection regimes and good housekeeping measures in place and working effectively.</p> <p>The Severe Weather Response Plan has been developed over the past few years and ensures a co-ordinated and consistent multi-agency response across the county. Emergency surface water, coastal and river flood procedures in place and have proven effective.</p> <p>Shoreline Management Plan has been produced and Flood Risk Management Strategy and Plans are being prepared to meet the requirements of the Flood Risk Management (Scotland) Act 2009.</p> <p>Flooding advice is given on the Council website and directs people to the relevant pages on the SEPA website.</p>	4	4	16	<p>The Council is working with the Community Councils to promote and progress "Resilient Communities" as per the Scottish Government initiative "Ready Scotland".</p> <p>Improved communication with vulnerable groups regarding access and assistance during severe weather events.</p> <p>ELC have commissioned Flood Studies for Haddington and Musselburgh and are to engage a consultant to further develop Flood Protection works on the River Tyne and Esk, The implementation of Flood Protection Works is reliant on funding availability.</p>	3	3	9	<p>Depute Chief Executive – Partnerships and Community Services</p> <p>Depute Chief Executive – Resources and People Services</p>	<p>Ongoing</p> <p>April 2016</p>	<p>Risk reviewed March 2015.</p>
ELC CR 5	<p>Duty of Care to Council Staff (Health &amp; Safety)</p> <p>East Lothian Council has a duty of care to all its employees across the full range of services and those who can be affected by the Council's activities.</p> <p>Any breach of this duty of care may affect the health, safety and wellbeing of the Council's employees leading to increased sickness absence, pressures on service delivery with the added potential for claims against the Council for incidents involving employees or non-employees.</p> <p><u>Lone Working</u></p> <p>Failure of the Council to provide employees with an effective Lone Working Policy &amp; Practice and the appropriate training could result in injury or death to those employees resulting in H&amp;S prosecution, civil insurance liability, reputational risk, increased sickness absence, pressures on service delivery and also potential claims against the Council.</p> <p><u>Safe Driving at Work</u></p> <p>"Health and Safety Law applies to on the road work activities as to all work related activities and the risks should be managed within a health and safety management system". Failure to implement a Safe Driving at Work (SDAW) Policy and Guidance to ensure that the Council meets current Health &amp; Safety guidelines and the Corporate Manslaughter and Corporate Homicide Act 2007 could result in the Council facing a significant fine and/or legal action if a serious road accident were to take place involving any driving operation undertaken by employees,</p>	<p>Quarterly Joint Health and Safety Committees oversee the Health and Safety Agenda of Council. This is supported by Departmental committees examining health and safety at a department level.</p> <p>All Health and Safety Training needs identified from project plans and Risk Assessment Findings.</p> <p>Safety Management System in place and supported by audit and inspection programme across the Council.</p> <p>Managing attendance and Managing sickness Absence Policies in place. Training for managers in managing attendance and sickness absence in place.</p> <p>Quarterly reviews of Occupational Health Service referral levels take place. Monthly Occupational health contract and work level review takes place along with a review of service need and demands.</p> <p><u>Lone Working</u></p> <p>Information on Lone Working Policy is part of the Service Level Induction process. All employees have received training on the use of the ELC lone working system. Specific procedures are in place in services with a high level of lone working such as Children's Wellbeing and Revenues, including risk assessments, electronic diaries and signing in/out books. Children's Wellbeing re-launched (November 2014) staff's need to register and use the Corporate Lone Working System operated through the Contact Centre.</p> <p>Revenues lone workers are allocated a Peoplesafe personal alarm that provides 24/7 monitoring using GPS. Lone workers can be tracked via a dedicated website and are able to raise an alarm by activating their device.</p> <p><a href="http://peoplesafe.co.uk/services/identicom_877.asp">http://peoplesafe.co.uk/services/identicom_877.asp</a></p>	3	5	15	<p>H&amp;S Policy, Management Arrangements, Approved Guidance and Training Suite being created which builds into a H&amp;S competency framework which will then be audited.</p> <p>Training will be identified from Risk Assessments, delivered timeously and built into H&amp;S competency framework.</p> <p>Lone Working policy and procedures continue to be embedded Council Wide, with managers ensuring that front line employees adhere to Lone Working controls and Register to use the corporate Lone Working System.</p> <p>Following re-launch of the corporate Lone working System in November 2014, review of its operation is planned for June 2015.</p> <p>The Council is working towards creating a Potentially Violent Clients Register which will enable the sharing of information relating to potentially violent clients across customer facing teams allowing managers to identify and implement control measures to protect employees from harm.</p> <p><u>Safe Driving at Work</u></p> <p>Implement and continually review Policy and Guidance through the Safe Driving at Work Group.</p>	2	5	10	<p>Head of Children's Wellbeing</p> <p>Head of Adult Wellbeing</p> <p>Service Manager – Revenues</p> <p>SDAW Group</p> <p>Depute Chief Executive – Partnerships and Community Services</p>	<p>December 2015</p> <p>Review of Lone Working practice by 30 June 2015</p> <p>August 2015</p>	<p>Risks on Lone Working, Safe Driving at Work and Duty of Care amalgamated into one Duty of Care (H&amp;S of employees) Risk in May 2014 at the request of CMT.</p> <p>Risk refreshed March/April 2015 with no change to score.</p>



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	Elected Members, volunteers, agency workers or other authorised parties using personal, Council or hired vehicles, as well as any driving Council fleet vehicles, in connection with Council business.	<p><u>Safe Driving at Work</u></p> <p>A Safe Driving at Work Policy and a Guidance Manual has been drafted by the SDAW Group to ensure that safe driving principles are embedded across the Council. The draft policy has been consulted on and has been approved by Cabinet and is now to be publicised to all staff and implemented.</p> <p>Arrangements in place to ensure the reporting and recording of all accidents and incidents arising from work related driving as well as identifying and implementing remedial actions following road traffic accidents.</p> <p>Council vehicles used in the course of Council activities are properly maintained and fit-for-purpose. All Council vehicles over 3.5t are maintained in accordance with VOSA publication "Guide to Maintaining Roadworthiness".</p>								SDAW Policy and Guidance approved by Cabinet November during 2014 and will be rolled out during 2015.		
ELC CR 6	<p>Development Plan</p> <p>Failure to maintain an up-to-date Local Development Plan could lead to a shortfall in the effective 5 year housing land supply to meet the needs of our growing population and a lack of control over planning decisions due to planning by appeal. This could lead to unplanned development at odds with the Council's planning strategy for East Lothian, and consequent reputational damage. It could also contribute towards the Council not being able to achieve its Council Plan objectives – Growing our Economy and Growing our Communities – and related Single Outcome Agreement objectives.</p> <p>The Local Development Plan is also required to support and guide the provision of infrastructure required to meet the needs of our growing population and growing economy.</p>	<p>Staffing levels and other resources are stretched in fulfilling the task. Preparation of Main Issues Report and Local Development Plan is a Policy &amp; Projects Business Plan objective (ongoing review). Details are set out in the Local Development Plan Scheme with timescales.</p> <p>Detailed timeline drawn up for MIR/consultation/LDP key stages, including internal consultation and allocation of tasks to staff. LDP Officer Group and Development Group, including Administration members, are consulted with key objectives on decision making to support the timescale to proposed LDP in October.</p> <p>ELC and SESplan Development Plan Schemes commit to a programme of Development Plan review (reviewed annually).</p> <p>SESplan Joint Committee, Project Board and Steering Group guide joint authority preparation of Strategic Development Plan for Edinburgh and SE Scotland.</p> <p>Community Planning Partnership liaison and involvement through East Lothian Strategic Land Use Planning Group.</p>	5	3	15	<p>The MIR consultation exercise has been concluded and reported to Council in April 2015.</p> <p>A fully collaborative and corporate approach is being taken to prioritise development of the Council's proposed plan for consideration by East Lothian Council.</p> <p>Other statutory processes such as schools consultation(s) are being undertaken. These are being aligned and integrated with proposed plan development work to ensure promoted sites are effective.</p> <p>Staff engagement with supporting policy development work across the council is also being prioritised to ensure that the required policy development work is undertaken holistically.</p> <p>Infrastructure constraints are being identified in accordance with proposed plan development work and are being considered in terms of future financial planning.</p>	3	3	9	Head of Development	October 2015	Risk Refreshed by Head of Development April 2015.

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ELC CR 7	<p>Welfare Reform</p> <p>The UK Government is introducing a range of measures to reform the welfare system and reduce the budget for welfare benefits by at least £11 billion annually. It has been estimated (Scottish Local Government Forum Against Poverty, Sept 2010) that the changes could result in the loss of £8m - £9.5m annually from welfare benefits paid to East Lothian residents.</p> <p>The changes could lead to:</p> <ul style="list-style-type: none"> <li>• Increase in rent arrears from reduced Housing Benefits and possible increase in evictions</li> <li>• increased pressures on tenancy support and rent collection teams</li> <li>• increase in homeless presentations, placing even more pressure on already stretched resources for temporary accommodation</li> <li>• increase in Council Tax arrears and non-payment of Council Tax</li> <li>• increase in caseload for Adult Wellbeing and Children's Wellbeing staff dealing with vulnerable people affected by cuts in benefits</li> <li>• increase in caseload and demand for services from the Welfare Rights Service</li> <li>• loss of income the Council currently receives for administering Housing Benefits</li> <li>• Accelerated roll-out of Universal Credit, (commencing on 27 April 2015) although on a limited scale during 2015/16, (approx' 1040 claimants). Could have a significant effect on those requiring assistance to claim, those requiring personal budgeting support and on a number of claimants who may need their support with housing costs from Universal Credit rather than Housing Benefit.</li> <li>• There is a significant risk of rental income loss with the introduction of UC. At present, around 50% of the Housing Revenue Account income is funded by Housing Benefit, paid direct to the Council. Under UC, any award of housing costs (rent) will be administered by the DWP and paid direct to the claimant, who will be responsible for paying their rent to the Council. At the moment, approximately £425k is paid direct via Housing Benefit every fortnight. Some early impact analysis has been carried out, based on the limited data available and on a projected build up to full case load which highlights significant risk.</li> </ul>	<p>The Council has received several update reports and will continue to be updated.</p> <p>The Council has established a Welfare Reform Task Group to plan for changes to the welfare system. The Task Group has a detailed action plan to ensure that the Council takes the necessary measures to prepare for welfare system changes.</p> <p>The work of the group has been based around communications; data sharing; training; and migration to the new benefits system such as the establishment of the Scottish Welfare Fund.</p> <p>The Task Group and workstreams are meeting regularly and will continue to report back to the Council Management Team and to the Council. Key actions that have been completed include:</p> <ul style="list-style-type: none"> <li>• establishing processes and procedures for distributing the Scottish Welfare Fund</li> <li>• revising the Discretionary Housing Payments policy and distributing the additional allocation to tenants affected by the new single occupancy rules</li> <li>• providing training for Council staff on welfare reforms</li> <li>• providing information about welfare reforms to the general public through the Council website (e.g. the welfare reform videos), Living newspaper and Homefront magazine</li> <li>• successfully applying for funding from the Scottish Legal Aid Board for Tenancy Support Officers.</li> <li>• Currently in discussions with Job Centre/DWP about how local support provided by ELC could help mitigate any detrimental impacts.</li> </ul>	4	3	12	<p>The Council's Welfare Reform Task Group is revising and updating its Action Plan and will continue to implement the plan to mitigate the impact of welfare reform.</p> <p>An action to mitigate the impact of welfare reform on rent arrears will be developed and progress will be monitored by a senior level task group chaired by the Depute Chief Executive – Partnerships and Community Services.</p> <p>The development of a Partnership Delivery Agreement, (PDA) between ELC, Job Centre/DWP and ELHA should provide a framework and some funding for local assistance.</p> <p>The Revenues service is in the process of designing early stage rent collection procedures for tenants in receipt of UC. The team will also build good working relationships with DWP colleagues to provide evidence of rent liabilities and to manage Alternative Payment Arrangements and Direct Payments. Performance management data will be produced and monitored closely by Revenues management and the Rent Arrears Scrutiny Group.</p> <p>Impact analysis will continue to be refreshed as more data becomes available and as the UC caseload builds. Senior Council Officers and Elected Members will be kept up to date with developments.</p>	3	3	9	Depute Chief Executive – Resources and People Services  Welfare Reform Task Group	Risk is under constant review by the group.	Risk reviewed April 2014. Current score reduced from 16 to 12 and predicted score reduced from 12 to 9.  Risk further refreshed March 2015 with no further changes to scores.



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	<p>Payment transaction costs, which the Council must bear, are also likely to rise as previous Housing Benefit claimants make their own payment of rent (via Post Offices, Outlets using Allpay and Council Offices).</p> <ul style="list-style-type: none"> <li>Under UC, the link between Housing Benefit and Council Tax Reduction (previously CT Benefit) is ended which could result in fewer claims for CTR and increased Council Tax arrears.</li> <li>If the current Under Occupation policy is continued, the mitigation provided by Discretionary Housing Payments will be more difficult to manage as the link between Housing Benefit and DHP will end. This is likely to have an adverse effect on rent collection.</li> </ul>											
ELC CR 8	<p>Public Protection</p> <p>East and Midlothian Public Protection Committee (EMPPC) established in July 2014 to incorporate the Adult Protection Committee, Child Protection Committee, Offender Management Committee and Violence Against Women Partnership and to ensure robust links with Midlothian and East Lothian Drug and Alcohol Partnership (MELDAP).</p> <p>A failure in this new committee or any problem caused by the increased complexity of its work or it being unable to fulfil its statutory duties/duty of care could contribute to a service user suffering harm or detriment. This would in turn result in reputational damage to and increased scrutiny of the Social Work service.</p> <p>People may be left at risk of harm if any one service area is given higher priority than another.</p> <p>Public / Media scrutiny as a result of significant incident.</p>	<p>Governance and scrutiny arrangements in place through Critical Services Oversight Group (CSOG), including Self Evaluation. Performance Management Framework in place from 01 April 2015.</p> <p>Policies Procedures and Guidance in place /under development as follows:</p> <ul style="list-style-type: none"> <li>Adult Support and Protection Policy and Procedures</li> <li>Child Protection Dispute Resolution Protocol</li> <li>Domestic Abuse workplace policy</li> <li>Integrated Multi-agency chronologies Guidance</li> <li>Procedure for responding to the Sexual Exploitation of Children and Adults</li> <li>Response to Historical Abuse Guidance</li> <li>Safer Internet, Responsible Use Guidance</li> <li>Significant Case review Protocol</li> <li>SMART Outcomes in Child Protection</li> <li>Learning and Development strategy</li> <li>Training guide</li> </ul> <p>and agreed Terms of Reference for :</p> <ul style="list-style-type: none"> <li>East and Midlothian Critical Services Oversight Group</li> <li>East and Midlothian Public Protection Committee</li> <li>East and Midlothian Performance and Quality Improvement sub-group</li> <li>Child Protection Inter-Agency Referral Discussion (IRD) Overview Group</li> <li>MARAC steering group</li> </ul> <p>Professional oversight by Chief Social Work Officer. Refreshed Child Protection, Adult Support and Protection and Violence Against Women &amp; Girls Improvement Plans approved by PP Committee on 3<sup>rd</sup> July 2014 (CP) and 05 February 2015 (ASP &amp; VAWG).</p> <p>Public Protection Website developed and launched January 2015.</p>	3	4	12	<p>Ongoing review all policies, procedures and governance arrangements in light of integrated Public Protection model.</p> <p>Ongoing development of co-ordinated approach across all areas,</p> <p>Co-location with Police PPU colleagues and development of operational "hub" which will have a co-ordinated overview of practice in all areas of public protection.</p> <p>Implementation of revised Public Protection structure will strengthen governance and scrutiny.</p> <p>Public Protection workforce and public awareness and communications strategy in development.</p>	2	4	8	<p>Public Protection Team Manager</p> <p>Senior Manager Operations</p> <p>Head of Adult Wellbeing</p> <p>East and Midlothian Public Protection Committee</p>	<p>Review Planned Additional Risk Control Measures in September 2015.</p>	<p>Risk created May 2014 and refreshed March 2015 with no changes to scores.</p>

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			L	I	L x I		L	I	L x I			
ELC CR 9	<p>Public Sector Reform</p> <p>Major elements of public sector reform have been or are being implemented including:</p> <ul style="list-style-type: none"> <li>The creation of a national police force and a national fire service;</li> <li>Integration of Health and Social Care and creation of a new H&amp;SC Partnership;</li> <li>Review of Community Planning;</li> <li>New legislative duties in relation to procurement, community empowerment, regulation, and children and young people.</li> </ul> <p>These reforms create uncertainty, additional workload for senior staff, a requirement to restructure services and create new accountability, governance and partnership arrangements.</p> <p>Following the publication of the Smith Commission there is continuing uncertainty about the future governance of Scotland, the future structure and governance of local government and the public sector and continuing pressure on public finances. The cost of implementing changes arising from legislation is not always fully reflected in Scottish Government funding.</p> <p>Whilst these risks are dealt with in detail in service risk registers there is a corporate level risk that the Council will not have the resources to fund these changes or the capacity to prepare for all these reforms simultaneously.</p> <p>The closure of the Haddington Court by the Scottish Court Service places additional costs on the Council and will have a negative impact on the local economy (e.g. reduced footfall in local shops).</p>	<p>Effective working relations with key partners including Lothian &amp; Borders Police, Lothian &amp; Borders Fire and Rescue Service, East Lothian CHP and the voluntary sector are being further developed through regular meetings to prepare for public sector reform.</p> <p>The Council Management Team and Council / Cabinet receive regular reports on the implications of the reform proposals and on the Council's preparations.</p> <p>Planning processes are led by the Chief Executive.</p> <p>Responses to the Scottish Government on consultations around public sector reform are prepared and submitted as required. Financial and resource scoping is carried out as required.</p> <p>Systems for operational, performance and financial management and scrutiny are being prepared.</p> <p>The new Community Planning Partnership structure established in September 2013 provides a more strategic focus for the East Lothian Partnership. This was tested by a Self-Assessment carried out with the support of the Improvement Service in December 2014. A new Improvement Plan has been agreed by the Partnership.</p> <p>The Single Outcome Agreement Development Plan prioritises early intervention, tackling inequalities, joint resourcing, and joint asset management.</p> <p>The scrutiny and accountability arrangements for Police and Fire services, shared between Council and the Safe and vibrant Communities Partnership were established in April 2013 and are being reviewed by the Partnership.</p> <p>The Shadow Health and Social Care Partnership was established in April 2013 and work is progressing on developing the Integration Plan and Commissioning Strategy for the Partnership in line with the guidance and timetable.</p> <p>The draft Integration scheme was approved by a special meeting of the Council (10<sup>th</sup> March 2015).</p> <p>The Council, which lobbied against the closure of Haddington Court, is now involved in trying to ensure that the vacant court building is kept in public use. We will also monitor the impact of the closure on Council services and on the Haddington economy.</p>	3	3	9	<p>Continue to monitor developments in the Public Sector Reform agenda and Scottish Government's legislative programme and develop responses to exploit potential benefits from, or mitigate potential negative impacts of, different future scenarios</p> <p>CMT and elected members will work together to ensure that the Council is prepared for future public sector reform and the differing scenarios for future governance arrangements.</p>	3	3	9	Chief Executive	Ongoing actions.	<p>Risk reviewed and refreshed March 2015 with Current Risk Score reduced from 12 to 9.</p> <p>Risk to be reviewed February 2016.</p>

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			L	I	L x I		L	I	L x I			
ELC CR 10	<p>Severe Weather</p> <p>There is a risk that an extended period of severe winter weather such as that which occurred in November to December 2010, will lead to an increase demand for gritting and snow clearing of roads/footpaths which exceeds normal capacity and supplies of salt.</p> <p>This could result in travel disruption, difficulties for people in accessing services, failure to maintain refuse collection timetable and school closures at short notice as well as a possible increase in insurance claims related to pothole damage.</p>	<p>East Lothian Councils Winter Maintenance Plan has been in place for some time and ensures that the main transport routes are treated as priority.</p> <p>The Council Severe Weather Response Plan has been developed over the past few years and ensures a co-ordinated and consistent multi-agency response across the county. This plan is reviewed on an annual basis.</p> <p>Claims protocol in place within the Insurance section.</p> <p>Council's Salt Barn has a capacity of 8,000 tonnes to meet demand arising from severe cold weather.</p> <p>Snow clearing equipment has been supplied to Primary Schools and Community Councils on request. A number of grit bins are provided to enable self-help gritting of adopted roads and footways.</p> <p>Winter Maintenance operatives are trained to SVQ or equivalent in winter gritting and snow clearing. Winter Maintenance Duty officers trained as Winter Service Supervisors to City and Guilds level.</p> <p>Guidance and information on ELC website, "get ready for winter information leaflets".</p> <p>Several Community Councils have started to create their own emergency response plans or asset registers of volunteers and skills available at a time of crises. A workshop, hosted by East Lothian Council, to further progress Resilient Communities, for the benefit of Community Councils and other voluntary organisations, took place in 2014 creating momentum in this area. As a direct result of this workshop ELC will now finance all 20 Community Councils annual insurance premiums ensuring that Insurance is not perceived as a barrier to invoking such plans.</p>	3	3	9	<p>Training and awareness sessions for staff.</p> <p>Training and exercising with partner agencies.</p> <p>The Council continues to work with the Community Councils and other voluntary groups including Tenants and Residents Associations to promote and progress "Resilient Communities" as per the Scottish Government initiative "Ready Scotland".</p>	3	3	9	Depute Chief Executive – Partnerships and Community Services	Ongoing through 2015	Risk refreshed March 2015 with no changes to risk scores.

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			L	I	L x I		L	I	L x I			
ELC CR 11	<p>Climate Change</p> <p>There is a risk that the Council may fail to meet its public bodies duty under the Climate Change (Scotland) Act 2009 to reduce its carbon emissions, adapt to climate change and endeavour to act sustainably. Failure to mainstream and embed action to address climate change issues may harm the Council's reputation (in terms of corporate social responsibility) and increase the potential for unbudgeted costs and financial penalties.</p>	<p>A Climate Change Planning and Monitoring Group has been established, under the East Lothian Partnership (inaugural meeting February 2015). The Group will play a critical part in driving and coordinating the work of the Partnership to meet its climate change obligations and commitments.</p> <p>The Group will be responsible for developing and monitoring a Climate Change Strategy to replace the Environment Strategy and the Carbon Management Plan (2009-14, extended to 2015).</p> <p>Supporting the work of the Group will be a number of delivery subgroups, a number of which already exist (e.g. Carbon Management Team). The Subgroups will be tasked to implement relevant plans and projects identified in the Climate Change Strategy.</p> <p>The Council is a participant of Adaptation Scotland's Adaptation Learning Exchange, which aims to support the public sector to take forward climate adaptation within their organisations.</p>	3	3	9	<p>Develop a Climate Change Strategy.</p> <p>Update the Carbon Management Plan.</p>	3	3	9	Depute Chief Executive – Partnerships and Community Services	<p>March 2016</p> <p>September 2015</p>	Risk refreshed March 2015 by Sustainable Development Officer.
ELC CR 12	<p>Equality</p> <p>Failure to meet duties and legislative requirements of the Single Equality Act 2010</p> <p>The Single Equality Act 2010 and related guidance places a general duty on public authorities to be active in promoting equality, eliminating unlawful conduct and fostering good relations. It also places specific duties on public authorities to</p> <ul style="list-style-type: none"> <li>• report on mainstreaming the equality duty</li> <li>• publish equality outcomes and report progress</li> <li>• assess and review policies and practices</li> <li>• gather and use employee information</li> <li>• publish gender pay gap information</li> <li>• publish statements on equal pay</li> <li>• consider award criteria and conditions in relation to public procurement</li> <li>• publish in a manner that is accessible.</li> </ul> <p>There is a risk that the Council may not be able to meet its general or specific duties and in particular at a time when difficult budget decisions are having to be made that there will be cuts in services or increases in charges that have a disproportionate impact on people who may need those services most because of their equality background.</p> <p>The Council would be open to legal challenge of not meeting its duties and in particular of not carrying out adequate assessment of impact of policies and budget decisions.</p>	<p>ELC Equality Plan in place and available online</p> <p>A new Combined Impact Assessment Process has been developed with Midlothian Council and NHS Lothian to support the Council to meet its legal duties.</p> <p>HR is capturing the employment monitoring information required under the Act and reporting it appropriately.</p> <p>E Learning equalities modules are available on Learn Pro and 'Get in on the Act' guides to the Council's legal responsibilities are available for all employees and Elected members.</p> <p>An Equality Impact Assessment was carried out on the Council draft budget.</p> <p>Equality indicators have been included as part of the Performance Framework and SOA indicator set</p>	2	4	8	<p>Embedding of new Combined Impact Assessment procedure across all Council services, including new online learning modules and face to face briefings.</p>	2	4	8	Depute Chief Executive – Partnerships and Community Services	December 2015	Risk reviewed and refreshed March 2015, to be further reviewed February 2016.

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			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 13	<p>Business Continuity</p> <p>Non availability of:</p> <ul style="list-style-type: none"> <li>premises, through fire, flood or other incident;</li> <li>key staff or significant numbers of front-line staff for any reason including a Pandemic; and/ or</li> <li>systems (IT, telephony, power failure etc)</li> <li>any form of transportation due to a fuel shortage</li> </ul> <p>The occurrence of any of these will have an adverse effect on the Council to function fully and to carry out our statutory requirements.</p>	<p>Business Continuity Framework Plan in place and regularly reviewed. This corporate document reflects information from each service continuity plan and contains information required to prioritise relocation of council services and restoration of critical services.</p> <p>Business Continuity Plans are produced by all service areas, giving details of minimum levels of staff, alternate locations, exercise and review dates and version control.</p> <p>As a result of a recent Business Continuity (BC) review each service area has a Single Point of Contact (SPoC) and deputy who are responsible for, their services BC Plan, exercising this plan and ensuring it is maintained. All BC Plans are managed through Rivo software. All ELC staff have access to an e-learning package on Business Continuity.</p> <p>IT –specific disaster recovery arrangements in place for the critical systems – e-mail and social care. These have duplicate services in place off site which can be brought into action if we lost the main data centre at JMH. For single server failure - there are over 100 systems now running on virtual servers which automatically fall over to another server if there are hardware issues.</p> <p>Controls that are in place to prevent and limit the effects of IT system unavailability including firewalls, anti-virus software, system/ data backup routines, and resilience in the form of a back-up generator for the main data centre at JMH.</p> <p>The Council has a Fuel Plan in place and is able to call a Fuel Group at anytime. Fuel supply held at our depots and can be sourced externally from local fuel service stations and through shared services with other Local Authorities. Regular monitoring of current fuel stock and assessment of any weather predictions, political developments or industrial action etc that may affect fuel availability.</p>	2	4	8	<p>An IT Disaster Recovery Plan to be written which will cover Disaster Recovery arrangements for the Council's main data centres (JMH &amp; Penston House).</p> <p>Progress Business Continuity 'alternative accommodation' plan and a 'site specific' plan. Improve the Rivo BC/EP software package in consultation with Rivo.</p>	2	3	6	<p>Depute Chief Executive – Partnerships and Community Services</p> <p>Depute Chief Executive – Resources and People Services</p>	<p>October 2015</p> <p>August 2015</p>	<p>Fuel shortages risk included within Business Continuity risk in April 2014 and new risk reviewed and updated with amended planned measures reducing predicted score from 8 to 6.</p> <p>Refreshed March 2015 with further measure on "Alternative Accommodation added".</p>



Risk Ref.	Risk Description	Existing Risk Control Measures	Assessment of Current Residual Risk			Planned Additional Risk Control Measures	Assessment of Predictive Risk			Risk Owner	Timescale for Completion / Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Total		Likelihood	Impact	Total			
			L	I	L x I		L	I	L x I			
ELC CR 14	Standards in Public Life Failure of corporate governance or to meet standards in public life. Failure of the Council's corporate governance or of officials or members to meet standards in public life could result in reputational damage.	<p>The main internal controls are the Council's Code of Corporate Governance, the Annual Governance Statement, Standing Orders, Scheme of Administration and Financial Regulations. Standing Orders (the Schemes of Administration and Scheme of Delegation) were extensively revised and approved by Council in August 2013 and further revised in February 2014. Other changes include the role of statutory officers and job outlines for senior officers.</p> <p>The conduct of elected members, officials and employees is governed by Codes of Conduct. The Audit and Governance Committee also has a role in promoting good governance. The Council's Monitoring Officer and legal advisers provide advice as required. Internal Audit has conducted a review of the process for Elected Members' Registers of Interests and Declarations of Gifts and Hospitality. Some minor adjustments will be made by May 2015 while a report was submitted to the Audit &amp; Governance committee in March 2015.</p> <p>A programme of briefings for Elected Members has been established since 2013 with events currently scheduled every month during the committee session. Ad hoc additional briefings are also held. Briefing topics include: Flood Risk Management, Treasury Management and Developing Scotland's Young Workforce. Topics are already in the pipeline for session 2015/16.</p> <p>Dates have already been earmarked for briefings to Elected Members to continue during the session 2015/16. The majority of the briefings will be delivered by External Professionals such as Audit Scotland and the Standards Commission.</p> <p>The Council is developing its links with the Local Area Network of audit and inspection agencies and with its Auditors.</p>	2	3	6	Elected Members and Officials have an ongoing opportunity to participate in the Improvement Service's CPD programme.	2	2	4	Depute Chief Executive – Resources and People Services	Ongoing through 2015/16	Risk reviewed March 2015 with Predictive Score reduced from 6 to 4.

<b>Original date produced (Version 1)</b>	13 April 2011		
<b>File Name</b>	East Lothian Council Corporate Risk Register		
<b>Original Author(s)</b>	Scott Kennedy, Risk Officer		
<b>Current Revision Author(s)</b>	Scott Kennedy, Risk Officer		
<b>Version</b>	<b>Date</b>	<b>Author(s)</b>	<b>Notes on Revisions</b>
1	13/04/2011	S Kennedy	Original Version
2	05/12/2011	S Kennedy	2 <sup>nd</sup> version made available to BoD for review
3	23/08/2012	S Kennedy	Draft version updated
4	15/11/2012	S Kennedy	Updated following BoD meeting and Strategy update
5	07/12/2012	S Kennedy	Updates received from services following BoD recommendations
6	18/12/2012	S Kennedy	Updated with additional risks.
7	04/01/2013	S Kennedy	Updated following consideration by CMT
8	09/05/2013	S Kennedy	EP & BC Risks updated
9	31/07/2013	S Kennedy	Data Protection Risk Added
10	01/11/2013	S Kennedy	Welfare Reform Risk updated (no change to score)
11	04/03/2014	S Kennedy	New Corporate Risks added on Safe Driving at Work, VERS, Fuel Shortages and Lone Working
12	March/April 2014	S Kennedy	All risks reviewed, refreshed and scores updated where required.
13	11/04/2014	S Kennedy	New Corporate Risk on Integration of Health & Social Care and Adult Wellbeing added.
14	25/04/2014	S Kennedy	Amendments following consultation with CMT and Risk Authors
15	01/05/2014	P Vestri	Amendments following review of latest draft by Chief Executive and Depute Chief Executives.
16	27/05/2014	S Kennedy	Final amendments following consultation with CMT and Risk Authors including addition of Development Plan and Public Protection risks
17	23/12/2014	S Kennedy	Risk 11 on Climate Change refreshed as well as adding column for date Planned Risk Measures will be completed by to the Register.
18	February-April 2015	S Kennedy	All Risks Refreshed by authors and reviewed by CMT

<b>Risk Score</b>	<b>Overall Rating</b>
<b>20-25</b>	<b>Very High</b>
<b>10-19</b>	<b>High</b>
<b>5-9</b>	<b>Medium</b>
<b>1-4</b>	<b>Low</b>





**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Depute Chief Executive - Partnerships and Community Services

**SUBJECT:** An Overview of Local Government in Scotland 2015  
(Accounts Commission, March 2015)

**4**

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## **1 PURPOSE**

- 1.1 To review East Lothian Council's position in relation to the findings of the Accounts Commission report, *'An overview of local government in Scotland 2015'*

## **2 RECOMMENDATIONS**

- 2.1 The Committee should:
- note the position of East Lothian Council in regard to the recommendations contained in the Overview of Local Government in Scotland 2015, as detailed paragraphs 3.08 - 3.25
  - note that a follow up elected members training and development needs survey will be carried out before the end of 2015; and,
  - identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

## **3 BACKGROUND**

- 3.1 Each year the Accounts Commission produces an overview of issues that have arisen from the local authority audits conducted by Audit Scotland. The Overview of Local Government in Scotland 2015 is meant to assist councils in identifying and planning for pressures that they may face in the coming year.
- 3.2 The report is primarily for councillors, 'as a source of information and to support them in their complex and demanding role'. It is in two parts:

- Part 1 reviews the financial context in which councils are operating. It highlights the overall financial position and pressures on budgets
- Part 2 looks at how Councils are managing the financial challenges. It highlights what councils and their partners need to do to help deal with the ongoing and increasing pressures they will face in 2015/16 and following years.

### **Part 1: The Financial Context**

- 3.3 The report highlights that in the context of overall reductions in public sector budgets, between 2010/11 and 2013/14 Scottish Government funding for councils decreased by 8.5% in real terms (allowing for inflation) and further reductions in the Scottish budget are likely, particularly in 2016/17 and 2017/18.
- 3.4 Since funding from the Scottish Government is decreasing in real terms the report suggests that it is important for councils to consider options to increase their income from other sources. However, the report also highlights that councils have limited scope to increase their income since the Council Tax is frozen and the Scottish Government sets the business tax rate. The only areas in which councils have real discretion is over rent levels for council tenants and the level of fees and charges.
- 3.5 The financial constraint faced by councils comes at a time when demand for services is rising because of population changes, in particular services for older people. Also the report highlights that councils deliver national policies such as those relating to school class size targets, housing quality standards and delivering free personal care and the council tax freeze which have to be managed within their budgets. Other matters which potentially place pressures on councils' finances such as increasing borrowing costs, equal pay claims and welfare reform also contribute to almost all councils predicting a gap between their income and the costs of providing services.
- 3.6 The report states that the key challenge facing councils is to implement strategies that bridge the funding gaps and almost all councils' auditors have indicated risks to council's financial positions in the medium to long term including:
- Spending more money than they planned
  - Not making the savings they planned
  - Having to compromise unexpectedly on the quality of services they deliver
  - Being unable to meet the increasing demand for services
  - Not having enough money in their reserves that they can use, if required.

## Part 2: Dealing with pressures in 2015/16

3.7 The report presents six key messages in relation to how councils are dealing with the financial and other pressures they face.

- a) Councils have reduced staff numbers to help make savings through voluntary severance and other means. Many councils have also restructured their management to save money. However, there is an increasing risk that reductions in staff numbers, and the associated loss of skills and experience, will affect essential support services, such as HR and finance. Where councils reduce staff numbers it is important that they have comprehensive workforce plans and strategies to help manage the impact of staff reductions.
- b) Despite reductions in funding, councils have continued to improve or maintain services. However, sustaining improvement is becoming more challenging and councils face increasingly difficult decisions about providing services. Since the approach of relying mainly on staff reductions to achieve savings is not sustainable councils need to continue to review how they deliver services and assess whether what they are doing is the most efficient and effective option and, if necessary, consider fundamental changes.
- c) To help them identify how best to target their resources, councils should make better use of local socio-economic data and involve service users in deciding their priorities. They should also work with partners to develop more integrated services.
- d) Effective planning and budgeting help councils target resources, but there is limited evidence of longer-term financial planning. The majority of councils do not have long-term financial plans covering a period of five or more years and this can limit how well they understand the full implications of their spending and borrowing.
- e) Governance arrangements need to be kept up to date and fit for purpose. This means that councils need to review the core elements of governance (exemplified in the SOLACE/ CIPFA Guidance on Delivering Good Governance in Local Government, which East Lothian Council has adopted as its Corporate Governance framework and basis for annual self-evaluation) as well as ensure that new joint working arrangements such as health and social care integration have effective governance arrangements.
- f) Councillors need clear information to help them scrutinise services and make effective decisions and demonstrate they use public money properly and effectively. Therefore, councillors should make sure they get the training and support they need to help them fulfil their demanding roles.

## Recommendations

- 3.8 The report makes a series of recommendations intended to help councillors. These are detailed below along with commentary on the position in East Lothian Council.
- 3.9 Councillors should assess whether they have appropriate knowledge and expertise, in areas such as assessing financial and service performance, to carry out their role effectively. They should review their training needs and request the training and support they require to help them consider options, make decisions and scrutinise performance. Also, councillors should ensure that council officers provide high-quality financial and performance information to support effective scrutiny and decision-making. This includes having relevant and up-to-date performance data and making good use of benchmarking. Performance information should also be clearly reported to the public to help them understand their council's performance.
- 3.10 Elected members were requested to complete a survey on their training and development needs in December 2014. The survey covered many of the issues referred to in these recommendations. The results of this survey which was completed by 17 out of 23 councillors were fairly positive in relation to councillors' understanding of the changing context and the support and information they receive from officers. The survey also provided councillors with the opportunity to identify any specific areas in which they would like further guidance or information. (see Appendix 1)
- 3.11 East Lothian Council provides elected members with quarterly updates on key performance indicators which are reported to the Policy & Performance Review Committee. The Council's website includes a performance page which provides detailed information on all the Council's performance indicators. The council's Annual Performance Report has been cited as an example of good practice by Audit Scotland.
- 3.12 The Overview report recommends that councillors should ensure that when developing their priorities, councils should use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future.
- 3.13 The Council has developed a very detailed and comprehensive Profile of East Lothian and six complementary Ward Profiles. The Profile was used to support the development of the Single Outcome Agreement. The detailed analysis of socio-economic data, in particular, the analysis of Scottish Index of Multiple Deprivation (SIMD) data was used to inform the review of the Council Plan that was reported to Council in October 2014 and was a major influencing factor in determining the priorities:
- Reducing unemployment, particularly youth unemployment

- Raising attainment in schools, particularly for pupils from more economically 'deprived' areas
  - Reducing inequalities and ensuring that the most disadvantaged groups and communities have access to services that maximise opportunities to break the cycle of poverty or mitigate the impact of deprivation through early intervention
  - Supporting the capacity of communities and voluntary organisations to show community resilience and maximise social capital from community and social networks.
- 3.14 The Council has established six Area Partnerships which involve Community Councils, Tenants and Residents groups, Parent Councils and a wide range of other community organisations to develop Area Plans that will set the priorities for their area. The East Lothian Citizens Panel and consultation with tenants (e.g. on rent levels and quality of housing services) are other examples of where the Council is actively seeking the views of service users and local communities to understand their needs and explore ways of meeting them.
- 3.15 The report recommends that councillors should ensure that they consider all practical options for delivering services to meet the needs of service users and local communities, within the resources available. They should consider carefully the benefits and risks related to each option and make sure they receive information about the impact of the option they choose, including monitoring the risks associated with change.
- 3.16 The Audit and Governance Committee considered the Audit Scotland report on Options Appraisal: are you getting it right? in September 2014. The Committee noted that the Assurance and Improvement Plan 2014-2017, prepared by the Local Area Network highlighted that the Council's Improvement Framework and work around performance management shows that: *"There continues to be a very strong commitment from officers and members to improving the work of the council."*
- 3.17 The Corporate Governance Self Evaluation and How Good is Our Council? self-evaluation carried out in 2012 identified the need to develop a 'more effective use of benchmarking, and guidance and training on the use of benchmarking, Best Value reviews and options appraisal'. This was included in the Council Improvement Plans for 2012/13 and 2013/14.
- 3.18 The Council is participating in several national benchmarking exercises being undertaken under the auspices of the Improvement Service based on priorities identified from the Local Government Benchmarking Framework. A template for undertaking Best Value Reviews, incorporating options appraisal has been prepared to assist services to undertake Best Value exercises. The options appraisal element of the Best Value Review framework follows the template outlined in the Audit Scotland report.

- 3.19 The Overview report recommends that councillors should ensure that their council has financial plans covering the short term (1-2 years), medium term (3-5 years) and longer term (5-10 years). These plans should set out the council's financial commitments, identify any challenges with the affordability of services and set out clearly how the council ensures its financial position is sustainable over an extended period.
- 3.20 East Lothian Council has a three-year financial strategy, approved by Council (10<sup>th</sup> February 2015) that fulfils the aims recommended by the Accounts Commission. The Council's broader approach to financial management planning covers a five-year term. The Council has approved a three-year revenue and capital budget for General Services and has an integrated five-year Housing Revenue Account covering both revenue and capital budgets. In considering and developing their capital budget proposals, elected members are also made aware of the longer term indicative capital programme, currently covering a 6 year outlook.
- 3.21 While it may be advisable to have longer term (5-10 years) financial plans which provide a longer term forecast of capital commitments, and there are now plans to align this with ongoing work in support of the new Local Development Plan, it is not clear that it would be possible to produce and agree plans for revenue expenditure covering the 5-10 year term recommended by the Accounts Commission. If nothing else, the uncertainty over the level of funding to be received from the Scottish Government beyond the current year makes longer term revenue financial planning problematic. It is also worth noting that the Council's auditors have been supportive of the development of the three-year financial strategy and supporting budgets and have not raised any concerns about the timeframe of the Council's financial planning processes.
- 3.22 The report recommends that councillors should review their council's governance arrangements following significant changes in staff, management and political structures. This includes ensuring their current management teams have the skills and capacity to provide effective leadership and management of finances, services and improvement programmes, and having succession plans for when senior managers retire or leave the council.
- 3.23 The Council's governance arrangements are revised annually using the Corporate Governance self-evaluation framework. The results of the self-evaluation are reported to the Audit and Governance Committee and the Annual Governance Statement included in the Annual Accounts. The Council's governance and management arrangements are also the subject of external scrutiny and audit from the external auditors and the Local Area Network (LAN) the results of which are reported to elected members via the auditors' annual report to members and the LAN's Local Scrutiny Plan. Last year's annual report to members was the first to have an action plan with no Corporate Governance or performance management improvement actions. The latest Local Scrutiny Plan does

not include any proposals for additional scrutiny beyond follow ups from previous inspections or nationally programmed inspection activities.

- 3.24 The report's final recommendation is that Councillors should ensure their council has a comprehensive workforce strategy to help manage the impact of staff reductions. The strategy should ensure that the council retains the ability to make changes and improvements, and is equipped to meet increased demand for services in the context of financial constraints.
- 3.25 The Council adopted a Workforce Development Strategy and action plan in 2014 which was developed to meet the challenges that the Council will face over the next four years and aims to ensure that our workforce is skilled, motivated, flexible and well managed. It is based around four key themes:
- Supporting transformational change
  - Building and sustaining leadership and management capacity
  - Sustaining a skilled, flexible and motivated workforce
  - Developing the workforce for the future.
- 3.26 The Overview Report includes a self-assessment tool for councillors, which is designed to help councillors review progress in implementing the recommendations in the report. A similar checklist in last year's Overview report formed the basis of the elected members survey carried out in December 2014. It is suggested that a follow up survey be conducted before the end of 2015 to ascertain whether councillors have identified a requirement for further support, training or development.

#### **4 POLICY IMPLICATIONS**

- 4.1 Councils are required under the Local Government in Scotland Act 2003 to achieve Best Value in regard to economy, efficiency, effectiveness, equal opportunities and sustainable development. The 'Overview of Local Government in Scotland 2014' will assist the Council in recognising the challenges that it faces in achieving Best Value in the future.

#### **5 EQUALITIES IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – none.
- 6.2 Personnel – none.

6.3 Other – none.

## **7 BACKGROUND PAPERS**

7.1 Appendix 1: Results of Elected Members' Training and Development Needs Survey, December 2014

7.2 'An Overview of Local Government in Scotland 2015', Accounts Commission, March 2015

<b>AUTHOR'S NAME</b>	Paolo Vestri
<b>DESIGNATION</b>	Service Manager, Corporate Policy & Improvement
<b>CONTACT INFO</b>	pvestri@eastlothian.gov.uk
<b>DATE</b>	30 <sup>th</sup> April 2015



## Appendix 1: Results of Elected members' Training and Development Needs Survey, December 2014

18 councillors responded, although one only answered one Question 1.

<b>1. I have a good understanding of the changing context and the crucial role of councillors in relation to:</b>					
	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
Financial and service pressures	4	11	3	0	0
The impact of police and fire reforms	1	14	1	1	1
The impact of welfare reform	0	15	3	0	0
The integration of health and social care	1	15	2	0	0

<b>2. To what extent do you agree/ disagree with the following statements?</b>					
	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
I understand the distinction between my role and responsibilities and those of officers	7	9	1	0	0
I am supported in my role	6	9	2	0	0
I have access to appropriate development opportunities	4	9	2	2	0
I have taken-up appropriate development opportunities	1	4	7	4	0

<b>3. I receive adequate information covering:</b>					
	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
Service performance	3	13	0	0	1
Service costs	1	12	1	1	1
Customer satisfaction	1	13	1	2	0
Benchmarking data	2	10	4	1	0
Targets and outcomes	1	12	3	0	0
The needs of East Lothian's communities	3	12	1	1	0

<b>4. To what extent do you agree/ disagree with the following statements?</b>					
	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
Officers provide me with performance information which is clear and concise and enables me to judge how well we are doing	3	11	2	1	0
I have good understanding of performance and value for money across the council	3	9	2	2	1
I am provided with options and supporting information to support the decisions on services and capital projects that I have to take	2	11	3	1	0
I receive cost information that helps me make decisions	2	10	2	3	0
I give direction over aims and priorities for charges (in areas where the council has discretion)	1	7	7	1	1

<b>5. To what extent do you agree/ disagree with the following statements?</b>					
	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
My relationship with officers is professional and constructive	5	11	0	0	0
I am effective in contributing to constructive challenge and debate at meetings	1	13	2	0	0
The Audit & Governance Committee is effective	1	9	4	1	0
I know who the council's statutory officers are and what they do	3	10	2	0	1
The council is working with the leaders of community planning partners to deliver better outcomes for communities	4	8	3	0	1

<b>6. If the following were made available, which of the following briefings would you wish to attend?</b>			
	Would definitely want to attend	Might attend	Would not attend
Community Mediation	4	7	3
Community Planning	9	6	0
Consultation and Engagement	7	7	1
Crime, Community Safety and Police	8	5	1
The Fire Service	5	7	1
Drugs and Alcohol	6	6	2
Emergency Planning	5	6	2
Equalities	8	5	2
Health Improvement and inequalities	7	6	2
Sustainability	7	7	1
Tackling Poverty and Welfare Reform	9	6	1
Public Protection	7	6	2

Other suggestions:

- Council organisation and responsibilities of individual heads of service
- As there is going to be an Adult Well-Being inspection coming up soon I would find a briefing on this helpful. With the set up of the new Public Protection Unit that would be a useful briefing
- The Council's repairs programme with housing as to how it operates etc.



# An overview of local government in Scotland 2015



 ACCOUNTS COMMISSION

Prepared by Audit Scotland  
March 2015


# The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac) 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Contents



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Key facts	4
Chair's introduction	5
Summary	7
Part 1. The financial context	11
Part 2. Dealing with pressures in 2015/16	23
Endnotes	41

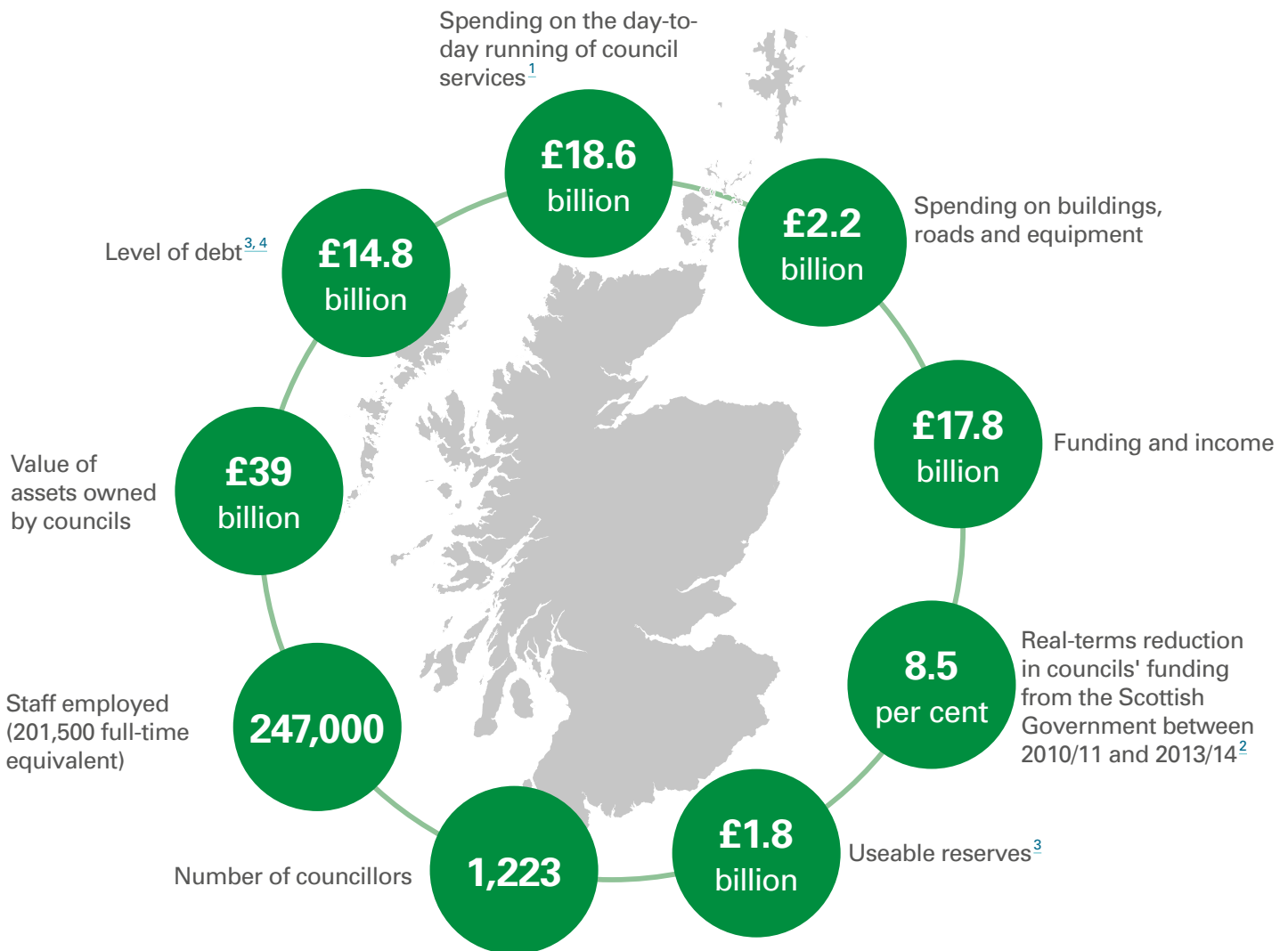


## Exhibit data

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

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# Key facts



Councils' accounts showed an aggregate deficit on the provision of services of £0.8 billion in 2013/14. After making adjustments, mainly to reflect the accounting rules for pensions and capital, the aggregate amount held by councils in usable reserves was almost the same as it was at the end of 2012/13. Unuseable reserves fell by £0.8 billion.

#### Notes:

1: The Police and Fire Reform (Scotland) Act transferred responsibility for police and fire and rescue services from councils to the Scottish Government, creating new national services from April 2013. We have excluded police and fire data from figures prior to 2013/14 but some expenditure cannot be separately identified so trend information should be treated with caution.

2: This figure is in real terms, that is, taking inflation into account. We note in the report wherever we have adjusted figures to reflect inflation, particularly when stating the percentage increase or decrease compared with previous years.

3: Reserves and debt figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities.

4: Total level of debt includes £12.1 billion of borrowing for investment in councils' assets, eg buildings, roads and equipment, and £2.7 billion of other debt (ie, Private Finance Initiative (PFI) and Non-profit Distributing (NPD) contracts) for investment in capital projects, mainly schools.



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# Chair's introduction

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For the last five years councils have had to cope with managing austerity, reducing resources, increasing demand for services, and ever increasing public expectations. The Accounts Commission recognises the achievements of councils – both councillors and officers – in meeting these challenges to date.

Councils tell us that they should manage budgetary pressures in 2015/16 but the years beyond that pose a level of challenge not previously experienced. That is why the Commission expects councils to plan now for the period to 2017/18 and beyond, not least because of the lag time between planning and delivering. Longer-term planning is crucial in building a shared understanding among councillors of the financial position. Comprehensive and accessible financial information helps identify what needs to be done now to avoid storing up problems for the future. It also helps inform local and national discussions about the options for council services. Councils are consulting with communities and service users but the challenges ahead make it all the more important to involve communities more in planning and delivering services.

Added to financial pressures is the challenge for councils in establishing effective health and social care partnerships with their health colleagues. This is the most significant change in the public service landscape in Scotland in recent years. There are clear lessons to be learned from our audit of community planning partnerships about the importance of councils and health boards investing time in building mutual trust and leadership capacity if these partnerships are to be successful from the outset.

In last year's overview report, the Commission said that in this complexity of change the foundation stones of good governance and accountability remain constant. Good governance concerns taking informed and transparent decisions which are subject to effective scrutiny. It also involves managing risk – the scale of the challenge means that councils cannot afford to be risk averse, so the focus is on being risk aware.

The public rightly expects scrutiny to be both effective and transparent. The Commission remains of the view that this will be best achieved where: the chair of the scrutiny or audit committee is not a member of the political administration; the committee has clear terms of reference, adequate support and access to independent advice; and members of the committee have the necessary skills and training to do their job. This may seem no more than an obvious statement of good practice. But where these characteristics are not in place scrutiny fails and the public interest is not met. Effective scrutiny is not just in the public interest, it is as much in the interest of the administration of a council.

In this quickly changing and challenging environment, systems and processes must be kept up to date and fit for purpose. Councillors also need to assure themselves that there is sufficient capacity within their councils to deal with day-to-day business as well as manage improvement and change. The role of chief executives, for example, is increasingly demanding. The political environment is complex, often involving coalitions, and they need to balance the task of supporting the administration and their responsibilities to the council as a whole. And because not all services are within the council's direct control, for example, where services are provided by arm's-length external organisations (ALEOs) and with the integration of health and social care services, chief executives need to build strong working relationships with partner organisations.

As with councils, the work of the Commission has evolved; for example our community planning partnership audits with the Auditor General and our new responsibility to audit health and social care partnerships. But our core role, on behalf of the public, of holding councils to account and, by doing so, helping them to improve will continue to be at the heart of our work. The Commission strongly believes that Best Value is as relevant and vital today as it was when it was introduced. The values and principles are essential to delivering the effective, high-quality public services that people expect. Councils that place Best Value at the centre of all they do are best placed to deal with pressures in 2015 and beyond.

The Commission expects councillors to use this report to assess the progress their councils are making with partners to improve outcomes and value for money for local people. We look forward to continuing to work with and support local government in meeting the challenges it faces.

**Douglas Sinclair**

**Chair of the Accounts Commission**

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# Summary



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## Key messages

- 1** Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms (allowing for inflation) to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes.
- 2** Many councils are now reporting gaps between their income and the cost of providing services. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances. However, there is limited evidence of longer-term financial planning, which is critical in providing that understanding.
- 3** Councils have managed the financial pressures well so far. Available performance information indicates that services have been improved or maintained. Public performance reporting is getting better but councillors need better financial and service information to help them set budgets and scrutinise performance. All councils prepared their annual accounts on time and met the required accounting standards.
- 4** Almost all councils have reduced staff numbers to help make savings but this is not sustainable. Councils are considering ways of delivering services more efficiently and need to get better at using local data and involving service users and local communities in developing options to improve services and help save money. They must implement planned changes quickly to achieve their required savings.
- 5** Councils need to ensure that the way they manage and control their work keeps pace with the quickly changing circumstances in which they operate. There can be no compromise on the importance of good governance, particularly where there are significant changes in personnel and systems. Not all councils systematically review governance when, for example, they change staff, management or political structures, or develop new ways of financing and delivering services. Community planning and health and social care integration require an ongoing focus on governance in partnership working, where the responsibility for good governance is shared and depends on a culture of trust.

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## Recommendations

We make a number of recommendations intended to help councillors. With the support of council officers, councillors should assess the position in their council and, where they decide action is required, ensure the recommendations are implemented successfully.

### Councillors should:

- assess whether they have appropriate knowledge and expertise, in areas such as assessing financial and service performance, to carry out their role effectively. They should review their training needs and request the training and support they require to help them consider options, make decisions and scrutinise performance
- ensure that council officers provide high-quality financial and performance information to support effective scrutiny and decision-making. This includes having relevant and up-to-date performance data and making good use of benchmarking. Performance information should also be clearly reported to the public to help them understand their council's performance
- ensure that councils, when developing their priorities, use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future
- ensure that they consider all practical options for delivering services to meet the needs of service users and local communities, within the resources available. They should consider carefully the benefits and risks related to each option and make sure they receive information about the impact of the option they choose, including monitoring the risks associated with change
- ensure that their council has financial plans covering the short term (1-2 years), medium term (3-5 years) and longer term (5-10 years). These plans should set out the council's financial commitments, identify any challenges with the affordability of services and set out clearly how the council ensures its financial position is sustainable over an extended period
- review their council's governance arrangements following significant changes in staff, management and political structures. This includes ensuring their current management teams have the skills and capacity to provide effective leadership and management of finances, services and improvement programmes, and having succession plans for when senior managers retire or leave the council
- ensure their council has a comprehensive workforce strategy to help manage the impact of staff reductions. The strategy should ensure that the council retains the ability to make changes and improvements, and is equipped to meet increased demand for services in the context of financial constraints.


## About this report

**1.** This report draws on the findings from local government audit work in 2014 and provides a high-level, independent view on how councils are managed and perform. This includes audits of financial statements, Best Value, community planning partnerships (CPPs) and performance. Reports on individual councils' 2013/14 audits are available on [Audit Scotland's website](#) .

**2.** The report is primarily for councillors, as a source of information and to support them in their complex and demanding role:

- **Part 1** reviews the financial context in which councils are operating. It highlights the overall financial position and pressures on budgets.
- **Part 2** looks at how councils are managing the financial challenges. It highlights what councils and their partners need to do to help deal with the ongoing and increasing pressures they will face in 2015/16 and following years.

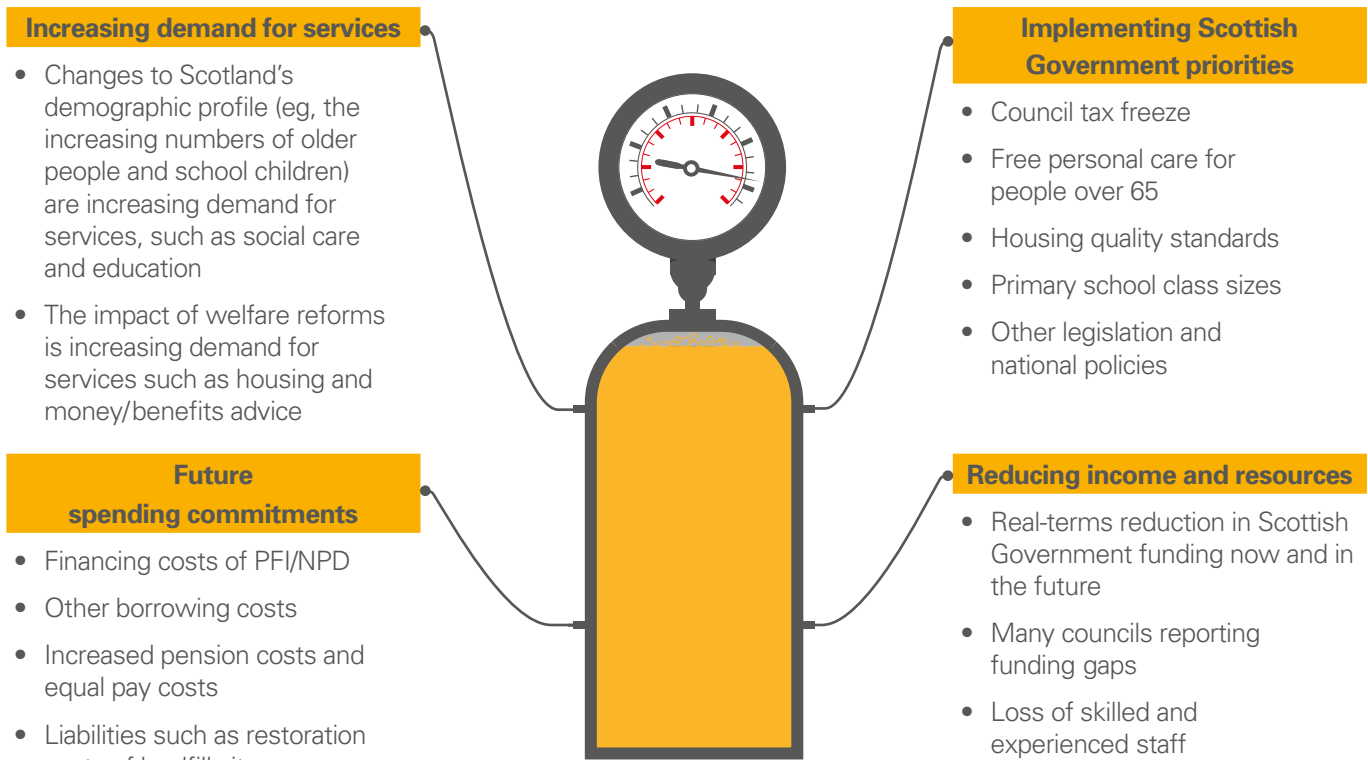
**3. Exhibit 1 (page 10)** provides a summary of the main issues covered in this report.

**4.** Our website contains a [Supplement: Self-assessment tool for councillors \[PDF\]](#)  to help them implement the recommendations we make in this report. We have also provided [a map \[PDF\]](#)  showing the 32 councils and key facts about each.

## Exhibit 1

### Local government overview 2015

Councils face increasing demand and resource pressures. They need to have the right information, skills and processes to help deal with the pressures in the future.



### Points for action for councillors in 2015/16

<b>Having the right information</b> Councillors should ensure that:	<b>Having the right skills and processes</b> Councillors should:
<p><b>High-quality financial and performance information is made available</b> to support effective scrutiny and decision-making and to report to the public</p>	<p><b>Review personal training needs</b> and, where necessary, request training and support to develop knowledge and expertise in, for example, assessing financial and service performance</p>
<p><b>Their council uses local socio-economic data and involves service users and local communities</b> to understand their needs and explore ways of meeting them. Council budgets should be targeted towards agreed priorities</p>	<p><b>Consider all practical options for delivering services</b> to meet the needs of service users and local communities, within the resources available. Consider carefully the benefits and risks and the full impact of each option</p>
<p><b>Their council has a long-term (5-10 years) financial plan</b> and plans covering the short (1-2 years) and medium (3-5 years) term, setting out financial commitments and how the council ensures its financial sustainability</p>	<p><b>Review governance arrangements</b> following significant changes in staff, management and political structures and when working with partners</p>
<p><b>Their council has a comprehensive workforce strategy</b> to help manage the impact of staff reductions</p>	<p><b>Satisfy themselves that their council’s management team has the skills and capacity</b> to provide effective leadership and management of finances, services and improvement programmes</p>

# Part 1

## The financial context



### Key messages

- 1** In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms (allowing for inflation), to £10.3 billion. Further reductions in the Scottish budget are likely, particularly in 2016/17 and 2017/18.
- 2** Councils deliver a wide range of local services. Demand is rising because of population changes, in particular demand for services for older people. Alongside this, councils deliver national policies such as those relating to school class size targets and housing quality standards and by deciding to freeze council tax levels.
- 3** There are other matters which potentially place pressures on councils' finances for example, increasing borrowing costs, equal pay claims and welfare reforms. Almost all councils are now predicting a gap between their income and the cost of providing services.

### Councils' funding is decreasing in real terms, so it is important that they consider options to increase their income

**4.** Scottish councils' total income in 2013/14 was £17.8 billion. The majority of this comes from Scottish Government funding and the rest comes from council tax, fees for services they provide and housing rents ([Exhibit 2, page 12](#)). Councils' share of the Scottish budget has remained relatively constant over the last few years. However, in the context of overall reductions in public sector budgets the amount of funding that councils receive from the Scottish Government has gone down. In 2013/14, the Scottish Government allocated £10.3 billion to councils. This is 8.5 per cent lower, in real terms, than in 2010/11.

**5.** Due to differences in services and funding, direct comparison with the position in England is not possible. However, it is clear that councils in England have faced more severe cuts; between 2010/11 and 2015/16 the UK Government will have reduced its funding to English councils by 37 per cent, in real terms.

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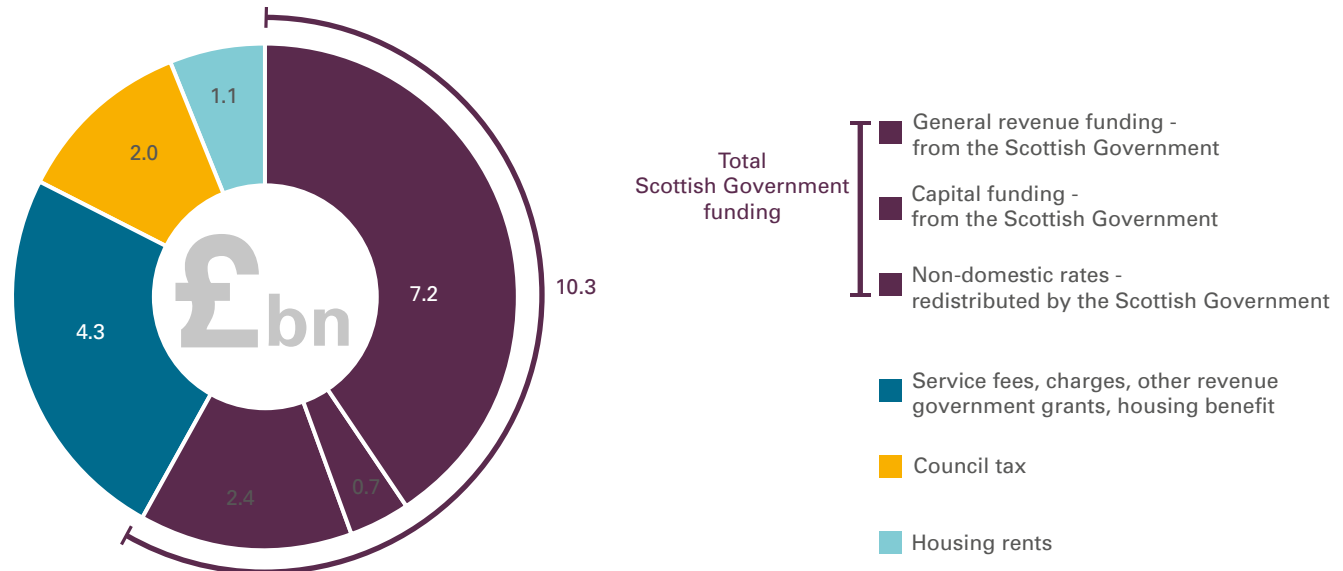
**councils  
continue  
to face  
increasing  
challenges to  
their financial  
sustainability**

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## Exhibit 2

### Council income in 2013/14 (£ billion)

Funding from the Scottish Government totalled £10.3 billion.



#### Notes:

1: Figures add to £17.7 billion, rather than £17.8 billion, due to rounding.

2: For the first time in 2013/14, councils received the council tax benefit element of their council tax income directly from the Scottish Government as part of the general revenue funding. This amounted to £351 million, effectively bringing the total income from council tax to £2.4 billion.

Source: Councils' audited annual accounts, 2013/14

**6.** Most of the 2013/14 Scottish Government funding (£9.6 billion) was for the day-to-day running of council services, including staff salaries. This is known as revenue funding. This is distributed to councils based on a range of indicators, including population, deprivation and pupil numbers. The remainder (£0.7 billion) was to buy, build or refurbish assets, such as buildings, roads and equipment. This is known as capital funding. Between 2010/11 and 2013/14, budgeted revenue funding from the Scottish Government decreased by seven per cent and capital funding by 33 per cent, both in real terms ([Exhibit 3, page 13](#)).<sup>1</sup> Capital funding is set to rise again in 2014/15 and 2015/16.

### Councils have relatively limited scope to increase their income

**7.** Less than a third of councils' total income is within their direct control. They must set the rate of council tax, determine rent levels for council tenants and decide whether, and how much, to charge for specific services, such as some social care services and parking. However, there are limitations. For example, councils have agreed to freeze council tax in exchange for additional funding from the Scottish Government. Councils improved their council tax collection rates to over 95 per cent in 2013/14, increasing council tax income by nearly one per cent since 2012/13 (in real terms).

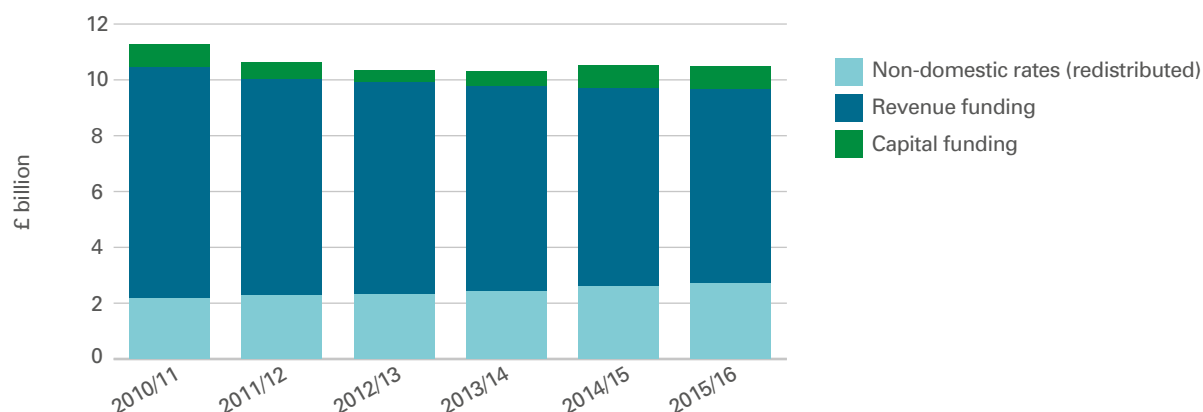
**8.** Councils also have relatively little control over local business tax income, known as non-domestic rates (NDR). The Scottish Government sets the annual business tax rate, councils collect the money from local businesses and the Scottish Government redistributes the money as part of its funding allocation to councils.



### Exhibit 3

#### Trend in budgeted revenue and capital funding from the Scottish Government (real terms)

Total funding from the Scottish Government has fallen by 8.5 per cent in real terms between 2010/11 and 2013/14, seven per cent in revenue funding and 33 per cent in capital funding.



#### Notes:

- 1: Budgeted figures differ slightly from the actual amount of funding received, due to adjustments made during the year.
- 2: All figures exclude funding for police and fire and rescue services. The budgeted revenue funding was decreased slightly in 2013/14 because councils were allowed to keep 49 per cent of reserves for police services and 100 per cent of reserves for fire and rescue services.
- 3: For the first time in 2013/14, revenue funding included the council tax benefit element of council tax income, amounting to £351 million.

Source: Local Government Financial Circulars, Scottish Government, 2009-15

**9.** Councils have more control over the income they receive from service fees and charges. Charges serve different purposes:

- They are a vital source of income for councils.
- They are used to influence behaviours – for example, low gym charges can be used to encourage exercise or car parking charges can be used to discourage people from taking their cars into city centres.

**10.** In the last few years, some councils have increased or introduced new service charges. However, councils have to consider the benefits that the extra income brings alongside the impact that higher charges have on the people using the services and the administrative cost of collecting these charges. Councils' income from fees and charges was an estimated £1.3 billion in 2012/13.<sup>2</sup>

### Councils have many commitments to manage within reduced budgets

#### Over half of councils' spending is on education and social work

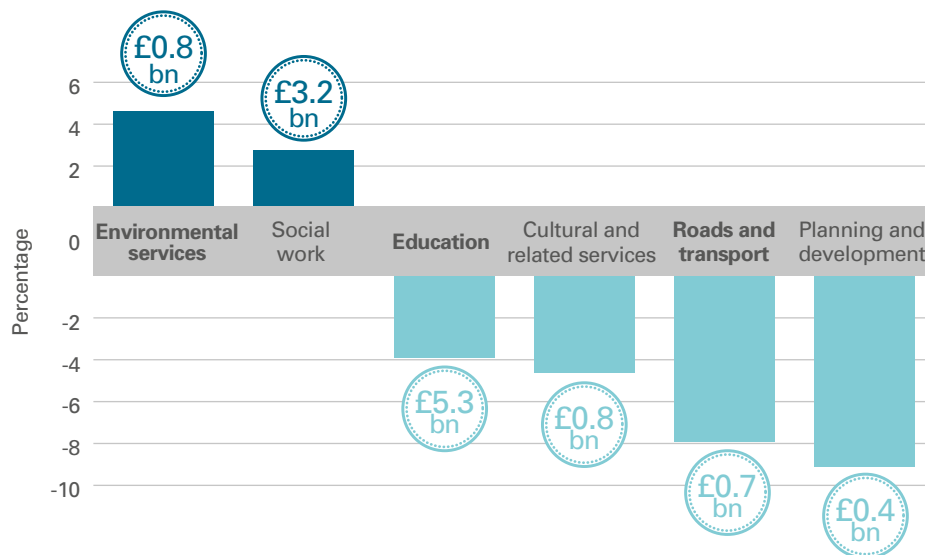
**11.** Councils spent a total of £18.6 billion on delivering services in 2013/14. This was a slight increase, in cash terms, compared to 2012/13 (£18.5 billion), but a real terms decrease of one per cent. The largest proportion of this spending was on education (30 per cent), followed by social work services (22 per cent).

Spending on most of the main services has fallen since 2010/11, except on social work and environmental services (**Exhibit 4**). Some of the smaller services, in terms of net spending, have generally experienced a higher percentage of budget reductions. The increase in social work spending is due in part to increased spending on care for older people, reflecting the population trend. The net increase in environmental services is due mainly to changes in the way that some trading activities are reported in councils' accounts, and a new accounting requirement to plan for the costs of restoring landfill sites.

## Exhibit 4

### Percentage change in net spending per service, between 2010/11 and 2013/14 (in real terms)

Percentage changes in spending vary between services.



Note: Figures in circles show net spending per service in 2013/14 before accounting adjustments are made.

Source: Councils' audited annual accounts, 2013/14

**12.** Councils deliver a wide range of public services. Some of these services and functions are more prescribed in legislation than others, but councils generally have discretion on the level of services they provide and how they provide them. For example, legislation states that councils must provide education for all children aged between five and 16 years old, and sets rules and targets about teacher numbers, their professional qualifications, class sizes and the curriculum. However it does not prescribe, for example, how many hours of education children must receive or how many days they should be in school; councils have the discretion to decide this.

### Councils' decisions about how they deliver national and local policies affect their financial commitments

**13.** The Scottish Government depends on councils to implement a number of its national policies, including:

- reducing the number of pupils in each primary school class
- delivering free personal care for older people
- maintaining the freeze on council tax
- meeting the Scottish Housing Quality Standard ([Exhibit 5](#)).

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## Exhibit 5

### The Scottish Housing Quality Standard (SHQS)

Councils expect to spend over £850 million to bring their houses up to standard.

The Scottish Government introduced the SHQS in February 2004 and it is the principal measure of housing quality in Scotland. It has set a target for landlords, including councils, to bring the quality of their housing stock up to the standards described in the SHQS, where it applies, by April 2015. In 2012/13, councils brought 13 per cent of their houses up to the standard but 22 per cent of houses still did not comply, mainly because the houses did not meet energy efficiency standards. Councils predict that it will cost a total of £853 million to bring all their housing stock up to standard.<sup>3</sup> This includes £302 million already spent in 2012/13 and predicted spending of £551 million between April 2013 and March 2015.

Source: Audit Scotland

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**14.** National policies commit councils to spending in these areas although, in some cases, the Scottish Government provides extra funding for councils to help them implement the policies. For example, since 2011/12 the Scottish Government has made available an additional £70 million a year to councils if they decide to maintain council tax at the same level it was in 2007/08.


**15.** As well as national policies, councils make local commitments that they must also manage within their budget. For example, some councils have policies against compulsory redundancy. This restricts their ability to manage changes or reductions to their workforce and make associated savings. Councils also have to deal with commitments from past decisions, such as equal pay claims. In 2013/14, 20 councils settled claims worth £73.2 million. This is more than in 2012/13 (£32 million). The cumulative amount paid in equal pay settlements to March 2014 is £580 million. Councils have set aside a further £108 million to meet expected future claims.

**16.** In addition to upgrading their housing stock to meet the SHQS, councils need to ensure that other assets used to deliver services are fit for purpose. They do this through a programme of capital investment. This includes spending money on new buildings, such as schools, and on maintaining and repairing existing assets, including local roads. Improving facilities, buildings and other assets can help councils deliver services more efficiently and effectively and enhance people's experiences of council services. Councils' capital spending in 2013/14 was £2.2 billion, with £0.7 billion coming from Scottish Government funding and the remaining £1.5 billion funded mainly by borrowing.

**17.** Twenty-six councils reported that they had underspent against their 2013/14 capital budgets. The level of underspend varied widely, from around one per cent of budget in the City of Edinburgh Council to 45 per cent in Aberdeen City Council and 46 per cent in East Dunbartonshire Council. Reasons for the underspend in Aberdeen City Council include unexpected withdrawal of, or delays caused by, external partners in projects to develop new waste management facilities, build a new bypass (the Western Peripheral Route) and introduce hydrogen-powered buses. In East Dunbartonshire Council the main reason for the underspend was a decision not to proceed with building new office and depot accommodation when further investigation at the chosen site found it to be unsuitable. There are many other reasons why councils spend less than planned on their capital programmes, including delays in starting or progressing projects. Ongoing underspending may mean that councils do not have the most appropriate assets in place to deliver services effectively.

### Most councils are reporting funding gaps

**18.** Financial sustainability is about balancing spending and income over time. Growing demand for services and expected reductions in funding have led many councils to report a funding gap in 2015/16 and beyond. The funding gap means that, to pay for services, councils will have to increase their income, improve efficiency, divert money from lower priority services, or a combination of these. If they are unable to do this they will have to use some of their reserves, although this is a short-term option. Many councils have reported funding gaps, but over different time periods. For example, North Lanarkshire Council predicted a gap of £62.4 million over three years to 2015/16 and Fife Council predicts a gap of £77.2 million in 2017/18.

**19.** It is not clear if councils' planned savings will be enough to cover the reported gaps in funding or if they will need to make more savings. This is the case, for example, for the City of Edinburgh Council. Our [Best Value report \[PDF\]](#)  found that the council needs to make recurring annual savings of £138 million by 2017/18. It also highlighted that there is a gap of £67 million between the savings the council needs to make in 2017/18 and those it has already identified in its financial plans.<sup>4</sup> At the start of 2015 the council was considering options to bridge the £67 million gap, including working with voluntary groups to save £10.8 million a year and reducing its workforce by 1,200 staff (full-time equivalent (FTE)).<sup>5</sup>

**20.** The challenge for councils is to implement strategies that bridge the funding gaps. Almost all councils' auditors have indicated risks to councils' financial positions in the medium to long term. Specific risks identified by auditors include councils:

- spending more money than they planned
- not making the savings they planned
- having to compromise unexpectedly on the quality of services they deliver, without having worked with service users to review and evaluate other options
- being unable to meet the increasing demand for services
- not having enough money in their reserves that they can use, if required.

Service users and local communities will suffer if important services are affected because councils fail to secure financial sustainability over an extended period of time.

#### **Reserves are available but councils can only use this money once**

**21.** Councils hold useable reserves to help them manage unpredictable financial pressures and plan for their future spending commitments. Councils had a total of £1.8 billion of useable reserves at 31 March 2014. This was a small decrease of two per cent in 2013/14, a change in the trend of increasing reserves in recent years ([Exhibit 6, page 18](#)).

**22.** Useable reserves are made up of different funds, including general, capital, housing etc. In 2013/14, general funds accounted for over half (£1.03 billion) of councils' total useable reserves. Councils allocated most of their general funds (£0.71 billion or 69 per cent) for specific purposes, such as modernisation initiatives and local development projects. The remainder (£0.32 billion or 31 per cent) of councils' general fund reserves was unallocated. Councils usually hold unallocated reserves as a contingency to help deal with unforeseen events such as rising interest rates, delays in receiving payments, relieving the pressure on demand-led services, or other unplanned spending.

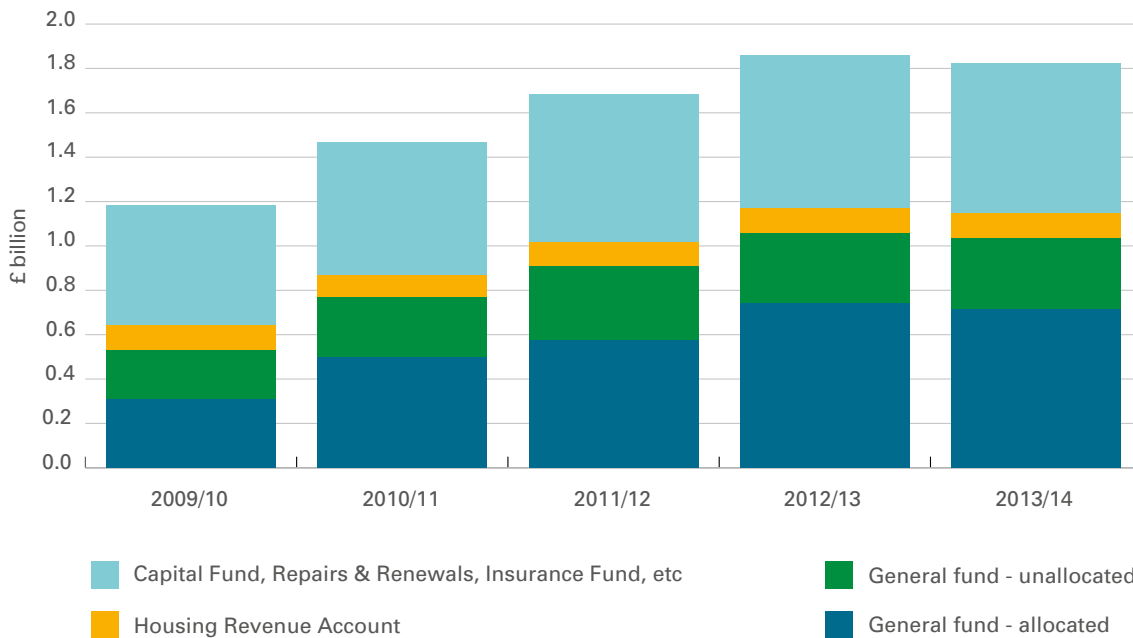
**23.** Councils need to consider both their level of reserves, and how they plan to use them, when developing financial plans and setting annual budgets. The chief financial officer (see [paragraph 77](#) for more information about this role) is responsible for advising the council on the level of reserves it should hold and ensuring that there are clear procedures for keeping and using reserves.

**24.** Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) states that the chief financial officer should take account of the strategic, operational and financial risks facing the council, when deciding the appropriate level of unallocated reserves.<sup>6</sup> Auditors reported that not all councils carried out a formal risk analysis to determine the appropriate level of reserves. Most councils had a policy to maintain unallocated general fund reserves at around two to four per cent of their net spending on services.

## Exhibit 6

### Councils' useable reserves from 2009/10 to 2013/14

Useable reserves stopped increasing in 2013/14 after three years of growth.



Note: Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities.

Source: Councils' audited annual accounts, 2009/10 to 2013/14



**25.** Councils can use their reserves to help deliver services. But they can only use them once. Reserves cannot help councils deal with budget gaps in the longer term. Twenty councils reduced their level of useable reserves in 2013/14, 11 councils increased their level and one council's level remained the same.

**26.** Councils also have other reserves that are not available to spend on providing services (known as unuseable reserves). These are the result of accounting practice to comply with financial reporting standards. Unuseable reserves increase and decrease to reflect updated estimates of the current value of certain council's assets and liabilities, including the value of pensions that the council will have to fund in future.

### Further budget reductions are expected and demands for services are increasing

**27.** The Scottish Government's funding for councils in 2014/15 is £10.8 billion. This is an increase of 2.1 per cent in real terms, compared to 2013/14. In 2015/16, funding is expected to increase by a further 1 per cent in cash terms to £10.9 billion. This is a decrease of 0.5 per cent in real terms. Councils expect further reductions in funding from the Scottish Government, particularly in 2016/17 and 2017/18. The UK Office for Budget Responsibility indicated that UK expenditure could be cut by 6.4 per cent in 2016/17, 4.9 per cent in 2017/18 and 1.9 per cent in 2018/19 and 2019/20 (in real terms).<sup>7</sup> If this is reflected in the UK Government's budget allocation to Scotland, the Scottish Government faces further difficult decisions about how much funding to allocate to councils alongside its other responsibilities and priorities.

**28.** In addition to reduced funding, councils face other pressures as demand for services continues to increase. The increasing demand for services is largely due to changes in the population, which is increasing by about 0.2 per cent a year. People are also living longer; the percentage of people aged 65 or over is projected to increase from 17 per cent in 2012 to 25 per cent by 2037 ([Exhibit 7, page 20](#)). An older population has implications particularly for social care and housing services. For example, analysis by Midlothian Council suggests that without a significant shift in the way services are provided there will be a need for an estimated 300 additional care home places, at a cost of £6 million a year, due to its increasing older population.

**29.** The growing population can also affect councils' education services. The number of children aged 0-15 years across Scotland is predicted to rise by 5.5 per cent by 2037. Between 2014 and 2018, the number of primary school pupils is expected to go up by 3.9 per cent. The position across Scotland varies widely. For example, Aberdeen, Glasgow and Dundee City councils have predicted increases of 20, 13 and 11 per cent respectively. Clackmannanshire, East Renfrewshire and Stirling councils have predicted decreases of between three and four per cent.<sup>8</sup> For those councils most affected by the increasing number of pupils there are pressures on:

- revenue budgets, for example paying for teachers' salaries
- capital budgets, for example building and refurbishing schools.

In council areas where numbers are falling, councils must monitor the impact of this on their required resources, such as staff, buildings, facilities and transport.

### **An increasing proportion of councils' budgets will be required to repay debts and other financial commitments**

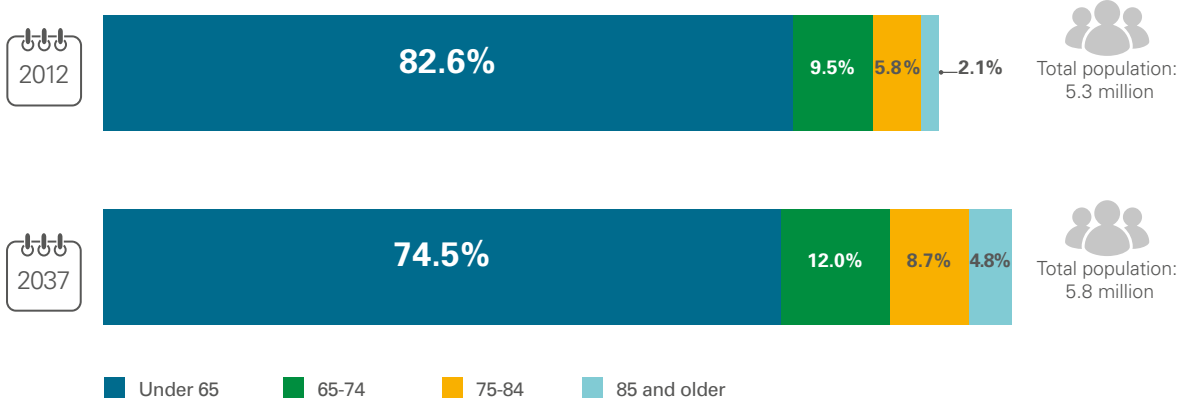
**30.** As councils make decisions on how to allocate their reduced budgets, they need to be clear about both their short and long-term liabilities. For example, since 2000/01 councils have financed around £4 billion of capital projects using Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) contracts, mostly for new and refurbished schools. Capital projects funded through PFI and NPD generally do not involve using a council's capital budget. Instead, the project costs are met upfront by private sector contractors and the council meets the cost of this, typically over 20 to 30 years, through ongoing revenue payments. Payments to the contractor include repaying the cost, plus interest, of building the asset along with any related services, such as ongoing maintenance and service management costs. Under these contracts councils are committed to paying nearly £17 billion in total. Councils have paid £3.4 billion already and must pay a further £13.4 billion between 2014/15 and 2041/42 ([Exhibit 8, page 20](#)).

**31.** In addition to PFI and NPD, councils have borrowed £12.1 billion to finance investment in assets. The current value of councils' assets is £39 billion. Borrowing helps councils spread the cost of building and refurbishing their assets over a number of years. However, it means that councils commit a proportion of their future budgets to financing charges, that is repaying debt and interest. Annual interest and debt repayments on borrowing have increased from £946 million in 2009/10 to £1.5 billion in 2013/14. Repayments for current PFI and NPD contracts totalled £488 million in 2013/14 and are predicted to peak at around £600 million a year between 2024/25 and 2027/28. Higher financing commitments leave councils with less money available to spend on the other day-to-day costs of running services.

### Exhibit 7

#### Scotland's population is changing

The percentage of the population aged 65 and over is expected to increase considerably.

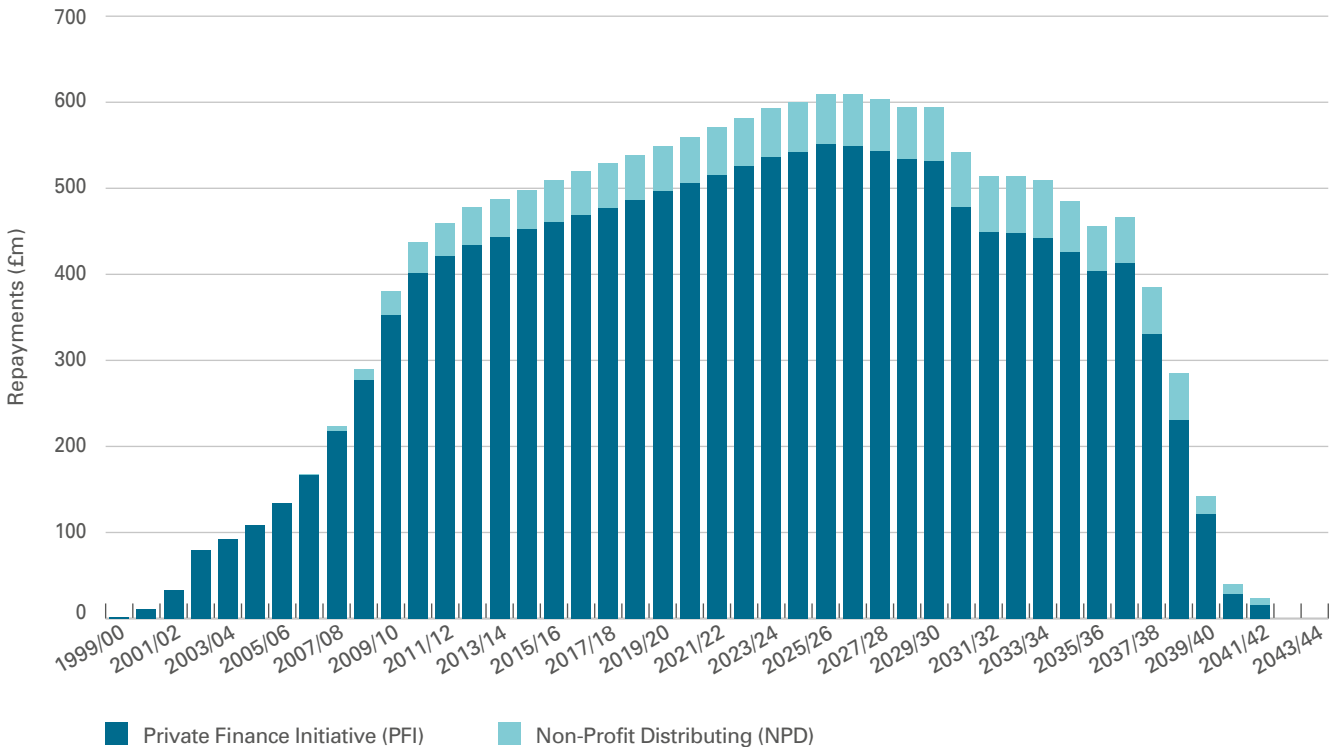


Source: *Projected Population of Scotland (2012-based), National Records of Scotland, 2013*

### Exhibit 8

#### Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) payments, 1999/00 to 2043/44

Councils' committed payments on current PFI and NPD contracts continue to rise until 2026/27.



Note: These figures do not take inflation into account.

Source: Audit Scotland, from HM Treasury (2014) Private Finance Initiative Projects: current projects as at 31 March 2014





**32.** Population projections indicate that there will be increasing demand for council services at the same time as financing charges are anticipated to peak. These longer-term challenges further support the case for longer-term financial planning ([paragraph 69](#)). Our report on borrowing and treasury management, which we will publish in March 2015, will consider whether councils can demonstrate that their borrowing is affordable and sustainable in the long term.

### There are a range of other matters affecting councils' finances

**33.** The Welfare Reform Act 2012 is the biggest reform of the UK welfare system for 60 years and is expected to have significant implications for households and councils. The reforms include introducing a cap on the amount of benefits that people can claim. The impact on people's ability to pay what they owe in housing rent, council tax and other fees and charges is not yet clear. Councils paid £29.4 million in government-funded Discretionary Housing Payments to people who needed help to pay their rent in 2013/14. However, housing rent arrears also increased by 24 per cent between 2012/13 and 2013/14 and this may, in part, be a result of welfare reforms. The full impact of welfare reforms will not be known for some time. The reforms may create greater demands on services if more people are in debt or in need of suitable council homes.

**34.** Auditors report that, so far, councils are managing the impact of welfare reform and many are spending money on support for people affected, including:

- establishing working groups to coordinate help and support
- creating specific funding pots to help people in need
- setting up telephone hotlines to deal with queries and offer advice
- providing information on their websites.

**35.** Councils face increased costs when they implement some national policies and legislation, such as self-directed support and the Children and Young People (Scotland) Act 2014.<sup>9</sup> The Scottish Government includes additional costs in the general funding it gives councils. For example, the costs associated with implementing the Children and Young People (Scotland) Act 2014 are estimated at £79.1 million in 2014/15. These are expected to rise to £138.9 million in 2016/17, and then decrease to £108.9 million by 2019/20.<sup>10</sup> The estimated costs largely relate to two of the proposals, both of which are mainly councils' responsibility to implement:

- providing a single point of contact (a named person) for every child in Scotland
- increasing the amount of free early learning and childcare.

**36.** Councils are also facing other potential financial liabilities. For example, councils must pay the costs of restoring landfill sites used for waste disposal; some may have to pay for restoring open cast mines previously owned by companies that no longer exist; or spend money they did not plan to on paying staff for underpaid holiday pay.

### Further changes are expected that may affect councils' finances

**37.** Councils are likely to face increased costs due to changes in pension schemes. These changes mean that members of workplace pension schemes and their employers no longer pay reduced National Insurance contributions from April 2016. Councils need to be sure that their pension funds are sufficient and well managed so that there is enough money to pay current employees' pensions when they retire.

**38.** There are potential changes to both the council tax and NDR systems which may affect councils' income. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) have set up an independent commission to examine alternatives to the existing council tax system. The commission is expected to consult with communities before recommending how to develop a 'fairer system of local taxation' to help pay for council services. The commission will report in the autumn of 2015.<sup>11</sup> In addition, the Community Empowerment Bill proposes to give councils some flexibility to control their NDR income along with the ability to set local rates to attract businesses to their area or encourage existing businesses to grow.

**39.** More generally, the overall environment for public finances in Scotland is changing substantially. From April 2015, new taxes on land and buildings transactions and disposing of waste to landfill come into force. The Scottish Government will also have new borrowing powers. From April 2016, the Scottish Parliament must set a new Scottish rate of income tax. In addition, the recent Smith Commission report sets out proposals by Scotland's main political parties to provide more powers to the Scottish Parliament. The proposals are extensive and include further changes to the welfare system and more financial responsibilities.<sup>12</sup>

# Part 2

## Dealing with pressures in 2015/16



### Key messages


- 1** Councils have reduced staff numbers to help make savings. They have paid out £352 million in voluntary severance since 2010/11. There is an increasing risk that reductions in staff numbers, and the associated loss of skills and experience, will affect essential support services, such as HR and finance.
- 2** Despite reductions in funding, available data indicates that councils have continued to improve or maintain services. However, sustaining improvement is becoming more challenging and councils face increasingly difficult decisions about providing services.
- 3** Effective financial and performance management help councils relieve pressures through, for example, targeting resources (such as money and staff) at their priority areas, and identifying better ways to provide services. Councils need to take more account of service users' priorities and get better at using local data and involving communities in planning and delivering services.
- 4** Effective planning and budgeting help councils target resources, but there is limited evidence of longer-term financial planning. Eighteen councils do not have long-term financial plans covering a period of five or more years. This can limit how well they understand the full implications of their spending and borrowing.
- 5** Governance needs to keep pace with changes in staff, management and political structures. This applies within councils and in joint working between councils and their partners, particularly in community planning. Health and social care integration, which councils and health boards are working to implement fully by April 2016, requires effective governance arrangements for the new joint bodies.
- 6** Councillors need clear information to help them scrutinise services and make effective decisions. Good information helps councils demonstrate that they use public money properly and effectively. There has been an improvement in councils' public performance reporting. Councillors should also make sure they get the training and support they need to help them fulfil their demanding roles.

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**strong financial management and good governance are critical to making changes successfully**

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## Savings plans are in place but councils will need to consider more fundamental changes

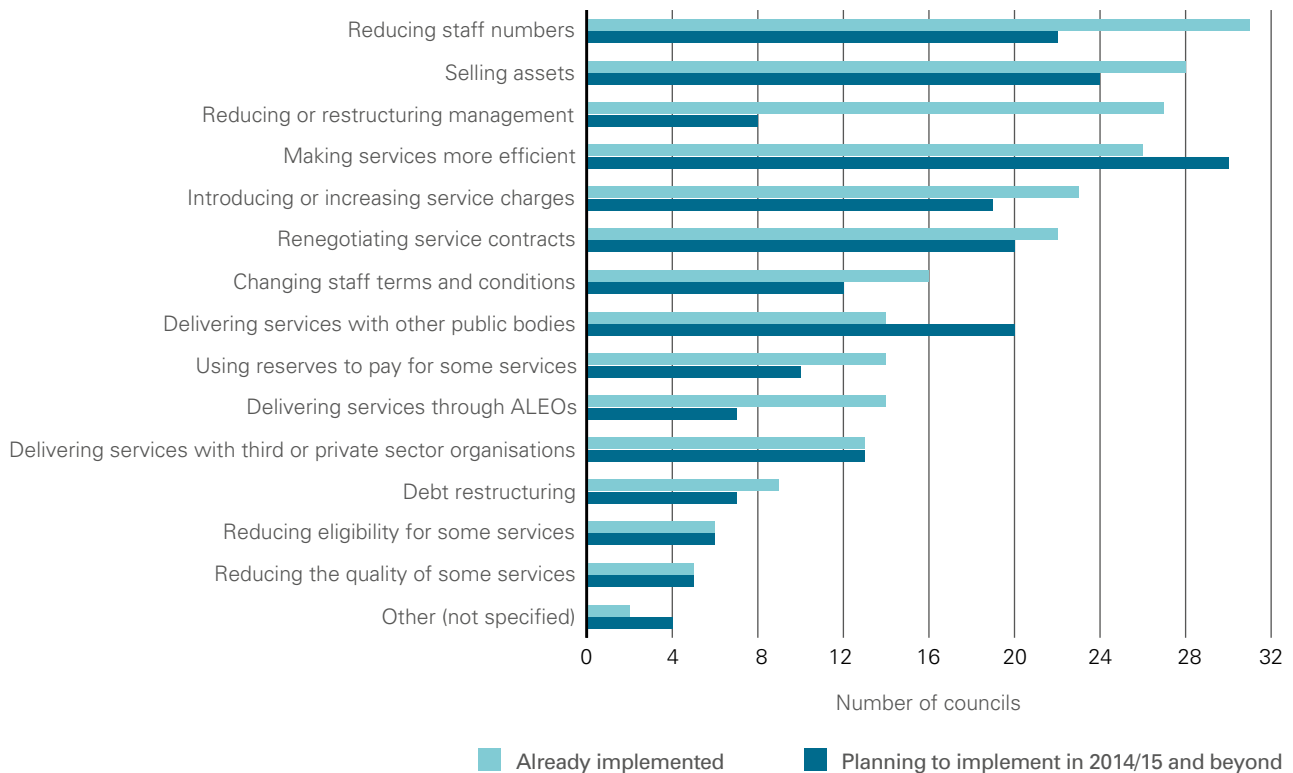
**40.** Councils have made savings in the last few years through various initiatives, mainly by reducing staff numbers, restructuring and reducing management, and disposing of assets such as buildings and equipment ([Exhibit 9](#)). Other sources of savings include improvements in the way councils purchase the supplies and support they need to deliver services. [Procurement in councils \[PDF\]](#)  for example, found that councils had identified procurement as a source of significant savings.<sup>19</sup> During 2013/14, 23 councils reported that they were planning to make £27 million of savings from procurement. This was 13 per cent of their overall savings targets at the time.

**41.** To make further savings in 2014/15, most councils were planning to make their services more efficient. They were also considering new service delivery models, including working with other public bodies and setting up arm’s-length external organisations (ALEOs). ALEOs are separate companies or trusts set up and fully owned by councils, but with separate financial and governance arrangements. Whatever the delivery model, councils retain responsibility for public money and the quality of services delivered.

### Exhibit 9

#### Actions taken and planned to make savings

The three most common actions councils have taken to make savings are reducing staff numbers, restructuring and reducing management, and disposing of assets.



Source: Audit Scotland survey of council auditors, 2014


### Almost all councils have reduced staff numbers to help deliver savings

**42.** Councils have reduced their workforce by 12 per cent since 2008, from around 228,700 to 201,500 (FTE).<sup>14</sup> This reduction includes staff now working in ALEOs and so the actual reduction in staff providing council services will be smaller than 12 per cent. For example, 7,759 facilities management and social care staff in Glasgow City Council transferred to one of its ALEOs, Cordia. Only Aberdeenshire Council has increased its workforce since 2008, from 9,200 to 10,000 (FTE). The council attributes this to growth in demand for services as a result of a five per cent increase in the population between 2010 and 2013, and to the fact that it has not outsourced any services. At least half of councils intend to make further staff reductions in 2014/15 and beyond. For example, East Renfrewshire Council's three-year savings plan proposes a reduction of 200 posts to help close a £22 million funding gap.


**43.** Staff reductions have cost councils £352 million in voluntary severance payments and associated costs over the last three years (2011/12 to 2013/14). Each council produces estimates of the savings it expects to achieve from reducing its workforce. For example, North Lanarkshire Council estimated that deleting 237 staff posts in 2013/14 would cost £4.1 million for voluntary severance and early retirement, but would save £7.4 million from its staff costs each year.

**44.** In 2014, nearly half of councils restructured their management to save money. For example:

- Scottish Borders Council restructured its management to help bridge a £28.7 million funding gap over five years. This included appointing two new deputy chief executives and reducing the number of heads of service from 19 to 12.
- Midlothian Council reviewed its leadership and middle management structures to deliver savings of £1.3 million. This included reducing the number of heads of service from ten to eight and considering reductions in the number of middle managers, from 162 to 143.
- Highland Council has reduced the number of service directors from seven to five to help save £0.35 million a year on senior management costs from 2014/15 onwards. Since 2007, the council has reduced the number of managers by 44 posts to make annual savings of £3.25 million.

**45.** Although councils have reduced their staff numbers to make savings, it is crucial that they understand and manage the effect of these reductions and continue to improve or maintain the impact their services have on people's lives. Councils tell us they have tried to protect front-line staffing and concentrate the reductions among support staff and management. Our [School education \[PDF\]](#)  report found that councils' spending on education fell by five per cent in real terms between 2010/11 and 2012/13, largely as a result of employing fewer staff.<sup>15</sup> Teacher numbers (FTE) were reduced by two per cent between 2010 and 2013. They fell further in 2014, to 50,824, which is the lowest number in the last ten years. This coincides with pupil numbers increasing since 2012 and, in the last year, the total pupil-teacher ratio increased from 13.5 to 13.6. The primary school pupil-teacher ratio increased from 16.5 to 16.7. We recommended that councils need to fully assess the potential longer-term impact of staff reductions on pupil attainment and wider achievement, and they need to be alert to the potential impact of increased

workloads on remaining staff. Teacher numbers and related funding have been the subject of recent discussion between the Scottish Government and councils.

**46.** Where further staff reductions are planned, it is important that councils have comprehensive workforce plans and strategies to help manage the impact of significant staff reductions. Our [Best Value report on the City of Edinburgh Council \[PDF\]](#)  highlighted the crucial role of a workforce strategy in enabling councils to plan and manage required savings and to ensure that councils:

- have sufficient capacity for change and improvement
- can meet increased demand for services in the context of financial constraints.

#### Available data indicate that councils maintained or improved service performance in 2013/14 but pressures on services are increasing

**47.** Councils have generally managed workforce reductions well while maintaining or improving their performance indicators in most service areas between 2010/11 and 2013/14 ([Exhibit 10, page 27](#)).

#### Decisions on how to reduce spending are becoming even tougher

**48.** Faced with increasing demand and reduced budgets, councils are finding it harder to continue to improve or maintain the level and standard of services. Councils and their partners need to make sure they are targeting their resources (that is, money and staff) in the right way. To date, councils have relied mainly on staff reductions to achieve the savings they require, but this approach alone is not sustainable.

**49.** To help manage further budget reductions, Scottish councils need to continue:

- reviewing how they deliver services
- assessing whether what they are doing is the most efficient and effective option, both in the current circumstances and in the future. If this is not the case, councils need to consider fundamental changes.







**50.** There are a number of actions that councils should take to help them identify how best to target their resources. These include making better use of local socio-economic data and involving service users in deciding their priorities ([Exhibit 11, page 28](#)).

**51.** There is also an increasing need, and expectation, that councils and their partners deliver more integrated services. This will help councils to make best use of their resources, achieve value for money and improve outcomes for people and communities. Community planning involves councils, NHS boards, other public sector bodies, businesses and voluntary groups, working together with local communities to deliver better services. All councils have established a community planning partnership (CPP) in their area. CPPs are required to identify local priorities and set these out in a Single Outcome Agreement (SOA). The Community Empowerment (Scotland) Bill proposes to give the public bodies involved in CPPs a legal duty to work in partnership to plan and improve outcomes for their area.

## Exhibit 10

### Improving service performance in 2013/14

Performance indicators in most service areas show improvements since 2010/11.

Education 	Culture and leisure 	Environmental services 
<ul style="list-style-type: none"> <li>The proportion of secondary school pupils achieving five or more SQA Level 6 awards has increased from 23 per cent to 28 per cent.</li> <li>The proportion going on to positive destinations has risen from 89 per cent to 92 per cent.</li> <li>The cost per secondary school pupil has fallen by 3.6 per cent, while the number of pupils decreased by 3.9 per cent.</li> <li>The cost per primary school pupil has fallen by 7.4 per cent, while the number of pupils has increased by 3.3 per cent.</li> <li>The cost per pre-school place has fallen by 15.3 per cent, while the number of places has gone up by 11.8 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>Visitor numbers for sports have increased by 17.3 per cent, reported to be the result of significant capital investment across Scotland ten years ago.</li> <li>The number of library visits has increased by 26.6 per cent, boosted by numbers of virtual visits, use of public access computers and adjusting opening hours to better suit user demand.</li> <li>Museum visits have gone up by 25.8 per cent. The increase in numbers has helped to reduce the costs per visit.</li> </ul>	<ul style="list-style-type: none"> <li>Recycling rates increased to 42.2 per cent of household waste being recycled, as councils work towards Scotland's Zero Waste 60 per cent target in 2020, while costs per premise have reduced by 3.2 per cent.</li> <li>Street cleaning costs per thousand population have fallen by 25.4 per cent and roads maintenance costs per kilometre have fallen by 21.2 per cent.</li> <li>Waste collection costs crept up slightly between 2012/13 and 2013/14, suggesting that there may be few savings left to find now that councils have already introduced 'route optimising' systems, changes in working practices and collecting bins less frequently.</li> </ul>
Adult social care 	Housing 	Economic development 
<ul style="list-style-type: none"> <li>The hourly cost of homecare for older people has fallen by 4.6 per cent.</li> <li>The percentage of people with intensive needs cared for at home has increased from 32.2 per cent in 2010/11 to 34.7 per cent in 2013/14.</li> </ul>	<ul style="list-style-type: none"> <li>Levels of rent lost due to houses sitting empty after a tenant has left have remained unchanged at 1.3 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>The percentage of unemployed people helped into work by their council has risen from 9.6 per cent to 12.6 per cent.</li> </ul>
Public satisfaction		
<ul style="list-style-type: none"> <li>Public satisfaction with councils' services has increased for waste collection, decreased for schools, social work and libraries and remained static for leisure, museums, parks and street cleaning.</li> </ul>		

Source: *National Benchmarking Overview Report 2013/14*, Improvement Service, January 2015

## Exhibit 11

### Actions councils should take to effectively target their resources



Source: Audit Scotland

**52.** More recently, health and social care integration under the Public Bodies (Joint Working) (Scotland) Act 2014 will bring about the most significant change in public services in Scotland in recent years. Councils and NHS boards have a major opportunity to add value to people's lives through improved, coordinated services.

#### Councils need to have good information for decision-making

**53.** The Local Government Benchmarking Framework (LGBF) allows councils to assess and compare their performance and costs across all major service areas. The Improvement Service publishes the LGBF data by theme and by council. Councils can compare how much they spend, and how they perform, with other similar councils. This allows them to identify their strengths and areas where they could improve and to learn from good practice in other councils. For example, sickness absence varies across councils from an average of 7.4 days to 11.4 days per employee per year ([Exhibit 12, page 29](#)). If councils with high absence levels could lower this to match the top eight performing councils (lower than 8.8 days), that would gain the equivalent staff time of 450 full-time employees across Scotland. Councils have already saved the equivalent staff time of around 500 employees by improving sickness absence from an average of 9.8 days in 2010/11 to 9.2 days in 2013/14.

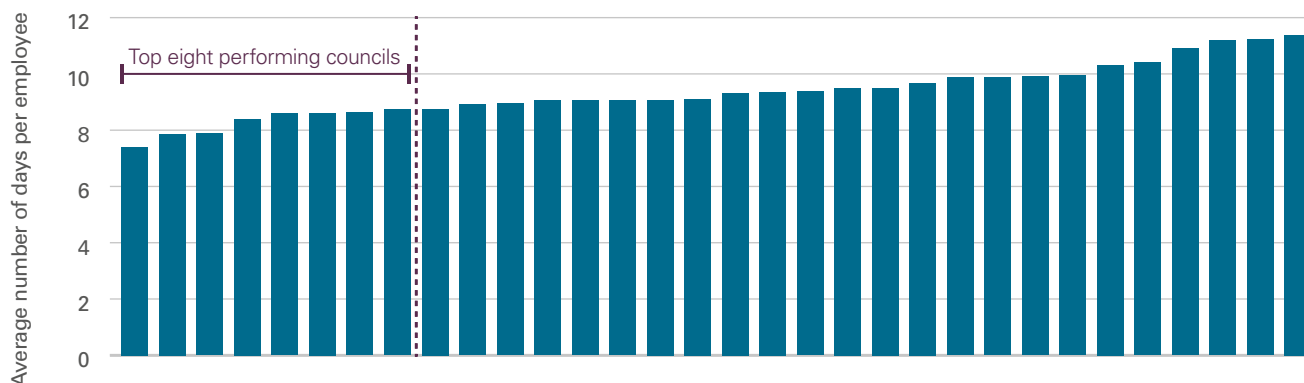
**54.** Our overview report on community planning found that councils and their partners need to get better at using data to understand local areas if they are to maximise their impact. It found that the more developed SOAs used data at a neighbourhood level to help target CPPs' activity and spending.<sup>16</sup>



## Exhibit 12

### Sickness absence in councils, 2013/14

Sickness absence in the top eight performing councils was less than 8.8 days per employee.



Source: *National Benchmarking Overview Report 2013/14*, Improvement Service, January 2015




**55.** West Lothian CPP, for example, has recognised that using data effectively is important to develop a successful CPP. The council recruited a data analyst to develop local profiles for areas in West Lothian. The CPP aims to use this data to better understand its communities so that it can target resources, such as funding and staff, to where they are most needed. Ultimately, the CPP aims to predict local needs, and then prevent specific issues, such as high rates of teenage pregnancies. Similarly, Glasgow's CPP used available data to select three key priorities in its SOA, providing it with a clear strategic direction for the next ten years.

### Councils are consulting with service users and communities but need to involve them more in planning and delivering services

**56.** To target their limited resources effectively, councils need to work with local people to understand what their needs are and what services will have the best and most sustainable impact on their lives. Local people can bring insights and experiences to planning, developing and delivering services, complementing those of council staff.

**57.** Many councils and CPPs do not draw on the results of consultation activity when making decisions and setting priorities. There is significant potential for councils to improve how they involve the public. For example:

- Comhairle nan Eilean Siar brought together views of communities and used them to influence decisions and develop services.
- Falkirk CPP is involving older people in developing new ways of providing services to help them remain independent for as long as possible.
- Perth and Kinross Council is facilitating work in communities where people who need social care services and their families are developing local services to meet their shared needs.

**58.** While CPPs continue to improve how they consult with local people, they are not yet working with them to improve local services.<sup>17</sup> Our report on [Self-directed support \[PDF\]](#)  found that genuinely involving users in decisions about how services are delivered, sometimes called co-production, is typically not happening.<sup>18</sup>

**59.** In June 2014, the Scottish Government introduced the Community Empowerment (Scotland) Bill to the Scottish Parliament. It includes proposals for:

- providing greater rights for communities to plan and manage public services
- placing CPPs on a statutory basis, by putting a legal duty on a range of public sector bodies to work together in partnership with communities to plan and improve outcomes for their areas.

**60.** While this should help improve communities' involvement in decisions about local services, councils will have to adopt fundamentally different ways of working with communities to enable them to participate effectively.

**61.** The Bill also contains provisions to improve access to information about the common good assets in each council area. These are properties and other assets that are held by a council on behalf of its residents. The total value of these in Scotland was £0.3 billion as at 31 March 2014.

### Councils are reviewing and changing the way they deliver services

**62.** As budgets are cut, councils need to review thoroughly how they deliver services and identify new, more efficient or better ways of delivering them. They need to act on the results of the reviews, which should be informed by better use of data and user views, to improve services.

**63.** Councils are considering, and consulting on, areas of potential service reductions, such as closing, or reducing opening hours for, libraries or other leisure facilities. As they consider proposals to reduce or stop services, councils need to identify the benefits and risks associated with each option. These include the implications for how services perform, the impact on service users and the effect on longer-term outcomes for people and communities. For example, reducing services to older people that help them live independently at home may produce savings in the short term but may result in people needing more intensive, expensive support sooner than would otherwise have been the case.

**64.** A number of councils have reviewed and changed the way they deliver services ([Case study 1, page 31](#)). It is important that councils monitor how their services are performing so they can understand whether they are making the anticipated improvements and savings. They should also review the process of making the changes and apply lessons learned to future changes.

**65.** There is limited evidence of councils moving towards preventative services. These services help prevent or delay people's need for a service, for example an older person requiring a place in a care home. In a climate of reduced resources it is difficult for councils and their partners to divert money from delivering existing services to more preventative services. However, prevention is an important element in managing future demand for services, and is therefore an important


## Case study 1



### Examples of councils reviewing and changing services

- East Ayrshire and South Ayrshire councils jointly launched the Ayrshire Roads Alliance to deliver a range of roads services. These include roads maintenance, winter maintenance, design and infrastructure, traffic and transportation, and road safety. The councils expect the shared services arrangement to deliver more than £8 million in savings over the next ten years. The savings will be mainly from reduced management and administrative costs and from better deals on larger orders.
- Glasgow City Council partially funds the Social Care Ideas Factory, a voluntary organisation, to develop ideas for changing and improving social care services. The Ideas Factory gets social care providers, service users, carers and the council together to test ideas that help people with social care needs to regain or retain full lives at home and in their communities.

Source: Audit Scotland

element in securing financial sustainability. Our report on [Reshaping care for older people \[PDF\]](#)  found that more needs to be done to target resources on preventing or delaying ill health and on helping people to stay at home.<sup>19</sup>

**66.** Our [Community planning report \[PDF\]](#)  found that while CPPs are starting to focus more on prevention, much of this activity is on a small scale. It also acknowledged that moving resources towards preventative activity will be more challenging as financial and demand pressures increase. There are, however, some examples of councils and CPPs investing in prevention activity:

- Stirling Council's social work services propose to save £442,000 over five years by extending the current re-ablement services for older people. These will now include people under 65 with physical disabilities, learning disabilities and mental health problems. Re-ablement focuses on building people's skills, capabilities and confidence to enable them to retain, or regain, their independence living at home with little, or no, support.
- Perth and Kinross Council offers a support service to people who claim Discretionary Housing Payments and Scottish Welfare Funds. The council does this to try to understand the reasons for their difficulties and stop them from happening. Officers review claimants' finances with them and try to maximise their income wherever possible, for example, by identifying additional benefits they may be entitled to or how claimants can spend less money. The council anticipates that taking this approach will greatly reduce the number of people needing its help.
- West Lothian CPP has agreed a comprehensive ten-year prevention plan. It sets out 68 prevention projects and identifies a number of broad areas to focus on in the future, such as reducing reoffending and alcohol misuse by young people.<sup>20</sup>

**67.** As the pressures on councils and their partners mount in the coming years, they may have to consider more fundamental changes. In England, councils have faced more severe budget cuts in the last few years. Between 2010/11 and 2015/16, the UK Government will reduce its funding to English councils by 37 per cent, in real terms.<sup>21</sup> As with Scottish councils, cuts so far have been managed mainly through workforce reductions. English councils are now increasingly relying on new, untested ways of making savings. There is also evidence that core services, such as homecare and day care for adults, are being reduced. Birmingham City Council, for example, is now actively looking to stop some services to help achieve its required £72 million of savings in 2015/16, and is planning to:

- cut services for those with physical disabilities by 50 per cent
- contract out a range of care services, such as sheltered housing
- cut over half of its library staff
- increase parking charges and other fees, such as waste disposal for businesses
- remove subsidies for public events.

**68.** In these circumstances, where there are greater risks in using untested approaches, it is even more important that councils identify the risks and manage them carefully. Responding effectively to the current and continuing financial pressures means that councils will have to be bold and take risks. They cannot afford to be risk averse, so the focus is on being risk aware.

### **Effective planning and budgeting help councils target resources, but there is limited evidence of longer-term financial planning**

**69.** It is important that councils develop and maintain long-term financial plans, looking five to ten years ahead, to direct and control their finances and set the context for annual budgets. Plans should also show whether the council's finances are sustainable over this period of time. They can help the council identify potential problems at an earlier stage, for example identifying significant demographic change or increasing costs for repaying debts. Long-term plans need to make assumptions about future funding, spending and activities, so they should set out different scenarios and their implications for the council's future budgets.

**70.** Plans should include both annual revenue spending on services and capital spending to invest in buildings and equipment, showing clearly how the two types of spending relate to each other. In the current financial environment, councils need to plan and budget in a way that focuses more on their priorities and links their planned spending more closely with the outcomes they want to achieve.

**71.** Eighteen councils do not have long-term financial plans covering a period of five or more years. This can limit how well they understand the full implications of their spending and borrowing. A long-term financial plan should include estimated income and costs, and the savings that may be required to bridge any gaps. It should provide councillors and senior managers with a good understanding of the financial health of the council, including anticipated pressures and options for addressing them ([Exhibit 13, page 33](#)).

**Exhibit 13****Important features of long-term financial planning**

Councils should have financial plans which cover a period of five to ten years.

Element	This should include:
<b>Income</b> 	An assessment of expected income, including projected changes to council tax income. It should set out options to increase income, for example policies on fees and charges
<b>Costs</b> 	A clear understanding of the council's costs, including those of individual services, borrowing costs etc. It should highlight future cost pressures and identify options for relieving these
<b>Savings</b> 	An analysis of required savings along with evidence-based options for achieving these. This should set out details of one-off and recurring savings and the risk of these not being achieved
<b>Funding gaps</b> 	Details of any funding gaps between projected income and the cost of providing services, including the reasons for these and how these will be managed
<b>Assets, liabilities and reserves</b> 	An assessment of assets and liabilities showing how these will change over time. There should also be a reserves policy, setting out details of adequacy, why reserves are held and what they will be used for
<b>Scenario planning</b> 	Different scenarios that show the best, worst and most likely financial positions. This should set out the assumptions used, and take into account long-term economic forecasts and interest rate projections
<b>Capital investment activity</b> 	Details of investment needs and plans and how these will be paid for. This should include details of estimated financing charges
<b>Demand</b> 	Analysis of demand for services, taking into account various population projections. It should also include the impact of demand on capital investment needs
<b>Risks</b> 	An analysis of significant financial risks, their implications and how these might be mitigated
<b>Links</b> 	Clear links to the council's corporate strategy and CPP objectives and to other relevant information, for example workforce and asset management plans

Source: Audit Scotland

### Some councils are taking a priority-based approach to budgeting

**72.** Effective budgeting is an important part of good financial management because it:

- can help councils understand where best to direct their resources, such as money and staff, to achieve the greatest benefits
- sets out where and how much money will be allocated
- allows councils to monitor throughout the year the financial position against the budget.

**73.** It is important that councils are clear about local priorities and national policies and develop their budgets to target resources at these. One way of doing this is to use a priority-based approach to budgeting. There are some examples of councils using this approach to budgeting, for example Aberdeen City Council and Stirling Council, but many councils are not yet aligning their budgets with their priorities. Aberdeen City Council is now developing its approach to target resources at specific outcomes. There should be clear connections between the local priorities that the council and its partners have set out in their SOA and the way they target the combined money resources they have available for public services in the area.

### Governance arrangements must be kept up to date and fit for purpose


**74.** There have been major changes to staffing and management structures as a result of workforce reductions and organisational changes. This affects existing governance arrangements, for example from losing people and posts that authorised or reported important financial and performance information. Governance arrangements include rules for authorising decisions and spending, systems for managing risks, processes for reporting and scrutinising financial and service performance, and standards for the way councillors and staff behave. It is important that councils review the core elements of governance by:

- creating and implementing a vision for the local area and focusing on outcomes for the local community
- councillors and council officers working together to achieve a common purpose, with clearly defined functions and roles
- promoting the council's values and upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capabilities of councillors and officers
- engaging with local people and other stakeholders to ensure robust public accountability.<sup>22</sup>


**75.** There is a risk that some councils' management teams may now be too small, or lack the skills and experience, to oversee and control their wide-ranging responsibilities. This can make effective leadership and management more challenging. Smaller management teams need to have clear arrangements for all the important functions they need to fulfil, including effective systems of control over finances and performance. Councils also need to ensure they have enough people with the right skills to deliver their ambitious change and improvement programmes, both now and in the future.

**76.** The chief executive role is crucial to the success of the council. The role is complex and demanding. It requires a good balance between responsibilities to the political administration and to the council as a whole, and the need to build effective relationships with people in organisations that work with or for the council to deliver public services, such as health and social care partnerships and ALEOs.

**77.** The chief financial officer, also known as the section 95 officer or proper officer for finance, has a crucial role in providing advice on all aspects of finance and is central to effective governance. Councillors should satisfy themselves that the chief financial officer has appropriate access to, and influence over, decision-makers to perform this role effectively. From 2014/15, councils' annual accounts must include a statement of responsibilities and this must accurately reflect the responsibilities of the chief financial officer.<sup>23</sup>

**78.** Councillors also need to be aware of the important contributions provided by statutory officers who, similar to the chief financial officer, act independently to promote and enforce good governance (**Exhibit 14, page 36**). The chief financial officer and the monitoring officer in particular provide independent advice to the council on the affordability and legality of options for services and savings. Fuller information on the statutory officers and their roles, which are undertaken alongside their wider responsibilities for the management of the council, is available on the [Improvement Service website](#) 

**There is an increasing risk that reductions in staff numbers will affect essential support services, such as HR and finance.**

**79.** There is an increasing risk that reductions in staff numbers will affect essential support services, such as HR and finance. There are signs of pressure in councils' finance departments, such as delays in preparing annual accounts and supporting papers. We have asked Audit Scotland to examine the impact on finance departments of reduced staff numbers. We will report our findings in next year's overview report. Our [Scotland's public finances—follow-up audit \[PDF\]](#)  stressed the need for council leaders and senior managers to consider the ability of finance departments to supply councillors with clear information to allow them to scrutinise budgets.<sup>24</sup>

**80.** There are similar concerns about reductions in skills and experience in internal audit and fraud prevention teams. The recently revised accounting regulations introduce the new requirement for an effective internal auditing service in accordance with recognised standards and practices set out in the public sector internal audit standards.<sup>25;26</sup> The regulations also require councils to assess the efficiency and effectiveness of internal audit.

## Exhibit 14

### Roles of statutory officers in councils

Statutory officers have an important role in promoting and enforcing good governance, alongside their wider responsibilities in the council.

Role	Established by	Statutory responsibilities
Head of paid service (chief executive)	Local Government and Housing Act 1989	Council staff structures and numbers; ensuring the work in different departments is coordinated
Chief financial officer (or section 95 officer or proper officer for finance)	Local Government (Scotland) Act 1973	Proper administration of the financial affairs of the council
Monitoring officer	Local Government and Housing Act 1989	Advising councillors about the legal position of proposed actions
Chief social work officer	Social Work (Scotland) Act 1968	Advising councillors and senior officers on the delivery of social work services

Source: Audit Scotland

**81.** Effective and transparent scrutiny is an essential component of good governance and, where issues have been identified, councils are taking actions to improve. For example, our [Best Value report on South Ayrshire \[PDF\]](#)  in February 2014 found that there were significant weaknesses in the way councillors scrutinised how the council and services performed.<sup>27</sup> We reported in December 2014 that the council had reviewed its scrutiny arrangements and implemented a new governance structure which appears to have a tighter focus on governance and service performance.


**82.** Our reports highlight the crucial role of effective leadership from councillors and senior managers:

- School education – found that effective leadership was crucial for improving educational attainment.
- Self-directed support – found that councillors and senior managers were not providing effective leadership in every council for implementing this important social care policy.

**83.** We reported last year that political tensions were getting in the way of effective leadership in some councils. There are signs that this continues. For example, our 2013 report on [Argyll and Bute Council \[PDF\]](#)  highlighted our serious concerns about substantial risks to the council caused by the instability of leadership by councillors since the last council election.<sup>28</sup> Our [follow-up report \[PDF\]](#)  in 2014 found that the political dynamics of the council were more stable than before, and new political management arrangements were in place, although some underlying tensions were still



evident.<sup>29</sup> Similarly, Falkirk Council's auditor noted that following the introduction of a new decision-making structure in May 2013, not all councillors were attending executive and scrutiny committee meetings and scrutiny and policy development panels.

**84.** Our 2014 report on [Community planning \[PDF\]](#)  found that CPP boards are not yet fulfilling their role effectively.<sup>30</sup> Strategic leadership, oversight and challenge (for example, of individual partners' contribution to the CPP's priorities) still tends to happen at a level, or at levels, below the CPP board.

**85.** Many councils have set up ALEOs as an alternative way of delivering council services. ALEOs most commonly provide culture and leisure services and property management, but also deliver social care, transport and other targeted community services. As more councils use ALEOs to save money or run more efficient services, they must satisfy themselves that arrangements are in place to ensure the new structures deliver good services within budget. In particular they must manage the financial risks to the council and service users if the ALEO fails. Councils should also regularly review existing, long-standing ALEOs to ensure their governance arrangements remain effective. Aberdeen City Council has plans to strengthen its governance arrangements for ALEOs ([Case study 2](#)).

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## Case study 2

### Aberdeen City Council's new governance hubs



Following advice from its auditors to review its governance arrangements for ALEOs, Aberdeen City Council is creating three new governance hubs:

- Social Care, Wellbeing and Safety
- Enterprise, Strategic Planning and Infrastructure
- Education, Culture and Sport.

Each governance hub will consist of service representatives and officers from the council's finance, legal, human resources, risk management and procurement departments. Their role will be to scrutinise in detail each of the council's significant ALEOs. This will involve regularly meeting with the ALEOs and reviewing a range of risk and performance information.

The hubs will report to service committees twice a year on ALEOs' operational performance (including financial performance), people performance, risk management and service quality.

The hubs will also report quarterly to the Audit, Risk and Scrutiny Committee, which retains overall responsibility for scrutinising performance.

Source: Audit Scotland

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### Governance arrangements need to reflect changes in structures and services

**86.** Councils should review their governance arrangements whenever they make changes to the way they manage or deliver services to ensure they remain effective. They should also regularly review long-standing arrangements in case they have become less effective over time.

**87.** A crucial element of governance is audit committee arrangements, and these were the subject of consultations leading to the 2014 accounting regulations. The regulations do not make audit committees mandatory. However, it is clear that Scottish Ministers consider that councils should devote sufficient resources to enable the audit committee, along with other scrutiny functions, to carry out its role effectively. All councils have at least one audit committee. We believe that effective and transparent scrutiny is best achieved where:

- the chair of the scrutiny or audit committee is not a member of the political administration
- the committee has clear terms of reference that set out their role in independent scrutiny of council decisions and performance
- the committee has adequate support and access to independent advice
- members of the committee have the necessary skills and training to do their job.

**88.** Across Scotland, new service arrangements are being put in place. These include health and social care integration and the new single police service. There are also new local service arrangements, such as joint working between councils and making use of ALEOs. Councils should review governance arrangements when changes like these are introduced to make sure roles, responsibilities and accountabilities are appropriate to the new models.

**89.** Health and social care integration, which councils and health board partners are working to implement fully by April 2016, requires effective governance arrangements for the new joint bodies. Responsibility for setting up the new joint bodies and establishing good governance arrangements is shared between the two partners. In our report on community planning we said that effective leadership, challenge and scrutiny depends on a culture of trust between partners, in which there are not only good ongoing relationships but the ability to challenge and hold each other to account. The same applies to health and social care bodies. There are also changes to the governance arrangements for pension funds. From April 2015, the law requires that schemes have pension boards comprising employer and employee representatives; currently pension fund committees comprise councillors only.

### Councillors need clearer information to help them scrutinise services more effectively

**90.** Councillors need good information to scrutinise services and make effective decisions. It also helps councils demonstrate that they use public money properly and effectively. Councils have a duty to report their performance publicly. There has been an improvement in councils' overall approach to public performance reporting. It is easier to find information and more councils

now have performance information clearly signposted on their websites.

Our [Best Value report on Comhairle nan Eilean Siar \[PDF\]](#) found that the council improved its public performance reporting arrangements during 2013 when it introduced its public performance calendar.<sup>31</sup> The calendar presents a range of information, structured around its SOA, as well as service-specific information. However, there is scope to improve performance reporting in some councils. The Improvement Service is developing guidance to assist councils in how they report their performance.

**91.** Our [SPF follow-up report \[PDF\]](#) found that all public bodies, including councils, need to improve the level and consistency of information provided for scrutiny and decision-making. It reported cases where:

- reporting of financial information was limited in frequency and content
- actions, responsibilities, measurable outcomes or timescales were unclear
- scrutiny of plans and savings took place in private and the decisions were not reported.<sup>32</sup>

**92.** Audited annual accounts are an important element of the public reporting of financial performance. Councils' accounts, for financial year 2013/14, were all completed on time and were signed off by auditors without qualified opinions (this means that the 2013/14 accounts present a 'true and fair' view of the financial position). Unqualified audit opinions were also issued for each of the 11 pension funds run by councils. We welcome this achievement by councils and the assurance it provides to the public and other stakeholders, including the Scottish Government. For the first time in 2013/14, a full audit of registered charities' accounts where a council or some council members are the sole trustees was required by regulation.

**93.** Financial reporting takes a number of forms, including the audited annual accounts, budget documents, published plans and council papers. Financial risks, uncertainties and the quickly changing context we outline in this report reinforce the need for comprehensive, transparent, reliable and timely financial reporting. An overall picture of the financial position which includes details of what is owned (assets) and what is owed (liabilities) along with annual income and spending levels is essential to understand the risk to financial sustainability.


**94.** Councils' accounts are complex and include technical accounting adjustments to meet statutory requirements. As a result, it is not always clear to those without a financial background how councils performed against their budgets, or the extent to which they anticipate future funding gaps.

**95.** It is also difficult to get a clear picture of the overall liabilities and the likelihood and timing of meeting the liabilities in future. For example, while accounting rules require disclosure of a council's involvement in an ALEO in its annual accounts, councillors may not have a comprehensive picture of the overall, potential liabilities associated with their council's involvement in ALEOs. If ALEOs experience financial difficulties, the council may be required to provide additional financial support beyond that included in the council's budget.

**96.** This is an area for further consideration and development. We therefore welcome recent changes to the accounting regulations which require councils to include a management commentary in their accounts. In addition, the CIPFA/LASAAC Local Authority Accounting Code Board is continuing to work on a project to simplify how councils should report their financial performance in the financial statements.<sup>33</sup>

### **Councillors need training to help them set budgets and scrutinise performance**

**97.** It is more important than ever that councillors have appropriate knowledge and expertise to carry out their role effectively:

- Our SPF follow-up report highlighted the funding arrangements for major capital investment, such as tax incremental financing and NPD, as an example of a complex area. Councillors and other public sector leaders may require help to ensure they are fully aware of the key issues, risks and impact of these financing models on public finances.
- Our [Procurement in councils report \[PDF\]](#)  emphasised the importance of councillors having a good knowledge of procurement rules. We recommended that councils should encourage councillors sitting on the main committee or committees dealing with procurement to complete specific training to help them perform their role more effectively.
- Our report on borrowing and treasury management, which we will publish in March 2015, will consider whether councillors have enough expertise to challenge decisions in this complex area.








**98.** Where necessary, councillors should seek advice and training to support them in their role and councils should assure themselves that they provide appropriate support. For example, North Lanarkshire Council produces an annual learning and development programme and runs training courses for councillors. Two-thirds of councillors attended at least one training session in 2013/14. For the last few years, the Improvement Service has offered a voluntary Continuous Personal Development (CPD) framework for councillors. Alongside SOLACE, the Improvement Service is developing a programme of training for council chief executives, senior managers and councillors.

**99.** In addition to reviewing their training needs, councillors should ensure the recommendations in this report are implemented, where appropriate. We have provided a self-assessment tool on our website to help them do this.

# Endnotes



- ◀ 1 *Local Government Financial Circulars*, Scottish Government, 2012, 2013 and 2014.
- ◀ 2 [How councils work: an improvement series for councillors and officers – Charging for services: are you getting it right? \[PDF\]](#)  Audit Scotland, October 2013.
- ◀ 3 *Scottish Housing Quality Standard Progress update 2012/13*, Scottish Housing Regulator, March 2014.  
This figure excludes Stirling Council as they did not provide Regulator with data.
- ◀ 4 [The Audit of Best Value and Community Planning. The City of Edinburgh Council. A follow-up report \[PDF\]](#)  Audit Scotland, December 2014.
- ◀ 5 *BOLD business cases - delivering a lean and agile council*, The City of Edinburgh Council Finance and Resources Committee, 15 January 2015.
- ◀ 6 *LAAP Bulletin 99: Local Authority Reserves and Balances*, CIPFA, July 2014.
- ◀ 7 *Economic and fiscal outlook*, Office for Budget Responsibility, December 2014.
- ◀ 8 *Pupils projections - 2012 based*, Scottish Government, August 2014.
- ◀ 9 *Self-directed Support: A National Strategy for Scotland*, Scottish Government and COSLA, 2010. Social Care (Self-directed Support) (Scotland) Act 2013.
- ◀ 10 Children and Young People (Scotland) Bill Financial Memorandum, 2013 and letter from Aileen Campbell MSP to Kenneth Gibson MSP, 12 September 2013.
- ◀ 11 *The Government's Programme for Scotland 2014-15*, Scottish Government, November 2014.
- ◀ 12 *Report of the Smith Commission for further devolution of powers to the Scottish Parliament*, The Smith Commission, November 2014. Note: The UK Government established the Smith Commission following the referendum on Scottish independence in September 2014. Its remit was to consider what further powers should be devolved to the Scottish Parliament.
- ◀ 13 [Procurement in councils \[PDF\]](#)  Audit Scotland, April 2014.
- ◀ 14 *Public sector employment statistics*, Scottish Government, 2014. Figures exclude police and fire and rescue services.
- ◀ 15 [School education \[PDF\]](#)  Audit Scotland, June 2014.
- ◀ 16 [Community Planning: Turning ambition into action \[PDF\]](#)  Audit Scotland, November 2014.
- ◀ 17 [Community Planning: Turning ambition into action \[PDF\]](#)  Audit Scotland, November 2014.
- ◀ 18 [Self-directed support \[PDF\]](#)  Audit Scotland, June 2014.
- ◀ 19 [Reshaping care for older people \[PDF\]](#)  Audit Scotland, February 2014.
- ◀ 20 [Community Planning: Turning ambition into action \[PDF\]](#)  Audit Scotland, November 2014.

- ◀ 21 *Financial sustainability of Local Authorities 2014*, National Audit Office, November 2014.
- ◀ 22 *Delivering Good Governance in Local Government, Guidance Note for Scottish Authorities*, SOLACE/CIPFA, 2008.
- ◀ 23 *The Local Authority Accounts (Scotland) Regulations 2014*.
- ◀ 24 [Scotland's public finances – a follow-up audit: Progress in meeting the challenges \[PDF\]](#)  Audit Scotland, June 2014.
- ◀ 25 *The Local Authority Accounts (Scotland) Regulations 2014*.
- ◀ 26 *Public Sector Internal Audit Standards. Applying the IIA International Standards to the UK Public Sector*, Issued by the Relevant Internal Audit Standard Setters including the Chartered Institute of Public Finance and Accountancy, HM Treasury and the Scottish Government, June 2013.
- ◀ 27 [South Ayrshire Council. Best Value Audit. \[PDF\]](#)  Audit Scotland, December 2014.
- ◀ 28 [Argyll and Bute Council. Statutory report \[PDF\]](#)  Audit Scotland, October 2013.
- ◀ 29 [The Audit of Best Value and Community Planning. Argyll and Bute Council. Follow-up audit \[PDF\]](#)  Audit Scotland, July 2014.
- ◀ 30 [Community Planning: Turning ambition into action \[PDF\]](#)  Accounts Scotland, November 2014.
- ◀ 31 [The Audit of Best Value and Community Planning. Comhairle nan Eilean Siar. A follow-up report \[PDF\]](#)  Audit Scotland. May 2014.
- ◀ 32 [Scotland's public finances a follow-up audit: Progress in meeting the challenges \[PDF\]](#)  Audit Scotland, June 2014.
- ◀ 33 LASAAC - Local Authority (Scotland) Accounts Advisory Committee.

# An overview of local government in Scotland 2015

This report is available in PDF and RTF formats, along with a podcast summary at:

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Audit Scotland, 110 George Street, Edinburgh EH2 4LH

T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

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# An overview of local government in Scotland 2015

## Self-assessment tool for councillors

Prepared by Audit Scotland

March 2015

This self-assessment tool is designed to help councillors review progress in implementing the recommendations in our report, *An overview of local government in Scotland 2015*. They should consider each issue listed and decide which statement most accurately reflects their current situation. This approach will enable them to identify what actions need to be taken.

The last column in the checklist can be used to record sources of evidence, supplementary comments to support the assessment or to highlight actions to take forward.

Assessment of current position (continued)						
Issue	No action needed	No but action in hand	Yes in place but needs improving	Yes in place and working well	Not applicable	Comments
<b>Skills and expertise (paragraphs 97 to 99)</b>						
<ul style="list-style-type: none"> <li>Councillors review and update their own training needs and identify areas</li> </ul>						

where they require further training.						
<ul style="list-style-type: none"> <li>Councillors work together with officers to ensure the council provides or arranges relevant training for them in appropriate areas, including assessing financial and service performance.</li> </ul>						
<ul style="list-style-type: none"> <li>Councillors ensure they get support from officers when they identify gaps in knowledge and understanding.</li> </ul>						
<b>Financial and performance information (paragraphs 90 to 96)</b>						
<ul style="list-style-type: none"> <li>Officers are working to improve the way they report financial and performance information to councillors to make it clearer and easier to understand.</li> </ul>						
<ul style="list-style-type: none"> <li>Officers provide councillors with relevant, up to date performance data, including benchmarking the council's performance with other relevant organisations or</li> </ul>						

services.						
<ul style="list-style-type: none"> <li>Officers report performance information to the public in a way that helps them understand the council's performance.</li> </ul>						
<ul style="list-style-type: none"> <li>Officers make councillors aware of future funding gaps and provide them with information to help make decisions on how to close the gaps.</li> </ul>						
<ul style="list-style-type: none"> <li>Officers make councillors aware of changes to the proportion of the council's budget that will be required to repay debt.</li> </ul>						
<ul style="list-style-type: none"> <li>Officers make councillors aware of the financial impact of national and local policies (eg, taxes on land and buildings transactions, waste disposal to landfill and the implications of the Smith Commission agreement).</li> </ul>						
<b>Using local data and working with communities (paragraphs 53 to 61)</b>						

<ul style="list-style-type: none"> <li>The council uses local socio-economic data and works in close co-operation with service users to understand their needs, explore ways of meeting them, and deliver the services.</li> </ul>						
<ul style="list-style-type: none"> <li>Officers make councillors aware of population trends in the area and the implications for service demand and capital budgets.</li> </ul>						
<p><b>Service delivery options (paragraphs 62 to 68)</b></p>						
<ul style="list-style-type: none"> <li>The council is reviewing all practical options for delivering services in new ways to help save money and improve services. It is identifying the benefits and risks of each option and monitoring the impact of the option chosen, including the risks associated with change</li> </ul>						
<ul style="list-style-type: none"> <li>Councillors are aware of</li> </ul>						

<p>what actions the council has taken so far to make savings and the extent of staff reductions to date, and the impact of these on service delivery.</p>						
<ul style="list-style-type: none"> <li>• The council is investing in preventative approaches to help manage future demand for services</li> </ul>						
<ul style="list-style-type: none"> <li>• The council has a comprehensive workforce strategy to help plan and manage the impact of staff reductions</li> </ul>						
<p><b>Financial planning (paragraphs 69 to 73)</b></p>						
<ul style="list-style-type: none"> <li>• The council has financial plans for the short (1-2 years), medium (3-5 years) and long term (5- 10 years).</li> </ul>						
<ul style="list-style-type: none"> <li>• The strategies set out financial commitments, identify problems with affordability of services and allow members to understand whether the financial position is</li> </ul>						

sustainable over an extended period.						
<ul style="list-style-type: none"> <li>The council's budget targets resources effectively at its priorities, including shared priorities identified with partners in the Single Outcome Agreement</li> </ul>						
<b>Governance arrangements (paragraphs 74 to 89)</b>						
<ul style="list-style-type: none"> <li>The council reviews governance arrangements following significant changes in staff, management or political structures.</li> </ul>						
<ul style="list-style-type: none"> <li>The council's senior management team has the skills and capacity to provide effective leadership and management of finances, services and improvement programmes.</li> </ul>						
<ul style="list-style-type: none"> <li>Councillors understand the role and statutory responsibilities of the S95 officer, the monitoring officer and the chief social</li> </ul>						

work officer.						
<ul style="list-style-type: none"> <li>• The scrutiny or audit committee has: <ul style="list-style-type: none"> <li>- a chair who is not a member of the political administration</li> <li>- clear terms of reference</li> <li>- adequate support and access to independent advice</li> <li>- members who have the necessary skills and training.</li> </ul> </li> </ul>						





**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 15 May 2015

**BY:** Depute Chief Executive - Resources and People Services

**5**

**SUBJECT:** Borrowing and Treasury Management in Councils – a national report by Audit Scotland

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## **1 PURPOSE**

- 1.1 To provide Audit and Governance Committee with a summary of the Accounts Commission report, 'Borrowing and treasury management in councils' and the Council's actions in relation to the reports key messages.

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee notes the Accounts Commission report and the approach that is being taken to improve treasury management procedures and practices.

## **3 BACKGROUND**

- 3.1 'Borrowing and treasury management in councils' was published by the Accounts Commission in March 2015 reflecting work undertaken by Audit Scotland. This audit assesses how councils show best value in borrowing and treasury management decisions. Its specific objectives were to answer:

- What is borrowing and treasury management in councils?
- To what extent do councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities?
- Can councils demonstrate the affordability and sustainability of borrowing decisions in both the short and long term?

- How effective are the governance arrangements for borrowing and treasury management?
- 3.2 Audit Scotland analysed information on borrowing and debt from councils audited accounts, CIPFA statistics and the Scottish Government in order to inform a selection of 12 councils for further desk research. This work informed a sample of six councils for interview. East Lothian council was one of the twelve councils selected for desk research.
- 3.3 The report is primarily for Council officers and Councillors involved in treasury management. It is in three parts:
- Part 1- setting the scene
  - Part 2 – demonstrating affordability and sustainability of borrowing
  - Part 3 – effective management and scrutiny
- 3.4 The key findings from the report are set out below, with the full report set out in Appendix A of this report:

#### **Part 1 – Setting the Scene**

- Councils in Scotland have a total debt of £14.8 billion of which £12.1 billion is as a result of borrowing.
- Councils borrowing has remained at about £12 billion over the last three years

#### **Part 2 – Demonstrating affordability and sustainability of borrowing**

- Nationally, councils are only demonstrating short term affordability
  - Councils are not always highlighting strategic importance of borrowing / treasury
  - Councils are not highlighting affordability and sustainability
  - There is inadequate support for borrowing decisions to ensure best value

#### **Part 3 – Effective management and Scrutiny**

- Treasury management is a professionally run function in councils throughout Scotland and is mostly integrated with capital functions
- There is a need to improve scrutiny and governance arrangements of treasury management
  - Treasury is a complex area
  - There is a need for wider training for members

- There should be clearer more accessible and regular reports to members
- There must be a link to Corporate objectives and investment plans
- Scenario planning should be carried out
- Capital financing options should be provided
- Prudential indicators should be detailed over a longer period

### **Audit Scotland Recommendations**

3.5 The report makes a series of recommendations intended to help officers involved in treasury management. These are detailed below along with commentary on the position within East Lothian Council.

- Council officers should use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience.
  - Within ELC, the Finance Team have always emphasised the importance of effective treasury management and the vital part it plays within the overall Council Financial Strategy. The treasury management strategy will be reviewed prior to presentation of the 2016 strategy to strengthen links to the capital investment plans and corporate objectives.
- Council officers should create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy.
  - Consideration will be given when preparing next year's Treasury statement to include scenario planning to show the impact of different budget scenarios.
  - Indicators are currently prepared detailing last year's actual, the current year and three future years. Future indicators will be prepared detailing a longer period and work will be undertaken to identify any new additional useful indicators.
- Council officers should share strategies with other councils to help inform good practice and exchange of ideas.
  - East Lothian Council is a member of the CIPFA Treasury Management Forum and will continue to support and use this as a medium to share good practice. We will share our strategy with other authorities and our appointed treasury advisor to help inform good practice and will look to learn from good practice elsewhere .

- Council officers should review the content of year end reports to ensure they provide an assessment of the effectiveness of the years borrowing and treasury management activities and the performance of the treasury management function.
  - East Lothian currently provides comparative figures but we will seek to enhance the explanations of the indicators and figures that are included within the report.
- Council officers and councillors involved in treasury management should review governance arrangements and update as necessary.
  - The treasury management strategy, mid year and year end reports are all properly reported to elected members within the timescales recommended by Audit Scotland
  - The strategy currently presented enables councillors to comprehend the wider picture ensuring the link is made with capital investment decisions and revenue budgets. However in future years we will look to build on this and enhance further.
- Council officers and councillors involved in treasury management should ensure scrutiny arrangements are robust.
  - Specific Treasury Management training is currently provided for members of the Audit & Governance Committee but is also extended to all elected members and senior officers. Evaluation reviews of the training to date have been positive. Consideration will be given when preparing the next training programme for members to ensure that it provides an appropriate balance of scrutiny skills and knowledge of treasury management.

#### **4 POLICY IMPLICATIONS**

- 4.1 The recommended actions associated with this report are consistent with the Council's existing Financial Strategy and Treasury Management Strategy.

#### **5 EQUALITIES IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - none
- 6.2 Personnel - none

6.3 Other – none

## **7 BACKGROUND PAPERS**

- 7.1 Accounts Commission – Borrowing and Treasury management in councils
- 7.2 Financial Strategy 2015/18 – as approved by East Lothian Council 10 February 2015
- 7.3 Treasury Management Strategy 2015/18 – as approved by East Lothian Council 24 February 2015

<b>AUTHOR'S NAME</b>	Jim Lamond / Liz Shaw
<b>DESIGNATION</b>	Head of Council Resources / Service Manager Corporate Finance
<b>CONTACT INFO</b>	jlamond@eastlothian.gov.uk / lshaw@eastlothian.gov.uk
<b>DATE</b>	27/04/2015



# Borrowing and treasury management in councils

EMBARGOED UNTIL  
00.01 HOURS  
THURSDAY 19 MARCH 2015



Prepared by Audit Scotland  
March 2015


# The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac) 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.



# Contents



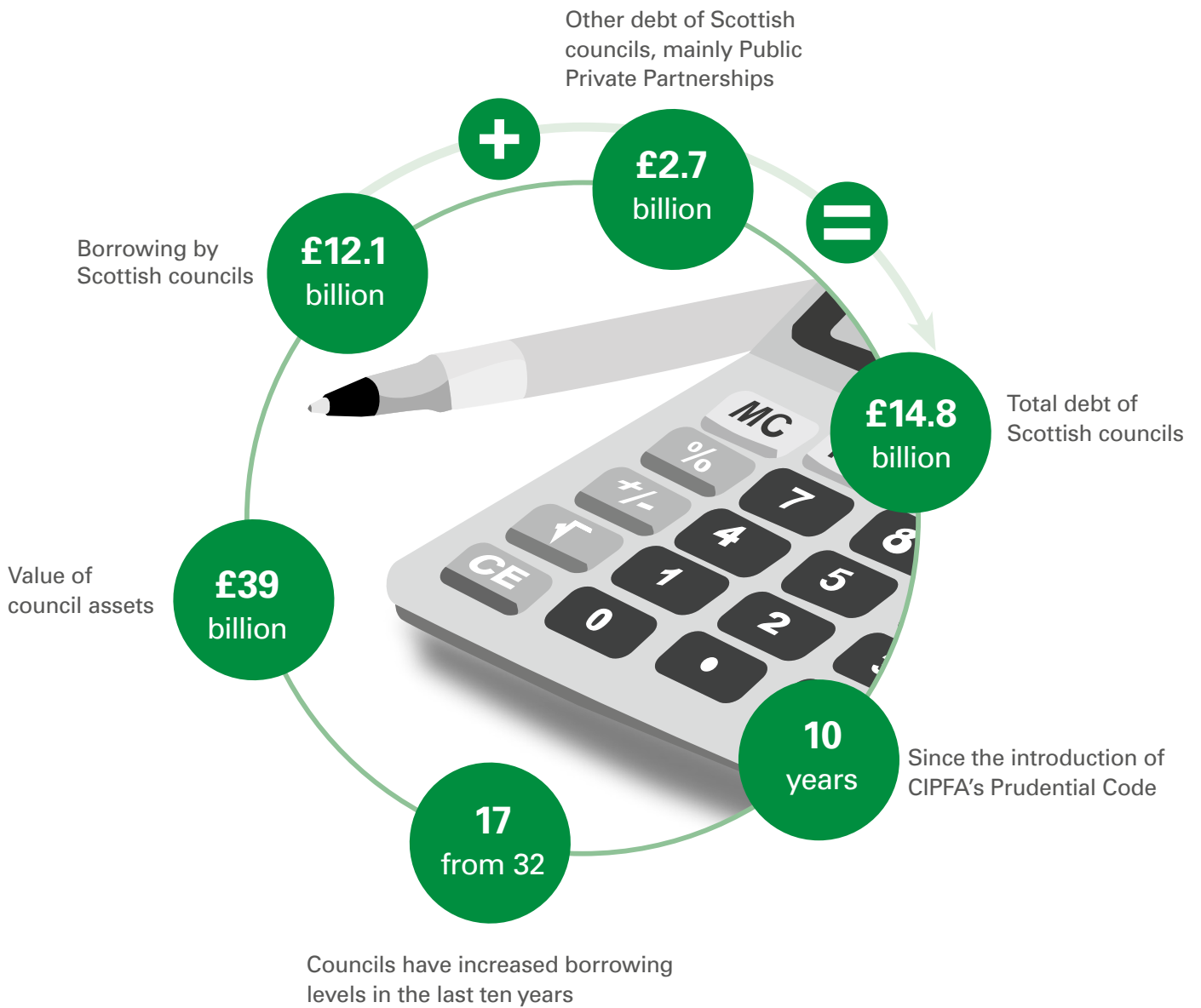
Key facts	4
Summary	5
Part 1. Setting the scene	10
Part 2. Demonstrating the affordability and sustainability of borrowing	22
Part 3. Effective management and scrutiny	30
Endnotes	39
Appendix 1. Audit approach	40
Appendix 2. Membership of the project advisory group	41



## Exhibit data

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

# Key facts



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# Summary

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## Key messages

- 1** Councils have total debt of £14.8 billion of which £12.1 billion, 82 per cent, is from borrowing. Debt commits councils to charges over the long term. There are different types of debt with different features and varying degrees of risk.
  - 2** Borrowing is a key source of finance for councils to invest in vital public services. Overall borrowing has remained at around £12 billion for the last three years, with total assets of £39 billion. Councils have developed borrowing strategies to suit their own local priorities and needs, in response to the flexibility introduced by the Prudential Code in 2004. Seventeen councils have increased their borrowing levels, in real terms, over the last ten years.
  - 3** Councils are following the general principles of the relevant codes of practice in demonstrating short-term affordability, but they are not always highlighting the strategic importance of borrowing and treasury management or clearly analysing and reporting the long-term affordability and sustainability of their borrowing. Councils need to develop detailed analysis to support borrowing decisions and to demonstrate they represent best value for the council.
  - 4** Treasury management is a professionally run function in councils with appropriately qualified officers. Succession planning, ongoing training and the availability of appropriate professional qualifications are important. Councils have started to integrate their treasury management and capital investment functions which is a positive step.
  - 5** Councils need to improve scrutiny of borrowing and treasury management. This is a complex and technical subject and officers need to provide wider training and support to councillors, and also provide clearer, more accessible reports. The current governance structures in some councils could be improved to support more effective scrutiny.
-

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## Recommendations

These recommendations focus on the evidence gathered and our findings on borrowing within councils. We suggest councils consider the wider relevance of these to total debt.

### Council officers should:

- use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:
  - links to capital investment plans and corporate objectives
  - all borrowing and other debt
  - prudential indicators as a core part of the strategy
  - a clear assessment of the affordability and the impact on revenue budgets both in the short and long term
- create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:
  - scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates
  - analysis of capital financing options to compare affordability and sustainability between different debt and borrowing options
  - the use of indicators over a longer period than the minimum three years set by the Prudential Code
- share strategies with other councils to help inform good practice, and exchange of ideas
- carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers
- review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.

### Council officers and councillors involved in treasury management should:

- review governance arrangements, and update as necessary, to ensure they provide:
  - the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them
  - councillors with mid-year reports by the end of December each year
  - councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets
  - councillors with access to all reports relating to borrowing and treasury management activity including risk registers
- ensure scrutiny arrangements are robust by:
  - considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory
  - considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.

### About the audit

**1.** This audit assesses how councils show best value in borrowing and treasury management decisions. Its specific objectives are to answer:

- What is borrowing and treasury management in councils?
- To what extent do councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities?
- Can councils demonstrate the affordability and sustainability of borrowing decisions? For example, can they show that borrowing will not adversely affect their financial position? Will that continue to be the case in future?
- How effective are the governance arrangements for borrowing and treasury management? Governance covers areas such as responsibility and accountability for borrowing and treasury management decisions, arrangements for reporting decisions and for scrutinising them.

**2.** Councils have total debt of £14.8 billion, of which 82 per cent (£12.1 billion) is as a result of borrowing ([Exhibit 1, page 9](#)). Total debt includes Private Finance Initiative/Non Profit Distributing (PFI/NPD) contracts, Tax Incremental Financing (TIF), the City Deal agreement, the Growth Accelerator Model (GAM) and borrowing. Each type of debt has unique features, is at different stages of development and implementation and has varying degrees of risk. This is the first report that we have produced on council debt with the focus specifically on borrowing. This allows us to focus on the arrangements that councils have in

place to assess the affordability of borrowing. We may propose further work on other elements of council debt in due course.

**3.** This report focuses on whether councils openly and clearly demonstrate the affordability and sustainability of borrowing decisions over the short term, ie the next couple of years, and long term, that is ten years onwards to cover the term of the borrowing. It also looks at whether councils' approach to borrowing, as outlined in their treasury management strategy, reflects their corporate priorities and aims. Councillors have a key role in holding officers to account and this report evaluates the councillor's role in considering borrowing and treasury management reports, including the strategy. We use the term borrowing to mean borrowing from a source outwith the council.

**4.** Our focus is on borrowing to fund capital expenditure, such as building schools or improving roads. We did not evaluate day-to-day cash, investment and borrowing transactions. We have not explored in detail other forms of debt. This includes the new capital financing options available to councils including TIF, or City Deal that may have an element of borrowing to them ([Exhibit 1, page 9](#)). These new options are just being introduced and are not yet fully operational. Although the messages in our report are based on current borrowing, they will apply equally to other forms of debt including these new financing options.


**5.** We gathered audit evidence from:

- published and unpublished data on borrowing and treasury management activity including audited accounts, Chartered Institute of Public Finance and Accountancy (CIPFA) statistics and Scottish Government data
- our review of the treasury management strategies of 12 councils
- fieldwork at six councils involving interviews with officers and councillors
- interviews with representatives from organisations including the Scottish Government, CIPFA, CIPFA Treasury managers' forum and the Society of Local Authority Chief Executives (SOLACE).

**6.** [Appendix 1](#) provides further details of our audit approach.

**7.** This report has three parts:

- [Part 1](#): setting the scene
- [Part 2](#): demonstrating the affordability and sustainability of borrowing
- [Part 3](#): effective management and scrutiny.

**8.** Our website contains a [Supplement: Scrutiny guidance and questions for councillors \[PDF\]](#)  to help them implement the recommendation we make in this report.

## Exhibit 1

Borrowing is 82% of total debt

New capital financing method. Council borrows to invest in infrastructure projects which will deliver economic growth. Additional business rate income from the new business generated pays for borrowing charges.

### Tax Incremental Financing

### Borrowing £12.1bn

From Public Works Loan Board (public sector source of lending for public bodies)

From banks

Borrowing charges paid from revenue budget over life of loan.

## Public Private Partnership £2.7bn

Partnership where public and private sector partners agree a contract to build and maintain an asset for public sector use.

Public body pays an annual charge over the life of the asset to the contractor from its revenue budget.

### Private Finance Initiative

**Total debt**  
£14.8bn

### Growth Accelerator Model

Public body borrows to invest in capital investment project.

Expected that additional business rates will accrue to Scottish Government owing to investment.

Scottish Government makes payment to public body, based on additional economic growth.

Similar to PFI, but limits the profits that the private sector contractor may retain.

Public body pays an annual charge over the life of the asset to the contractor from its revenue budget.

### Non-profit distributing contracts

### City deal

Agreement signed with UK and Scottish Governments by the 8 Glasgow and Clyde Valley councils. Currently the only deal in Scotland.

The deal involves the councils investing an additional £130 million to unlock additional grants of £1 billion from the UK and Scottish Governments combined.

Investment by councils will involve additional borrowing, with charges covered by additional grant income.

Note: £2.7bn includes finance leases. TIFs, GAM and City Deal are just introduced and are not yet fully operational.

Source: Audit Scotland

# Part 1

## Setting the scene



### Key messages

- 1** Councils' outstanding debt was £14.8 billion at 31 March 2014, with borrowing making up £12.1 billion, 82 per cent of this.
- 2** Councils use borrowing to pay for assets such as schools and roads to provide local services and meet local priorities. This has an impact on future revenue budgets, as the council needs to pay interest on the borrowing. Total assets were £39 billion at 31 March 2014.
- 3** The Prudential Code was introduced in 2004 to provide greater flexibility for councils to manage and control their own capital investment activity following a period of government regulation. Councils' borrowing strategies, levels of borrowing and debt profiles differ widely.

### Councils invest in services for communities

**9.** A council has a corporate plan setting out its priorities and objectives and how it plans to achieve them ([Exhibit 2, page 11](#)). This may, for example, include the priority to build a new school to deal with an expected increase in demand as a result of significant new housing. These plans are often over the medium term, typically three to five years, but may be over a longer term, ie up to 15 years. The council targets its resources, that is people, money and assets, at its priorities and objectives. The corporate plan should feed into the asset management plan to identify what assets are needed to achieve its objectives. For example, this could be building new housing. The council, through a capital investment plan, sets out how it will finance the spending on these assets. This may be by using cash resources, for example cash reserves built up over time or capital grants, or through external finance.

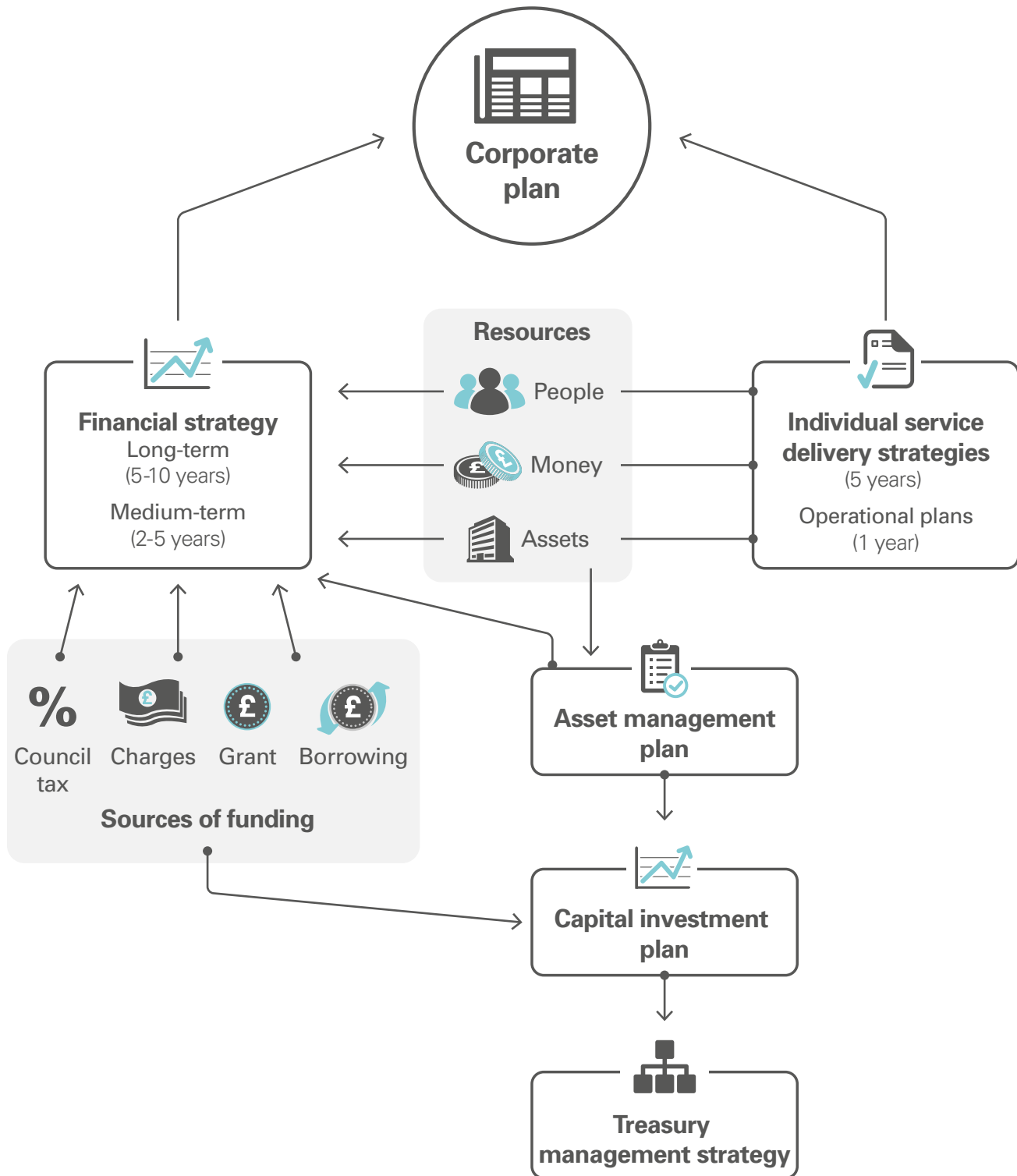
**10.** Methods of external finance include borrowing, PFI schemes and other mechanisms including NPD schemes, TIF schemes, or the new GAM. Entering into external financing arrangements will create debt for the council, and means that the council needs to pay financing charges each year over the life of the arrangement, which may be up to 50 years. It is important for a council to assess the affordability of decisions in the context of the financing charges of its total debt.

councils' ability to manage and control their own investment activity is reflected in borrowing levels and strategies



## Exhibit 2

### Corporate and strategic influences on treasury management strategy



Source: Audit Scotland

**11.** Councils should also have medium (two to five year) and long-term (five to ten year) financial strategies. The council will estimate future funding and income, costs and demand for services, and how much it will need to spend to achieve its future objectives. The strategy should identify how the council will make up any shortfall between estimated funding and projected costs and demand. The financial strategy should include the financing cost of borrowing and other debt. This is the annual repayment of interest charged on borrowing or other external financing and any other associated costs. Councils make this repayment out of future budgets, so it decreases the level of available budget remaining and reduces flexibility in future budget decisions.

**12.** Borrowing involves accessing finance and then repaying it over a longer period of time. These periods can be for up to 50 years, so today's decisions can have a sustained impact on future generations. Borrowing decisions involve a careful balancing act between prioritising investment, and making sure the council can:

- manage the consequences of its decisions over the whole life of the borrowing
- provide evidence showing how it will manage these long-term consequences.

**13.** Borrowing therefore is set firmly within the framework of wider council activity and should be driven by the corporate plan, capital investment plan and medium and long-term financial plans ([Exhibit 2, page 11](#)).

## **Borrowing is the main element of total debt**

### **Councils' outstanding borrowing is £12.1 billion and has been between £10.5 and £12 billion for the last six years**

**14.** Councils spend around £20.8 billion a year. Of this, £18.6 billion is for day-to-day expenses including salaries, and £2.2 billion on buying, building and maintaining assets such as schools, housing and care homes.

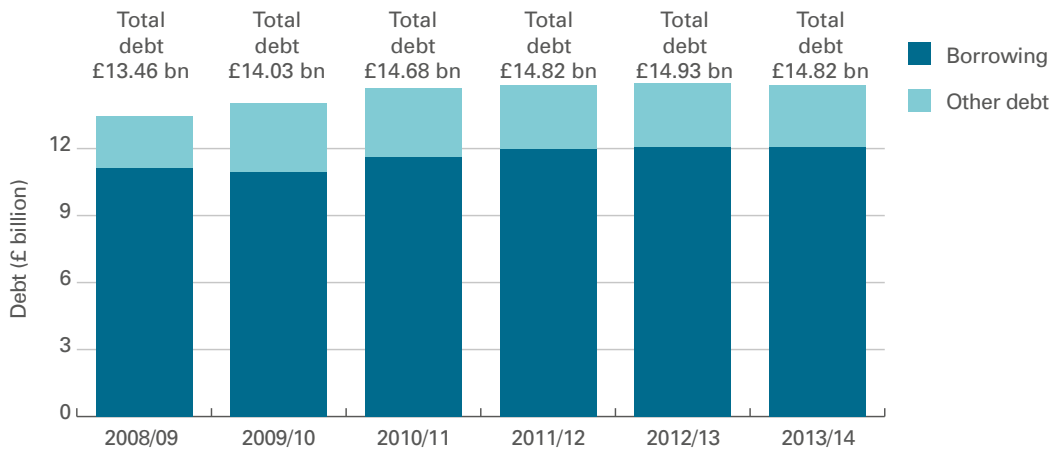
**15.** Councils' total debt at 31 March 2014 was £14.8 billion, with total assets of £39 billion. Borrowing is the main form of debt for Scottish councils ([Exhibit 1, page 9](#)). Councils had overall borrowing of £12.1 billion at 31 March 2014 and other debt of £2.7 billion ([Exhibit 3, page 13](#)). Borrowing has remained between £10.5 and £12 billion for the last six years. Other debt levels have fluctuated between £2.2 billion and £2.8 billion over the last six years. Other debt comprises both PFI and NPD schemes and the new financing methods, including TIF, GAM and City Deal that are just being introduced.

**16.** Comparing council borrowing levels over the last ten years, between 2003/04 and 2013/14, shows that 17 of Scotland's 32 councils have increased borrowing levels in real terms, that is, including the effects of inflation ([Exhibit 4, page 13](#)). Changes in borrowing levels over this period reflect differences in councils' corporate priorities, capital investment plans, levels of cash resources and other available financing options, amongst other factors.

**17.** Councils do not always need to increase debt or borrowing if internal sources of finance are available to them. This includes using cash reserves that have been built up over time or capital grants.

### Exhibit 3

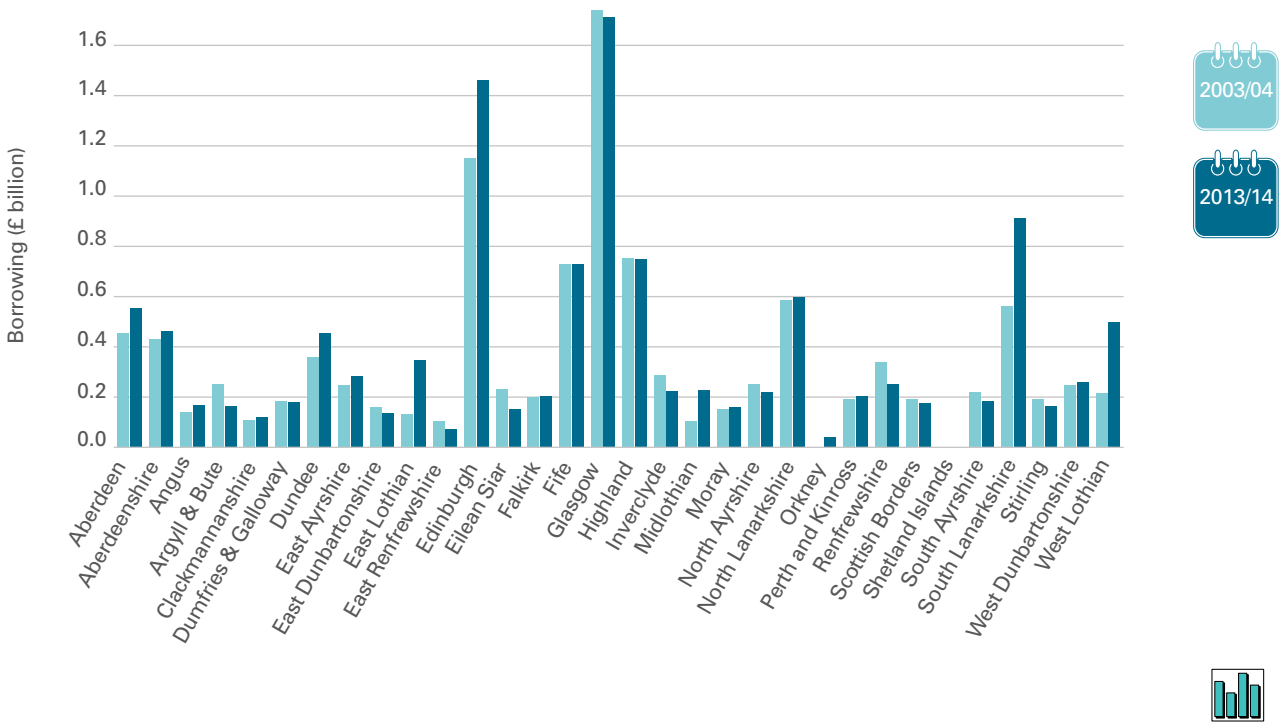
Total debt of Scottish councils (2013/14 real terms prices)



Source: Council audited annual accounts 2008/09 to 2013/14

### Exhibit 4

Comparison of total borrowing by councils in 2003/04 and 2013/14 (2013/14 real terms prices)



Source: Council audited annual accounts 2003/04 and 2013/14

**18.** Current interest rates are low, which is an advantage to councils that need to borrow for capital investment as interest charges are cheaper than when rates are higher. Our analysis shows that two-thirds of councils are currently borrowing, although fewer councils are borrowing now than ten years ago. Councils are borrowing shorter term, typically for less than 15 years, at fixed rates, from government-backed institutions such as the Public Works Loan Board (PWLB), as this has offered the most competitive rates.

### **Borrowing is a long-term commitment, with a third of current borrowing due to be repaid in over 40 years**

**19.** The repayment of a council's borrowing influences its long-term financial planning and its assessment of whether it will be able to afford its existing borrowing in the future. To manage levels of borrowing we would expect to see a spread of borrowing with different maturity periods so that it is more manageable. We would also expect councils to avoid periods when high levels of repayments may impact on money available for other priorities. On maturity, councils can either decide to repay borrowing, or take a new loan to replace the old borrowing. [Exhibit 5 \(page 15\)](#) shows the profile of borrowing for 2009/10 to 2012/13 and highlights:

- the profile of borrowing is evening out and the percentage of loans maturing in over 20 years has fallen. At 2009/10, over 61 per cent of borrowing would mature in over 20 years; this decreased to 52 per cent by 2012/13
- councils have increased short-term borrowing. At 2009/10, around five per cent of borrowing was for less than two years, increasing to 8.5 per cent at 2012/13
- around a third of councils' borrowing is due to be repaid in the next ten years (35 per cent)
- around another third of borrowing will be due for repayment in over 40 years (34.8 per cent).

### **Borrowing is a key part of treasury management**

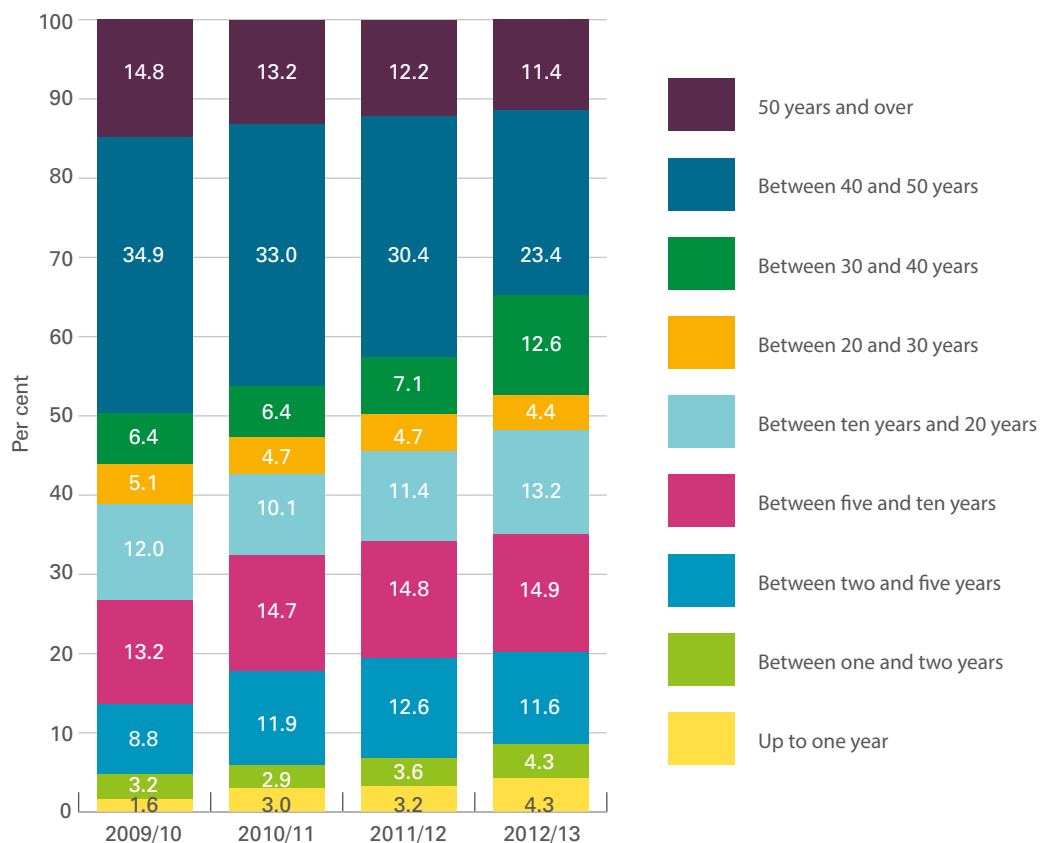
**20.** Treasury management is the process that councils use to ensure cash is available when needed. This includes day-to-day expenses like paying salaries or electricity bills, and building new assets, such as a new school, or improving existing ones, such as roads. It also involves ensuring that any temporary surplus cash is safely invested. Borrowing is one of the larger cash flows that a council needs to manage, so borrowing is a central part of treasury management. [Exhibit 6 \(page 16\)](#) shows examples of the typical cash flows in a council together with their timing.

**21.** Councils have two types of budgets to finance and to balance: revenue and capital. Revenue expenditure pays for daily activities like salaries or electricity bills. Capital expenditure is what councils spend on premises, equipment and vehicles; on improvements like roads repairs; and on providing new assets like schools or council houses. Councils can borrow to finance capital expenditure but not revenue expenditure, unless approved by Scottish ministers. Borrowing charges are revenue expenditure. Councils that own council houses must keep a separate budget and account for revenue and capital expenditure on the housing stock.

## Exhibit 5

### Scottish councils—maturity of total borrowing 2009/10 to 2012/13

Percentage of borrowing due to be repaid in the periods shown.



Source: *Capital Expenditure and Treasury Management*, CIPFA Statistics, June 2014

Borrowing to invest in housing must be repaid from the future housing budget, and therefore funded from future housing rental income.

#### Councils must comply with borrowing and treasury management rules and regulations

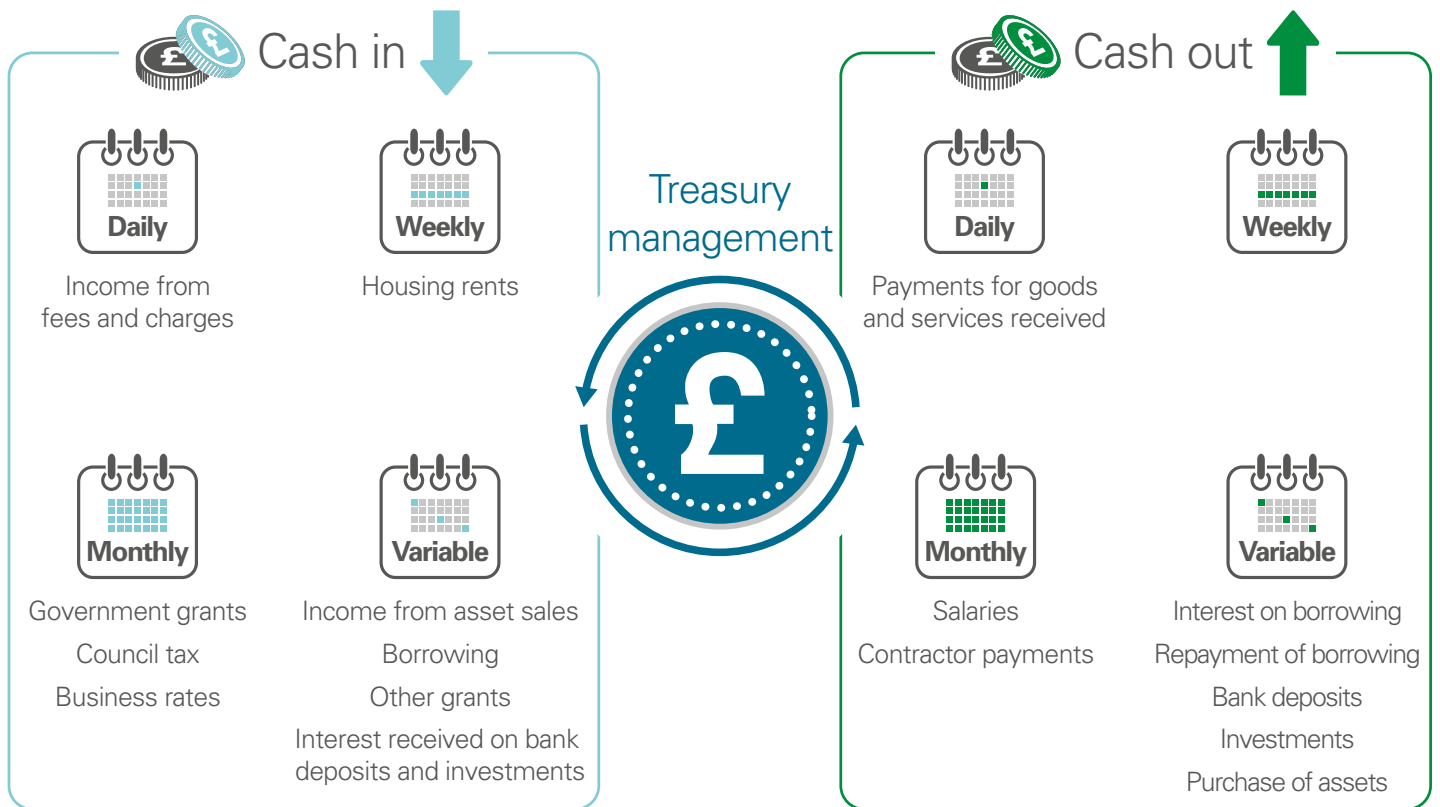
**22.** In recognition of the importance of capital investment in assets and treasury management to council activities, CIPFA and the Scottish Government set codes of practice and regulations for councils to follow. These ensure that councils have effective processes and practices in place to control, manage and govern capital investment decisions, that include borrowing, and treasury management practices ([Exhibit 7, page 17](#)).

**23.** The Prudential Code was introduced in 2004 as a framework to support councils and help them show effective control over levels of, and decisions relating to, capital investment activity, including borrowing. Before this, capital investment levels in councils were government-regulated.

## Exhibit 6

### Treasury management activities

An example of a council's cash flows with their timing to demonstrate their variability and predictability.



Source: Audit Scotland

**24.** This self-regulating approach has enabled councils to adopt borrowing and treasury management strategies that fit with their corporate plans and objectives. The framework allows for councils themselves to judge what is affordable and sustainable and will differ depending on local circumstances. The Prudential Code sits alongside CIPFA's treasury management code, which sets out the requirements for professional treasury management practice.

**25.** A key requirement of the codes is for councils to produce an annual treasury management strategy before the start of each financial year. CIPFA and the Scottish Government recommend that this is a single integrated strategy that combines plans for capital investment, including borrowing, treasury management, and investment. It also recommends that the strategy includes prudential indicators that are set out within the Prudential Code. These form a set of 12 limits and ratios that all councils must calculate and use to show to councillors and the public that capital investment plans are affordable and sustainable.

## Exhibit 7

### Codes of Practice and Regulations

The Prudential Code for Capital Finance in Local Authorities–CIPFA	A professional code of practice to help councils with capital investment decisions by providing a framework. The Prudential Code sets out indicators that councils must use to help demonstrate public accountability. It also recommends that councils have an integrated treasury management strategy within which its borrowing and investments are managed.
Treasury management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes–CIPFA ('the CIPFA treasury management code')	Adopting this code is a requirement of the Prudential Code. This makes recommendations to provide a basis for councils to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices. A key recommendation is for a treasury management strategy before the start of the year, a mid-year report and an end-year review report.
Finance Circular 5/2010–The investment of money by Scottish local authorities	Provides Scottish ministers' consent for councils investing money and sets out the recommendations and requirements they must meet when making investments. It requires local authorities to 'have regard' to the Prudential Code and the Treasury Management Code and recommends that the strategy form part of a wider single annual strategy covering capital investment, treasury management and prudential information.
Local Government (Scotland) Act 1975	Sets out the statutory basis on which councils can borrow and lend.

Source: Audit Scotland

**26.** This report focuses on borrowing, to finance capital investment, and treasury management. Most of the indicators are not specific to borrowing but relate to total capital investment and are calculated using figures for total finance costs, total capital expenditure or total debt. This allows councils to assess the affordability of borrowing in the context of the total debt position of the council. The indicators relating specifically to borrowing are the estimated and actual capital financing requirement. This calculates the amount of capital investment that needs to be met from borrowing or other method of external finance.

**27.** The prudential indicators are designed to help councils make and record local decisions. They are not designed to be comparative performance indicators across councils as they are set according to the individual needs of each council. In particular, councils had widely different debt positions when the Prudential Code was introduced. These differences are likely to increase over time as councils' choices reflect local priorities. The system is designed specifically to help councils take local decisions in ways that are publicly accountable.

## **Our fieldwork sites reflect the variation in councils' borrowing and treasury management strategies**

**28.** We reviewed the strategies of 12 councils to give us a better indication of the variation in local circumstances, the need for borrowing and the resulting treasury management strategy. We selected six councils out of the 12 to undertake more detailed fieldwork, including interviews.

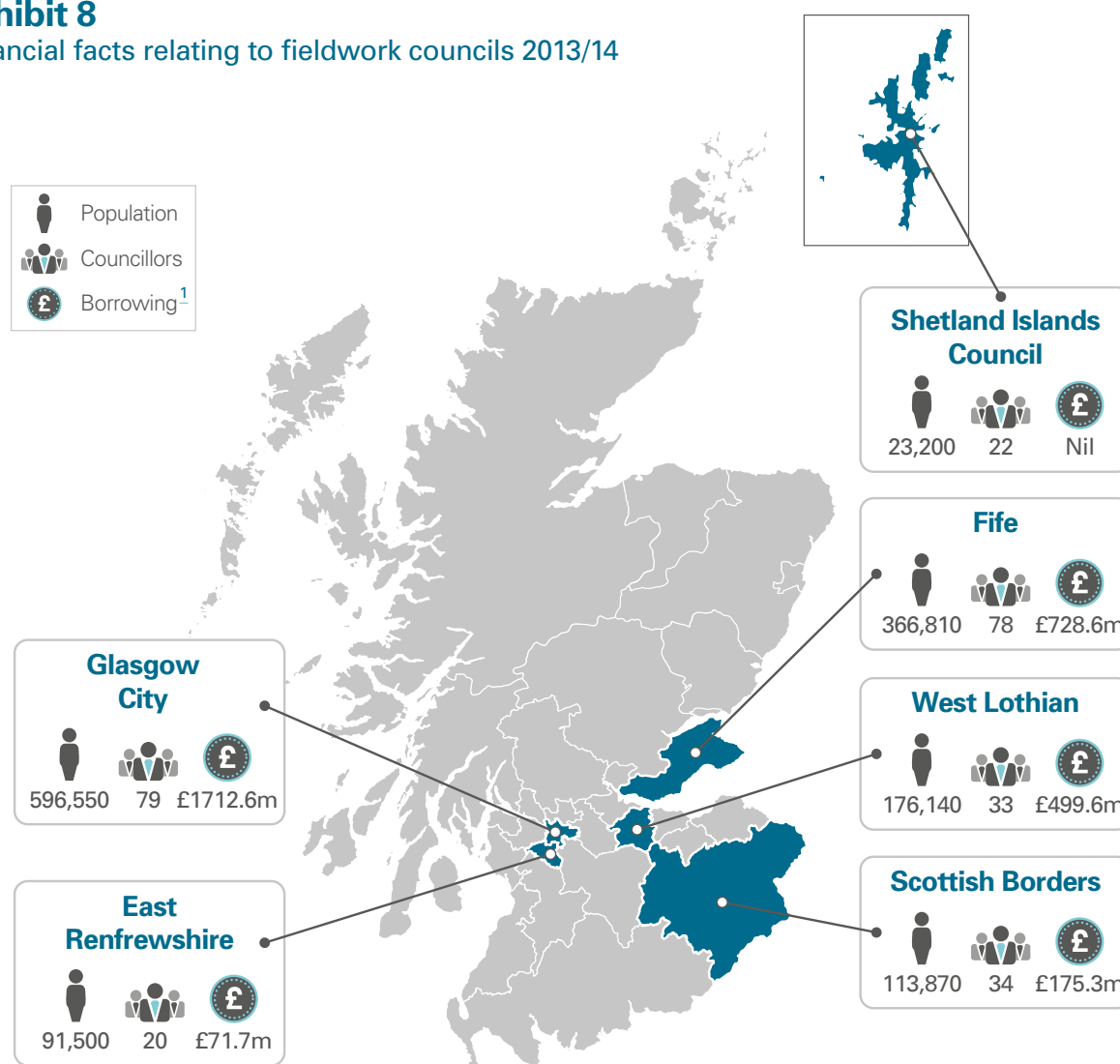
**29.** Our six fieldwork sites reflect the level of variation in councils' borrowing and treasury management strategies, and therefore their levels of borrowing ([Exhibit 8, page 19](#) and [Exhibit 9, pages 20 and 21](#)). Although interest rates are currently low and expected to increase, not all councils have set their strategy to borrow for future capital investment. For example, East Renfrewshire Council has not borrowed externally for five years, but it has previously financed a higher proportion of investment through other methods of external financing such as the PFI scheme, and therefore has a higher proportion of other debt. Shetland Islands Council had never borrowed until July 2014. This change in strategy was as a result of appraising whether using internal cash reserves or borrowing at low interest rates represented the best value for the council.

**30.** Councils have different sizes of capital investment programmes to finance. Some councils have no housing stock to improve and add to, while others must consider how to invest in their housing stock without placing too high a burden on future housing budgets and rents. Councils must repay the borrowing and interest charges for investment in housing from the housing revenue budget; whereas investment in other assets must be repaid from the general budget.



## Exhibit 8

### Financial facts relating to fieldwork councils 2013/14



	Shetland Islands	East Renfrewshire	Scottish Borders	West Lothian	Fife	Glasgow City
Fixed assets <sup>2</sup>	£406m	£770m	£416m	£1,346m	£2,151m	£4,367m
Investments <sup>3</sup>	£211.4m	£45.1m	£13.7m	£117.1m	£3.1m	£136.5m
Cash reserves <sup>4</sup>	£240.9m	£53m	£25.7m	£114.8m	£90.6m	£135m
General capital programme <sup>5</sup>	£69.5m (2014-19)	£100.7m (2014-22)	£271.4m (2014-24)	£277.3m (2013-18)	£532.2m (2013-23)	£455.7m (2013-18)
Housing capital programme <sup>5</sup>	£5.8m (2014-19)	£17.2m (2014-19)	No housing	£202.9m (2013-18)	£390.4m (2013-23)	No housing

#### Notes:

1. Borrowing is long and short-term borrowing from council audited accounts at 31 March 2014. 2. Fixed assets is the value of long-term tangible fixed assets, such as buildings and equipment, and long-term intangible assets such as software, from the audited accounts at 31 March 2014. 3. Investments includes long and short-term investments, investment property where relevant, and cash and cash equivalents from the audited accounts at 31 March 2014. 4. Cash reserves is the total usable reserves of the council, from the audited accounts at 31 March 2014. 5. The length of councils' capital programmes can vary and spending is phased over the length of the programme. The timeframe of each council's programme is given in brackets.

Source: Council audited annual accounts 2013/14; *Mid 2013 Population Estimates Scotland*, National Records of Scotland, June 2014

## Exhibit 9

### Key borrowing facts for our six fieldwork councils

#### Graph A

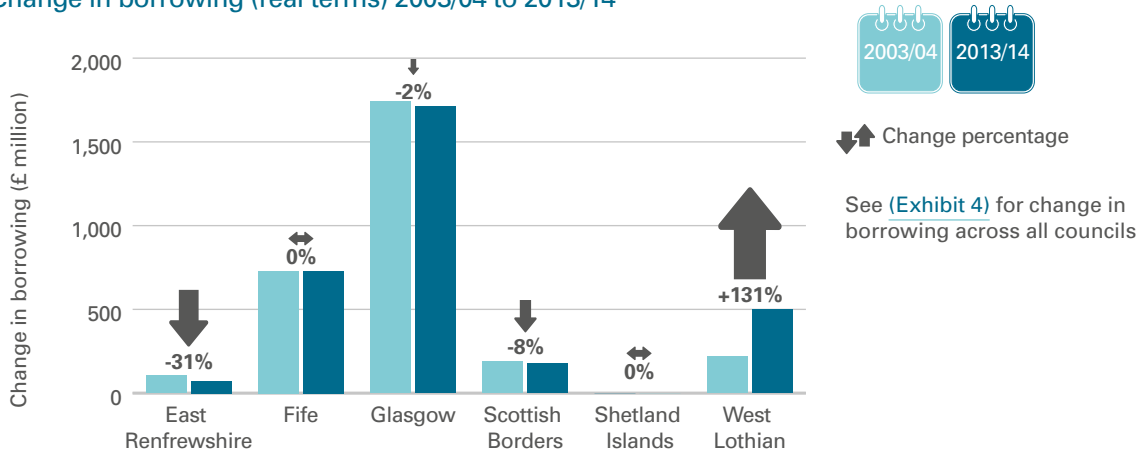
2013/14 debt levels



Source: Council audited annual accounts 2013/14; Mid 2013 Population Estimates Scotland, National Records of Scotland, June 2014

#### Graph B

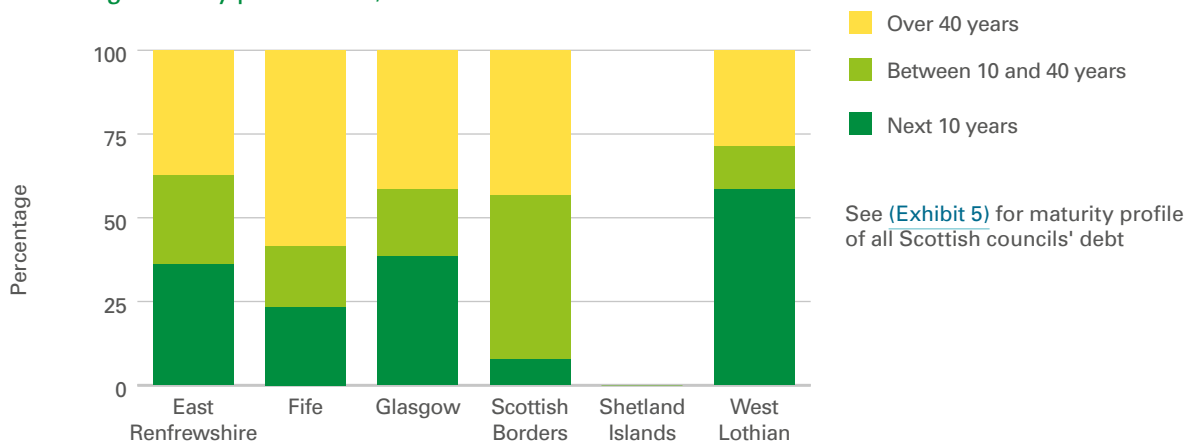
Change in borrowing (real terms) 2003/04 to 2013/14



Source: Council audited annual accounts 2013/14

#### Graph C

Borrowing maturity profile 2012/13



Source: Capital Expenditure and Treasury Management, CIPFA Statistics, June 2014

## Exhibit 9 (continued)

### East Renfrewshire Council

- Just over half of East Renfrewshire's debt relates to PFI/PPP schemes for schools and roads **(Graph A)**.
- The council has not undertaken any external borrowing since 2009/10. The overall level of borrowing has been reduced by 31 per cent compared to ten years ago **(Graph B)**.
- The borrowing maturity profile generally follows the national profile with approximately one-third of borrowing to be repaid in next 10 years and one-third over 40 years **(Graph C)**.
- Capital investment requirements are currently being met with cash from reserves, cash balances and cash flow.
- The council will need to borrow to participate in the City Deal project.

### Fife Council

- Borrowing makes up 90 per cent of the council's total debt **(Graph A)**.
- The council has borrowed £165m since 2008/09. The level of borrowing has remained static compared to ten years ago **(Graph B)**.
- Almost two-thirds of borrowing needs to be repaid in 40 years or more **(Graph C)**.
- The council uses a combination of cash, council reserves and borrowing to meet capital investment requirements.
- The council is a pilot site for a TIF scheme which will involve an element of borrowing.

### Glasgow City Council

- Borrowing makes up 90 per cent of the council's total debt **(Graph A)**.
- The council has taken out loans of £677m since 2008/09. The overall level of borrowing has decreased slightly, by two per cent, compared to ten years ago **(Graph B)**.
- The borrowing maturity profile is broadly aligned with the national profile **(Graph C)**.
- The council uses funds and reserves, and has a preference for cheaper short-term borrowing for capital investment purposes.
- The council will need to borrow to participate in the City Deal project.

### Scottish Borders Council

- Borrowing makes up 75 per cent of the council's total debt **(Graph A)**.
- The council has taken out loans of £7.5m since 2008/09. Overall level of borrowing has fallen by eight per cent compared to ten years ago **(Graph B)**.
- It has a small proportion of borrowing maturing in the next ten years when compared to other councils **(Graph C)**.
- The council has been using reserves cash balances and cash flow for capital investment.
- It has received consent to borrow for lending to support the National Housing Trust and Registered Social Landlords.

### Shetland Islands Council

- The council borrowed for the first time in 20 years in summer 2014. Borrowing is only planned to fund the new Anderson High School, the council is using cash balances or reserves to fund other capital expenditure.
- It will borrow for capital expenditure if interest rates are lower than average investment return.

### West Lothian Council

- Borrowing makes up around 90 per cent of the council's total debt **(Graph A)**.
- Has taken out £371m in new loans since 2008/09. Overall level of borrowing has increased compared to ten years ago **(Graph B)**.
- Over half (59%) of the council's borrowing is due to mature in the next ten years **(Graph C)**.
- Will continue to borrow externally while interest rates remain low.

# Part 2

## Demonstrating the affordability and sustainability of borrowing



### Key messages

- 1** The six councils in our sample are following the general principles and framework of relevant codes and regulations.
- 2** Councils are using the prudential indicators to demonstrate and monitor the short-term affordability of borrowing. But councils are not clearly analysing and reporting their assessment of the longer-term affordability and sustainability of borrowing. Officers present the repayment profile of borrowing to councillors, but are not presenting this together with other information such as different budget scenarios, interest rates scenarios, or capital investment strategies. This is important to inform councillors of the future risks to the affordability and sustainability of current and new borrowing.
- 3** Long-term financial planning will help councils develop more detailed analysis on the longer-term affordability and sustainability of borrowing.
- 4** Councils could present information more clearly to councillors. Some councils are not presenting councillors with all the relevant information at one time to support borrowing decisions, for example in the treasury management strategy. This is important to ensure that decisions made are based on an assessment of all the relevant analysis and risks.

clear reporting to councillors on affordability and sustainability is important for sound decision making

### Councils assess the short-term affordability of borrowing

**31.** Councils should have short, medium and long-term financial strategies that include the financing cost of borrowing and other debt and show the impact on the revenue budget. Decisions on borrowing and other debt need to be taken on the basis of affordability.

**32.** Our evidence shows that councils demonstrate the short-term implications of borrowing and other debt financing on the revenue budget through use of the prudential indicators. There are 12 prudential indicators that councils must set for each year. Eleven of them must be set for a minimum of three years ahead. Two of these 11 indicators specifically highlight the affordability of capital investment decisions, including borrowing ([Exhibit 10, page 23](#)). These indicators cover all debt and are not specific to borrowing.

## Exhibit 10

### Affordability prudential indicators

Indicator	What it means	What it is used for
Financing cost to net revenue stream: actual and estimated for next three years	The percentage of the revenue budget set aside each year to pay debt financing costs	<ul style="list-style-type: none"> <li>Assesses the risk to future budgets, eg from changing interest rates</li> <li>Provides comparisons over time</li> <li>Measures the impact of changing financing costs on the financial strategy</li> </ul>
Impact of capital investment decisions on council tax and housing rents	This estimates the impact of new capital investment decisions on council tax and on the average weekly housing rent	<ul style="list-style-type: none"> <li>Allows councillors to consider all the council's plans at budget setting time</li> <li>Allows comparison of different capital financing options by assessing the potential impact on council tax or housing rents</li> </ul>

Source: CIPFA Prudential Code

**33.** The Prudential Code requires councils to estimate the impact of capital investment on the budget for the next three years, as a minimum. No councils in our sample reported estimates for a longer timeframe, and no councils had developed their own indicators to assess affordability. The Prudential Code suggests that councils use their own additional indicators, and this would be a good option for councils to monitor an impact that was important and relevant to their strategy.

**34.** The indicator 'financing costs to net revenue stream' is used to show how much of council income would be used to pay borrowing and debt charges. For councils with housing, they must separately calculate this indicator showing how much of housing rents income will be required to finance housing-related borrowing and debt charges. [Exhibit 11 \(page 24\)](#) shows the data published by West Lothian Council to provide an example of how this indicator is used.

## Exhibit 11

### An example of a council's ratio for 'financing costs to net revenue stream'

West Lothian Council is planning to invest in its assets over the next three years, including a council house new build programme. This is shown by the increasing capital financing requirement. Its strategy is to borrow in order to finance this capital investment. The impact of this is to increase the ratio of 'financing costs to net revenue stream' for both the general revenue budget, and the housing budget. This example shows that there is an expected increase in the proportion of income used to finance capital investment over the next three years. It will increase from 7.3 pence of every £1 to 8.6 pence. In relation to investment in housing the expected increase is from 20.8 pence in every £1 of housing rent income to 31.2 pence.

	2013/14 actual	2014/15 estimate	2015/16 estimate	2016/17 estimate
<b>Capital financing requirement</b>				
General Fund	£438,788	£444,404	£446,834	£446,534
Housing	£148,885	£174,561	£200,871	£226,174
<b>Ratio of financing costs to net revenue stream</b>				
General Fund	7.3%	7.8%	8.3%	8.6%
Housing	20.8%	25.4%	28.9%	31.2%

Source: West Lothian Council treasury management annual and prudential indicator reports

### Councils are not making good use of all prudential indicators

**35.** The indicator for the 'impact of capital investment decisions on the council tax/housing rents' is a good example of how councils demonstrate, to councillors and the general public, what the financial implications of council decisions could be for members of the public. This could be an increase or decrease in council tax or housing rents.

**36.** We found that all councils are reporting this indicator. Out of our sample, three of the 11 councils that we reviewed did not report any impact of capital investment on council tax.<sup>1</sup> The main reason for councils not doing this is that there is currently a freeze on councils' ability to increase council tax. We acknowledge that while the council tax freeze remains, council tax may not increase, but the indicator can still be used to demonstrate what the potential impact of capital investment plans would be. The council tax freeze makes it more important to show how much of the budget is being used to finance capital investment. Councils may also seek to reduce any impact on the budget through making savings. In these cases, we would expect this to be clear in the narrative to the indicator.


### Councils are not clearly analysing and reporting the long-term affordability and sustainability of borrowing decisions

**37.** Councils face reducing revenue budgets and increasing demand for services. As a result many councils have projected funding gaps and need to generate recurring long-term savings. Councils' existing borrowing commitments extend for up to 50 years, and while any current decisions to borrow allow

the council to invest in services they also place more pressure on revenue budgets. Councils therefore need to clearly set out how current and past borrowing decisions impact on the future revenue budget over the life of the borrowing term. The Prudential Code sets out a minimum three years for reporting prudential indicators. Borrowing commitments can extend up to 50 years and, in our view, three years is inadequate to demonstrate to councillors the affordability of borrowing.

**38.** We found that, while councils were demonstrating the impact of borrowing decisions over a three-year period using prudential indicators, none of the councils in our sample presented councillors with a longer-term view. The Prudential Code provides a minimum framework for councils to demonstrate and monitor the impact of their capital financing decisions on their future budget and income streams. In our view councils could extend the use of the framework and provide an extended analysis to demonstrate the longer-term affordability of borrowing. Officers could provide us with: information on capital investment requirements for up to ten years, when borrowing is due to be repaid and what this will cost, and interest rate forecasts, but there was no analysis bringing this together with budget scenarios to assess affordability. Councillors are not therefore always provided with information on the future affordability of new borrowing and the potential risks. This analysis should bring together the financing charges for all debt, to consider peaks in charges, and the additional risks of new borrowing or debt to this affordability profile.

### **Demonstrating the affordability and sustainability of borrowing needs effective long-term planning**

**39.** Our report on [Scotland's public finances: Progress in meeting the challenges \[PDF\]](#)  highlighted a lack of long-term financial planning. Long-term financial planning should include scenario planning to outline the different options available to the council based on a range of different assumptions about income, expenditure and activity. The borrowing and treasury management analysis could expand on this financial planning to look at the impact on affordability of using borrowing or different finance methods within each of the options. It could also add external assumptions including changes in interest rates to look at future risk factors to the affordability of borrowing. [Exhibit 12 \(page 26\)](#) highlights how the information in a long-term financial plan can be used to inform detailed analysis on borrowing and treasury management.

**40.** This more detailed analysis and scenario planning would allow officers and councillors to be clear about the evidence supporting decisions on borrowing. It would highlight all the financing options available and the risks and affordability of each option. Councillors would be aware of any risks when making a decision. As councils are required to produce an annual treasury management strategy, such analysis could be included in the strategy. The strategy would bring together all the key information and set out the supporting evidence. As a public document this would increase the transparency of council decisions.

### **Councils' treasury management strategies need to clearly demonstrate a more integrated approach**

**41.** The treasury management strategy provides the council with an opportunity to set out its approach and rationale to borrowing, and to provide assurance on how borrowing and treasury management activity will help the council to meet its objectives. Strategies should clearly demonstrate the links to other council

## Exhibit 12

### The key components of long-term borrowing analysis

Components of long-term financial planning	Essential elements to inform a long-term borrowing analysis	Example
<p><b>Scenario planning</b></p> <p>Scenario planning to outline the best, worst and most likely scenarios of the financial position and the assumptions used</p>	<ul style="list-style-type: none"> <li>• Projections for financial settlements, both revenue and capital</li> <li>• Long-term economic forecasts and inflation rates</li> <li>• Projections for interest rates</li> </ul>	<p>The council develops scenario plans for the revenue budget based on a range of assumptions about future revenue streams. This is compared with projected borrowing charges to highlight potential periods of pressure on the revenue budget</p>
<p><b>Assets and reserves</b></p> <p>Details of assets and reserves and how these will change over time</p>	<ul style="list-style-type: none"> <li>• Borrowing profile and schedule of repayments</li> <li>• Future reserves policy and contingency levels</li> <li>• Projected reserve levels (based on scenario planning above)</li> <li>• Future impact of asset management plans</li> </ul>	<p>A council is currently using reserves to finance capital investment. It could use different combinations of borrowing and reserves to finance projected capital investment needs. The council should model these different combinations to show the impact on reserve levels and the revenue budget. This would highlight the risks and benefits of each combination</p>
<p><b>Capital investment activity</b></p> <p>Details of investment needs and plans and how these will be paid for</p>	<ul style="list-style-type: none"> <li>• The impact of future service demands on capital investment needs. There may be a range of options</li> <li>• Estimated cost of the capital investment options</li> <li>• Future available funding options</li> <li>• Projected borrowing rates</li> </ul>	<p>A council has a range of existing borrowing and wider debt, including PFI. The council should prepare analysis showing the combined financing charge to the revenue and service level budget over the life of the asset or borrowing term. This would be based on different scenarios of interest rates or inflation. If the council wants to invest in more capital, it can model the additional impact of borrowing or debt onto this analysis</p>

Source: Audit Scotland



strategies and plans such as the capital programmes, short, medium and long-term financial strategies, reserves policies, etc. The strategy enables councils to bring together this key information and to show how borrowing decisions fit into this bigger picture.

**42.** We evaluated strategies against the requirements and good practice recommendations of the Prudential Code, Treasury Management Code and Scottish Government investment regulations. The codes and regulations largely cover operational practice, and councils generally met their requirements. We found the language of the codes and regulations difficult to interpret. Strategies that followed the good practice recommendations as well as the requirements were clearer and told a better story about the council's intended direction for borrowing and treasury management. Scottish Borders Council presents this wider story within its strategy and it is a good example of a clearer strategy.

### Not all strategies clearly show the link to corporate and capital plans

**43.** None of the strategies of our fieldwork councils refers directly or provides links to corporate objectives. This is important to demonstrate how the proposed strategy will help the council to meet its overall aims and objectives and improve services to communities.

**44.** Councils' treasury management strategies link plans for future capital investment, the financing and affordability of those plans and how cash will be safely managed to meet a council's financial commitments. We acknowledge that there is a wider process within councils to consider and agree capital investment programmes and plans. This includes the use of capital working groups or committees, usually comprising a mix of officers and councillors. These are not usually public forums and the associated reports and papers are not usually public documents. As outlined at paragraph 41, the treasury management strategy is the public document that should bring together capital investment plans and the financing of those plans, including borrowing. In our view, it is the appropriate document for councils to use to demonstrate that other options have been considered. Some councils choose not to approve annual capital investment plans, for example Glasgow City Council approved a two-year capital plan for 2013/14 and 2014/15. It is important therefore for councils to reflect the links to capital investment plans in their annual strategy.

**45.** Councils do not borrow for specific projects but consider how to finance their whole capital investment programme each year. In identifying the capital expenditure for the year they identify internal sources available before considering borrowing. The Prudential Code requires councils to calculate their 'capital financing requirement', which is the capital expenditure that they need to finance from other sources, that is, through borrowing or other method of external finance.

**46.** References to the capital programme and capital investment plans vary in detail within strategies. Councils are making better links between treasury management and capital investment at operational level through closer working between treasury management and capital functions but this link is not always reflected in strategies. Glasgow City and East Renfrewshire councils refer to the capital financing requirement and prudential indicators within their strategy,

making the link to capital investment. The Scottish Borders Council strategy is clearer and provides a much wider perspective on its capital investment plans in the strategy including capital expenditure forecasts, capital financing assumptions, the predicted borrowing need and affordability. Relevant prudential indicators are used throughout the strategy.

**47.** We found little evidence of councils actively sharing strategies with each other to inform good practice, or different ways of presenting information. Some strategies, for example councils in the Lothian region, had similar sections and wording.

### **Councils are not always using the strategy to clearly explain the prudential indicators**

**48.** We found variation in how councils link the prudential indicators with the treasury management strategy and how the strategy fits with the revenue budget setting process. Councils should use the prudential indicators to demonstrate affordability, prudence and sound treasury management in capital investment decisions. The local authority investment regulations recommend that the treasury management strategy will cover capital, investment and borrowing and the prudential indicators.

**49.** Only two of six fieldwork councils (Scottish Borders and Shetland Islands councils) included the prudential indicators as a key part of the strategy. Other councils included these indicators as an appendix, and East Renfrewshire Council reports the indicators separately in a different report.

**50.** We found that councils are setting and reporting on prudential indicators to the full council and appropriate committees but the level of commentary provided within reports is variable. References in reports to the indicators are based on the technical definitions, with few giving the overall context and implications. This is particularly the case where the prudential indicators are provided solely as an appendix to the treasury management strategy or a separate report. A lack of context means that the council is not providing an explanation of how it is actively using the indicators to measure and monitor the affordability of borrowing. Nor is it explaining what the indicators actually mean for the council and its communities, in terms of increasing or decreasing pressure on budgets, or any risks highlighted by the forecast indicators.

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## Recommendations

### Council officers should:

- use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:
    - links to capital investment plans and corporate objectives
    - all borrowing and other debt
    - prudential indicators as a core part of the strategy
    - a clear assessment of the affordability and the impact on revenue budgets both in the short and long term
  - create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:
    - scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates
    - analysis of capital financing options, to compare affordability and sustainability between different debt and borrowing options
    - the use of indicators over a longer period than the minimum three years set by the Prudential Code
  - share strategies with other councils to help inform good practice and exchange of ideas.
-

# Part 3

## Effective management and scrutiny



### Key messages

- 1** Treasury management is a professionally run function in councils with appropriately qualified officers. Joint planning with other councils, ongoing training and the availability of appropriate professional qualifications are important.
- 2** Scrutiny of borrowing and treasury management decisions could be improved. This involves officers providing clearer information to councillors to help them in their scrutiny role. In most councils the content and clarity of reports could be improved, particularly performance information in year-end reports. All reports need to be easily accessible to councillors and the public.
- 3** Councils need to provide a range of training and support to councillors to help improve scrutiny of treasury management. We found no additional formal arrangements in place specifically aimed at helping councillors in this complex area.
- 4** We found some examples where governance structures do not fully meet the codes' requirements and where there could be more consistency in reporting arrangements.

councillors need a combination of scrutiny skills and knowledge of treasury management to carry out their role effectively

### Treasury management is a professionally run function

**51.** Treasury management staff in councils deal with the day-to-day treasury functions, including managing short-term cash. They also develop the treasury management strategy and related reports to councillors. The links between the capital investment function and treasury management functions have been strengthened over the last ten years in the councils we visited. The staffing structure within most councils deliberately brings the functions together. For example Scottish Borders Council has a structure that places capital investment and treasury management functions together. It also undertook a recent restructuring to separate out day-to-day transactions, allowing capacity for the development of forward planning and strategic development. In Fife Council the treasury management and capital investment functions are separate. However, staff from the capital investment function have been working in the treasury management function and this has strengthened the links between the two functions.

**52.** The size of the treasury management function is related to a council's size and budget. The number of personnel involved in treasury management in our

sample varied from less than a full-time equivalent at East Renfrewshire Council to two full-time equivalents at Glasgow City Council. We would expect staff numbers to vary across councils according to the level of treasury management and borrowing activity, and the budget.

**53.** Officers involved in treasury management have relevant experience and qualifications, and some hold the CIPFA treasury management qualification. Training for new officers is currently provided by on-the-job experience, CIPFA treasury management network events, the treasury management forum, technical updates and toolkits, Capita seminars and training sessions.

**54.** Treasury management is an important function in councils and they need to actively plan for the succession of qualified staff members and other professional training needs that may arise. CIPFA do not currently provide the treasury management qualification owing to insufficient demand but have enhanced their treasury management network. Other treasury management qualifications are available for councils to consider.

**55.** Officers recognise that keeping in contact with other treasury managers and those involved in treasury management is critical. The CIPFA treasury management forum provides a source of information that enables officers to develop knowledge, discuss areas of concern and share information.

**56.** All councils use external treasury management advisers. The services provided include professional treasury management advice, seminars and training for officers and elected members and regular information on economic forecasts. Capita provides services to 28 Scottish councils, including all of those in our sample. There is an inherent risk in having a single provider of advice to so many councils, however, we found that all councils had bought services through open tendering processes within the last four years for terms of between three to five years. All council officers meet regularly with Capita to review their objectives, options, strategies and performance.

### **Council governance structures are in place but not all meet code requirements**

**57.** The codes of practice and regulations place certain requirements on a council's governance structures:

- They recommend that the full council should approve the treasury management strategy.
- They require a specific committee to be responsible for scrutinising reports.
- They also require borrowing and treasury management activities to be structured and managed in a fully integrated manner and for responsibilities to be clear.

**58.** CIPFA considers that it is an essential part of a public service organisation's treasury management arrangements to have clearly defined responsibilities for approving and scrutinising borrowing and treasury management activities.

[Exhibit 13 \(page 32\)](#) includes a summary of the main tasks involved in treasury management and suggested allocation of duties.

## Exhibit 13

### Allocation of responsibilities for scrutinising borrowing and treasury management activities

Full council	<ul style="list-style-type: none"> <li>• Receives and reviews reports on treasury management policies, practices and activities</li> <li>• Approves annual strategy</li> </ul>
Committee or panel with responsibility for scrutiny	<ul style="list-style-type: none"> <li>• Approves or amends the organisation's treasury management policy statement and treasury management practices</li> <li>• Considers and approves budget</li> <li>• Approves the division of responsibilities</li> <li>• Receives and reviews regular monitoring reports and acts on recommendations</li> <li>• Approves the selection of external service providers and agrees terms of appointment</li> <li>• Reviews the treasury management policy and procedures and makes recommendations to the responsible body</li> </ul>
The responsible officer	<ul style="list-style-type: none"> <li>• Monitors the council's compliance with policy and practices</li> <li>• Submits regular treasury management policy reports</li> <li>• Submits budgets and budget variations</li> <li>• Recommends the appointment of external service providers</li> </ul>

Source: Audit Scotland

**59.** For our sample of 12 councils we looked at the approval, recommendations and scrutiny for each report. Most councils fully met the requirements of the codes but we found the following arrangements that were not in line with the codes' requirements and other arrangements that may not give members the opportunity to scrutinise reports consistently:

- The treasury management strategy at Glasgow City Council is considered and approved by the Executive Committee. The full council considers and approves the minutes of the Executive Committee.
- The governance structure at Fife Council is such that the Executive Committee has responsibility for all budget and treasury management decisions. Full council then approves treasury management reports through the minutes.
- Shetland Island Council's Executive Committee approves the treasury management strategy but receives no other reports.

- In East Renfrewshire Council, the Audit and Scrutiny Committee approves the strategy but the Executive Cabinet scrutinises the mid-year, and year-end reports.

### **Councillors need further support to improve their scrutiny role**

**60.** Borrowing and treasury management decisions are complex and involve a significant level of financial risk. It is essential that any decisions are effectively scrutinised to demonstrate sound financial management and help councils achieve their local outcomes and priorities. Councils' scrutiny committees are a vital part of a council's governance arrangements and it is important that these committees are effective. Councils have a responsibility to ensure that those charged with governance have access to the skills and knowledge they need to carry out their role effectively. The councillors on committees need to have a combination of technical knowledge and scrutiny skills for the committee to be most effective. Those charged with governance also have a personal responsibility to ensure that they have the appropriate skills and training for their role. We found that councils provide both scrutiny training and treasury management training to councillors. Scrutiny training tends to be provided at the start of a political term, or for new councillors, as part of the induction process.

**61.** In areas of high importance and complexity, such as treasury management, additional scrutiny arrangements can be put in place. For example:

- Councils seek members with appropriate expertise for the relevant scrutiny panel.
- Councils nominate lead members for borrowing and treasury management to help guide other members.
- Councils seek external expertise to help members on the scrutiny committee.

**62.** We found some examples where this was being applied. Scottish Borders Council appoints non-executive members to its Audit Committee to provide financial expertise. Fife Council has a lead member for finance. Some councillors on scrutiny committees have highly relevant financial experience but, apart from Scottish Borders Council, councils do not have formal processes in place for selecting councillors with relevant skills.

**63.** The most important aspect of scrutiny is the challenge of reports and information presented to councillors through asking questions. We found variation in the type of questions that councillors ask, from issues of detail to clarification of the meaning of phrases in reports. Some councillors told us that they are not always confident in challenging the strategy and framework for future decisions and asking questions about the content of reports. Many have built up trust and confidence in officers and look for officers to highlight issues or problems for them. All councillors we spoke to would welcome additional support in their scrutiny role. We have prepared a supplement to this report which includes questions to help councillors in their scrutiny role.<sup>2</sup>

### Officers need to present clearer and fuller information to councillors to help them scrutinise treasury management activity and risks

**64.** CIPFA's Treasury Management Code states that councils or committees will receive regular monitoring reports on treasury management activity and risks. Regular reporting with a clear and full analysis of performance and activity helps members to:

- understand why officers are proposing decisions
- understand the risks
- ask relevant questions.

**65.** The Treasury Management Code sets out three minimum reporting requirements for councils:

- a strategy in advance of the year
- a mid-year review
- an annual report after the financial year-end.

**66.** We found that all councils meet these requirements. However, both Fife and Glasgow City councils prepare a single report covering both the annual report for the previous year and the mid-year review for the current year. In our view this does not meet the intention of the code. These mid-year and annual reports are an important source of information to help councillors effectively monitor and review treasury management activity. Councillors need time to consider any comments or make changes from scrutiny of the annual report to influence activity or performance for the following year.

**67.** No councils have reporting arrangements that go further than the minimum required by the code, for example quarterly performance or monitoring reports, or more detailed performance reports for the scrutiny committee.

**68.** We found that councils do not hold separate risk registers for treasury management but they are included in their wider finance risk registers. Reports on the wider finance risks may not be considered by the same committee considering treasury management reports. This means that councillors are not informed of any relevant treasury management risks.

### Councils could improve the content and clarity of reports

**69.** We found that both the layout and content of treasury management reports could be improved, particularly year-end reports on performance. Annual reports are the main performance report and vary in quality. Performance monitoring, including information on the actual figures for the prudential indicators against forecast figures, is not reported fully or consistently across all councils. Some councils only report against indicators and some do not report performance at all. Some of the reports we reviewed did not provide any comparative data. This meant that readers could not reach an objective opinion on performance.



**70.** From the review of the councils in our sample, we found the following:

- Clackmannanshire, East Lothian, Midlothian, Scottish Borders, Shetland Isles, West Dunbartonshire and West Lothian councils all provided comparative information in their annual reports on all indicators.
- East Renfrewshire, Fife and Renfrewshire councils provided comparative information on some of their indicators.
- Glasgow City Council provided information only on the actual performance without any estimates.
- City of Edinburgh Council did not include any detail on indicators in the annual report, but some are reported in capital monitoring reports.

**71.** Most treasury management reports are publicly available, although they were not always easy to find on councils' websites. This lack of clear and accessible information means that it is difficult for members of the public to understand how borrowing and treasury management activity is contributing to their council's priorities, and to understand what the performance of the council has been.

**72.** Officers must use accessible language when reporting on borrowing and treasury management but many strategies and reports contain a lot of technical language. This does not help councillors scrutinise effectively as any questions they ask are more likely about clarity rather than challenge. [Exhibit 14 \(page 36\)](#) shows how Shetland Islands Council used worked examples to explain to councillors why it was recommending to borrow for the first time.

### **Councils should provide a wider range of training and support to improve councillor attendance and help them in their scrutiny role**

**73.** All councils provide training on treasury management to councillors. This consists of courses provided once or twice a year and, in West Lothian Council, when a new administration is formed as a minimum. Attendance is voluntary although it has been generally poor (varies between 40 and 100 per cent attendance for these sessions), ([Exhibit 15, page 37](#)). Attendance at training events is focused mainly towards councillors who sit on relevant scrutiny committees rather than all councillors.

**74.** Councillors' views on the training they attend are positive. Councillors also felt officers gave them extra support if required, for example by providing additional information or responses to any questions they had.

**75.** Training and support for councillors should aim to equip all councillors with a minimum level of knowledge and understanding. We found councillors' experience varied, for example from councillors who had been accountants or finance directors to those with little or no previous finance experience.

**76.** Councillors told us that it was often difficult to attend training owing to other commitments. In their view, a full-day training course was a substantial commitment. Regular training will be required to keep councillors up to date with economic developments. As councillors only consider treasury management issues, on average, three times a year, the timing of the training is important. Councils should consider different ways to provide training including courses, short briefings and perhaps online training.

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## Exhibit 14

### How officers at Shetland Islands Council explained why it was recommending the council borrow

The economic case for borrowing externally, or using the council's own reserves to finance capital expenditure, is essentially down to whether interest rates are higher or lower than the long-term average return on the council's external investments.

If interest rates are higher than the long-term average return on the council's investments (currently 5.75%) then it means the cost of borrowing is higher than the lost income forgone by using reserves. So it would make financial sense to use reserves for capital expenditure.

For example, if interest rates were 10% for a £1m loan:

- Annual interest payable on £1m at 10% = £100,000
- Investment income of 5.75% generated on £1m = £57,500.

In this example to borrow would cost £100,000 a year, and to use reserves would present an opportunity cost of £57,500 in lost investment income. In this example, using reserves would present a saving of £42,500 per year over using borrowing.

However, the reverse is true if interest rates are lower than the long-term average return on the Council's investments (currently 5.75%).

For example if interest rates were 2% for a £1m loan:

- Annual interest payable on £1m at 2% = £20,000
- Investment income of 5.75% generated on £1m = £57,500.

In this example, to borrow would cost £20,000 a year and to use reserves would present an opportunity cost of £57,500 in lost investment income. In this example borrowing would save the council £37,500 per year.

Therefore when interest rates are lower than long-term investment returns, the default position of the council should be to borrow in order to achieve a Best Value outcome.

Source: Shetland Islands Council Borrowing Strategy 2014/15

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**Exhibit 15****Councillor attendance at treasury management training**

	<b>East Renfrewshire</b>	<b>Fife</b>	<b>Glasgow City</b>	<b>Scottish Borders</b>	<b>Shetland Islands</b>	<b>West Lothian</b>
Date of last training	2014	2014	2013	2012	2014	2011
Frequency	Annually	Biannually	Annually	Biannually	Annually	Each administrative term
Offered to	Full council	Full council - but target Executive Committee members	Members of Executive Committee and members of Finance and Audit Scrutiny Committee	Audit Committee	Full council	Full council
% attendance full council	40%	11.5%	22.8%	91%	Not available	46.8%
% attendance Scrutiny committees	57% 37.5% Cabinet	40.9%	66.7% 40% Executive	100%	Not available	Not available Committee structure changed

Source: Audit Scotland

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## Recommendations

### Council officers involved in borrowing and treasury management should:

- carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers
- review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.

### Council officers and councillors involved in treasury management should:


- review governance arrangements, and update as necessary, to ensure they provide:
    - the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them
    - councillors with mid-year reports by the end of December each year
    - councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets
    - councillors with access to all reports relating to borrowing and treasury management activity including risk registers
  - ensure scrutiny arrangements are robust by:
    - considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory
    - considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.
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# Endnotes

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- ◀ 1 Glasgow City Council, Renfrewshire Council and West Lothian Council. As Shetland Islands Council did not borrow until 2014/15, we would not expect this indicator to be set for 2013/14.
- ◀ 2 [\*Borrowing and treasury management in councils: Scrutiny guidance and questions for councillors, \[PDF\]\*](#)  Audit Scotland, March 2015.

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# Appendix 1

## Audit approach

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Our audit looked at councils' strategies for borrowing and treasury management and whether councils can demonstrate the affordability and sustainability of their borrowing decisions over the short and long term. Councillors have a crucial role in holding officers to account and this report also evaluates this. We did not evaluate day-to-day cash, investment and borrowing transactions.

### Methodology

To achieve our aim and objectives, our audit included reviewing documents, analysing data and interviews. The audit had three main components:

**Data analysis:** We analysed information on borrowing and debt from councils' audited accounts, CIPFA statistics and the Scottish Government in order to inform a selection of 12 councils for further desk research. The 12 that were selected were City of Edinburgh, Clackmannanshire, East Lothian, East Renfrewshire, Fife, Glasgow City, Midlothian, Renfrewshire, Scottish Borders, Shetland Islands, West Dunbartonshire and West Lothian councils. The councils were selected to include a mix of council size and to reflect initial thoughts, based on our financial analysis, that they had different approaches and strategies to borrowing and treasury management.

**Desk research:** We reviewed a range of relevant written material on borrowing and treasury management, focusing on the treasury management strategies for our 12 councils. We also looked at the committee arrangements for consideration of these and other treasury management reports. This informed our sample of six councils for interview. We selected the sample so that it included large, small, urban and rural councils and reflected different levels of borrowing and other forms of debt.

**Interviews with councils and stakeholders:** We visited six councils to find out more about their approach and strategy for treasury management, their governance arrangements and scrutiny and training for councillors. We spoke to council leaders and councillors about their role in scrutinising borrowing and treasury management and their experience of the training and support received. We also interviewed representatives from organisations including the Scottish Government, CIPFA and the CIPFA Scottish Treasury Managers' forum.

# Appendix 2

## Membership of the project advisory group



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

Member	Position
Andy Witty	Policy Officer, COSLA
David Robertson	Chief Financial Officer, Scottish Borders Council
Gareth Davies	Policy and Technical Officer, CIPFA Scotland
Hazel Black	Head of local authority accounting, Scottish Government
Innes Edwards	Treasury Manager, City of Edinburgh Council

Note: Members of the project advisory group sat in an advisory capacity only.

# Borrowing and treasury management in councils

This report is available in PDF and RTF formats, along with a podcast summary at:

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Audit Scotland, 110 George Street, Edinburgh EH2 4LH

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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Chief Executive

**SUBJECT:** 2015 Corporate Governance Self-evaluation/ Annual Governance Statement

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**6**

## **1 PURPOSE**

- 1.1 To advise Audit and Governance Committee of the outcome of the 2015 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement.

## **2 RECOMMENDATIONS**

- 2.1 Committee is asked to consider and comment on the self-evaluation (Appendix 1) and to approve the summary (paras 3.4 – 3.6) for inclusion in the Annual Governance Statement that will form part of the Council's 2014/15 Annual Accounts.

## **3 BACKGROUND**

- 3.1 Cabinet (11<sup>th</sup> May 2010) approved the adoption of a Code of Corporate Good Governance based on the six principles of good governance and the self-evaluation model outlined in the CIPFA/ SOLACE *Guidance on Delivering Good Governance in Local Government*. A task group comprising senior officers of the Council was given responsibility for developing, monitoring and reviewing the code and governance statement.
- 3.2 This group, comprising the Monitoring Officer (Depute Chief Executive, Partnerships and Community Services), Section 95 Officer, Chief Social Work Officer, Head of Communities and Partnerships and Internal Audit Manager, has reviewed the documentary evidence and practice around each of the six supporting principles and code requirements as detailed in the corporate governance code. The group also reviewed progress in achieving the actions points arising from last year's self-evaluation that were incorporated into the 2014/15 Council Improvement Plan.

- 3.3 The review formed the basis of the self-evaluation which is detailed in Appendix 1.
- 3.4 The 2015 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six principles. The improvement actions which have been carried out over the last four years have addressed the weaknesses that have been identified in previous self-evaluations. All the improvement points included in the 2014/15 Council Improvement Plan have been completed or are being completed (see Appendix 2).
- 3.5 The self-evaluation has highlighted the actions and development that have been implemented or begun in 2014/15 to further improve the Council's governance arrangements and has not identified any further actions or improvement points to be implemented in 2015/16.
- 3.6 The reports of the Council's auditors (Interim Management Report to Audit & Governance Committee, May 2015) and the Local Area Network (Local Scrutiny Plan 2015/16, reported to Council, April 2015) provide assurance that there are no significant concerns about the council's governance arrangements.

#### **4 POLICY IMPLICATIONS**

- 4.1 The corporate governance code and self-evaluation framework detailed in Appendix 1 complement the Council's *How Good is Our Council* self-evaluation. The corporate governance self-evaluation fulfils the Council's commitment to assess whether it meets the principles and requirements set out in the guidance on Delivering Good Governance in Local Government. The addition of the summary of the self-evaluation to the Internal Financial Control statement will fulfil the remit to include an Annual Governance Statement in the Council's Annual Accounts.

#### **5 EQUALITIES IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – none.
- 6.2 Personnel – none.
- 6.3 Other – none.

## 7 BACKGROUND PAPERS

- 7.1 Appendix 1: Corporate Governance Self-evaluation, May 2015
- 7.2 Appendix 2: 2014/15 Council Improvement Plan: Monitoring Report
- 7.3 Delivering Good Governance in Local Government: Guidance Note for Scottish Authorities. (CIPFA 2008)
- 7.4 Report on Corporate Governance Self-evaluation; Corporate Governance PPRP, 22<sup>nd</sup> June 2010

<b>AUTHOR'S NAME</b>	Paolo Vestri
<b>DESIGNATION</b>	Service Manager: Corporate Policy and Improvement
<b>CONTACT INFO</b>	pvestri@eastlothian.gov.uk 01620 827320
<b>DATE</b>	27 <sup>th</sup> April 2015



## APPENDIX 1: CORPORATE GOVERNANCE SELF-EVALUATION: April 2015

**PRINCIPLE 1: Focusing on the purpose of the authority; on outcomes for citizens; and, service users and creating and implementing a vision for the area**

Supporting Principle & Code Requirements	Evidence	2014 Update and Improvement Points	Update and 2015 Improvement Points
<b>1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose, vision and its intended outcome for citizens and service users</b>			
1.1.1 Develop and promote the authority's purpose and vision	<ul style="list-style-type: none"> <li>• 2020 Vision</li> <li>• Council Plan 2012-2017</li> <li>• Council Improvement Plan</li> <li>• Single Outcome Agreement (SOA)</li> <li>• HGIOC Self Evaluations</li> <li>• Communications of corporate objectives across services</li> <li>• Incorporation of objectives and outcomes in Service Planning guidance</li> <li>• Corporate Induction Pack and training course</li> <li>• Three-year Financial Strategy</li> <li>• One Council Workshops</li> </ul> <p>The 2015 Employee Engagement Survey showed 93% of staff agreed "I know how my job contributes to the Council's objectives"</p>	<p>Council Plan monitoring report being prepared</p> <p>Continue with programme of communicating Plan priorities to staff and citizens</p> <p>Service Plans should reflect Council Plan priorities and actions</p> <p>Workforce Development Plan emphasises link to Council purpose and vision and PRDs</p> <p>One Council - Working Together workshop programme for staff across the Council is being organised</p> <p>No further action required</p>	<p>The Council Plan was reviewed in October 2014 and key priorities were identified to ensure the Plan is achieved</p> <p>One Council Workshops successfully piloted in January 2015 and programme of Workshops planned to take place in May – July and then in the autumn</p> <p>The Council's intranet is being refreshed and will enhance staff communications which will promote the Council's purpose and vision to staff</p> <p>No further action required</p>

<p>1.1.2 Review on a regular basis the authority's vision for East Lothian and its implications for the authority's governance arrangements</p>	<ul style="list-style-type: none"> <li>• Corporate Governance Code and self-evaluation framework adopted in May 2010</li> <li>• Report on Council's vision, priorities and policies (Council, 22<sup>nd</sup> Feb 2011)</li> <li>• Council Plan 2012-2017</li> <li>• Council Plan reviewed in October 2014</li> <li>• Chief Officers/ Council Management Team re-structured March 2012 and in July 2013</li> <li>• Senior Management level restructured in Nov 2013</li> </ul>	<p>Area Partnership framework agreed and six Area Partnerships being established to develop six Area Plans linked to the SOA / Council Plan vision and priorities</p> <p>2020 Vision still relevant and forms basis of Council Plan and SOA</p> <p>No further action required</p>	<p>Area Partnerships are preparing their Area Plans</p> <p>The Health and Social Care Integration scheme has been approved by the Council and NHS Lothian and appropriate governance arrangements (including the Integrated Joint Board) are being established</p> <p>A draft Strategic Health and Social Care Plan is being consulted on</p> <p>No further action required</p>
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<p>1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners</p>	<ul style="list-style-type: none"> <li>• SOA 2013</li> <li>• East Lothian Partnership structure and remit and roles of partnerships</li> <li>• East Lothian Partnership self-evaluation carried out in Dec 2014</li> <li>• New Children's Strategic Partnership established in 2014</li> <li>• Agreements between East Lothian Council and partners</li> <li>• Shared Services agreement with Midlothian Council continuing through Joint Liaison Group</li> <li>• Local Policing Plan</li> <li>• Local Fire and Rescue Plan</li> </ul>	<p>New CPP structure and SOA focused on delivering agreed vision, priorities and outcomes;</p> <p>Jointly Accountable Officer appointed and the Shadow Health &amp; Social Care Partnership established. Integration Plan being developed and will be implemented from early 2015</p> <p>Local Policing Plan and Local Fire and Rescue Plan agreed by Council</p> <p>Partnering arrangements with Midlothian Council developed on a business case basis</p> <p><b>2014 Actions:</b></p> <p><b><i>Develop toolkit of self-evaluation of Partnerships based on Improvement Service model</i></b></p> <p><b><i>Work with partners to develop and implement Children's Services inspection Improvement Plan</i></b></p>	<p>Various toolkits are being used for self-evaluation</p> <p>East Lothian Partnership self-evaluation carried out in Dec 2014 using the Improvement Service framework</p> <p>Health and Social Care Partnership developing use of Public Service Improvement Framework for self evaluation of health services</p> <p>New Children's Strategic Partnership established following inspection of children's services and taking the lead in implementing the improvement plan arising from the inspection including programme of self-evaluation</p> <p>A self-evaluation is being carried out of partners involved in delivering adult services</p> <p>Partners are developing new arrangements for community justice and to achieve the outcome of 'reducing reoffending'</p> <p>No further action required</p>
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<p>1.1.4 Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance</p>	<ul style="list-style-type: none"> <li>• Annual Accounts</li> <li>• Annual Performance Reports</li> <li>• SOA Annual Report</li> <li>• Unaudited Annual Accounts reported to Audit &amp; Governance Co in June and to Council in August</li> </ul>	<p>Unaudited accounts to be submitted to July meeting of Audit &amp; Governance Committee</p> <p>Annual Performance Report 2013/14 to be published on Council website in September</p> <p>No further action required</p>	<p>Unaudited accounts to be submitted to June meeting of Audit &amp; Governance Committee instead of a meeting in the summer recess period. This requires an acceleration of the preparation of the accounts</p> <p>Annual Performance Report 2014/15 to be published on Council website in September</p> <p>No further action required</p>
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## 1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning

<p>1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available</p>	<ul style="list-style-type: none"> <li>• Service standards</li> <li>• HGIOC, Business Plans and Improvement Plans</li> <li>• SOA Annual Report</li> <li>• Key Performance Indicators including local Government Benchmarking Framework indicators</li> <li>• PPR Co reporting and performance briefings for elected members</li> <li>• Complaints and compliments feedback</li> <li>• Independent inspection reports</li> <li>• Chief Social Work Officer's Annual Report</li> <li>• Service users' surveys</li> <li>• Citizens' Panel</li> <li>• Tenants' scrutiny activity including estate inspections, mystery shopping, surveys and focus groups</li> <li>• East Lothian Profile and Ward Profiles</li> </ul>	<p>Review of consultation strategy resulted in decision to establish an East Lothian Citizens' Panel to regularly review citizens' views about services; first survey in May 2014</p> <p>Data profiles have been completed and are being used to inform Council strategies and plans as well as Area Plans</p> <p>Use of Consultation hub being monitored</p> <p>East Lothian Partnership developing a Consultation and Engagement Framework to guide/ support partnership consultation and engagement</p> <p>Budget consultation took place prior to setting 2014/15 budget</p> <p>No further action required</p>	<p>Citizens' Panel being surveyed twice a year</p> <p>Citizens' Led Inspection (Residents' Review) of amenity services to be piloted (May/ June 2015)</p> <p>Budget consultation took place prior to setting 2015/16 budget</p> <p>Tenants consultation took place over rent levels</p> <p>No further action required</p>
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<p>1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery</p>	<ul style="list-style-type: none"> <li>• PPR Co reporting on key Performance Indicators, the Local Government Benchmarking Framework and customer feedback</li> <li>• HGIOC and service improvement plans incorporated into Service Plans</li> <li>• Significant case reviews in Social Work</li> <li>• Social Work Appeals Sub-Co</li> <li>• Social Work Complaints Review Co</li> <li>• Reporting of customer complaints and feedback</li> <li>• Whistleblowing Policy</li> <li>• External audits and inspection reports</li> <li>• Responding to issues raised by elected members</li> </ul>	<p>Six-monthly Customer Feedback performance reports presented to PPR Co. Poor customer feedback reflected back to relevant service for action</p> <p>Quarterly Performance reports considered by PPR Co and poor performance monitored and acted on</p> <p>Assurance and Improvement Plan provides assurance on overall performance</p> <p>No further action required</p>	<p>Participation in national and family group benchmarking exercises based on the Local Government Benchmarking Framework</p> <p>The Council participates in the Scottish Housing Best Value Network and supports a range of tenant led scrutiny activity that is leading to service improvements</p> <p>Poor performance in rent arrears led to the establishment of the rent arrears working group which has contributed to improvements in performance</p> <p>No further action required</p>
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**1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money**

<p>1.3.1 Decide how value for money (VFM) is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions</p>	<ul style="list-style-type: none"> <li>• Procurement Strategy</li> <li>• Performance Management framework</li> <li>• PPR Co reporting</li> <li>• Audit &amp; Governance Co reporting</li> <li>• Citizens' Panel</li> <li>• Customer feedback / surveys</li> <li>• Consultation and Engagement Strategy</li> <li>• Procurement Improvement Plan and Procurement Capability Assessment</li> </ul>	<p>Introduction of Combined Impact Assessment (including environmental impact) delayed to allow for agreement with Midlothian Council and NHS Lothian on a single CIA across the agencies. Final version agreed April 2014 and will be used in association with new reports template in August 2014</p> <p>Best Value Review template being developed</p> <p>Key Performance Indicators agreed and monitored</p> <p>Improved Procurement Capability Assessment achieved</p> <p>Benchmarking exercises using the Local Government Benchmarking Framework have begun</p> <p>Senior management group established to oversee reduction in rent arrears</p> <p>Chief Executive's budget review group established to ensure Council services operate within their approved budgets and the financial strategy</p> <p>No further action required</p>	<p>Best Value Review of Strategic Asset and Capital Plan Management to be undertaken in 2015/16 using the Best Value Review template</p> <p>Internal Audit undertakes annual audit of Performance Indicators</p> <p>No further action required</p>
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**PRINCIPLE 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2014 Update and Improvement Points	Update and 2015 Improvement Points
<b>2.1 Ensuring effective leadership throughout the authority and being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function</b>			
2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of Senior Officers	<ul style="list-style-type: none"> <li>• Scheme of Delegation</li> <li>• Member/ officer protocol</li> <li>• CPD pilot for elected members</li> <li>• Review of Impact of Multi-Member Wards and Officer Member Relations carried out in 2011</li> <li>• Induction programme for new elected members</li> <li>• Improvement Service Notebooks for new elected members</li> <li>• Guide to Scrutiny for elected members</li> <li>• Roles and Responsibilities for Elected members</li> </ul>	<p>Roles and Responsibilities for elected members agreed by Council</p> <p>Five elected members enrolled in CPD</p> <p>Regular briefings for elected members including Standards Commission session</p> <p><b>2014 Action:</b></p> <p><b><i>Review and develop elected members' training and briefings including briefing on Capital Investment Strategy and development issues arising from Councillors' responses to a survey based Audit Scotland Overview of Scottish Local Government Councillors' Checklist</i></b></p>	<p>Survey of elected members based on Overview of Scottish Local Government Councillors' Checklist undertaken in December 2014. The results have informed the programme of Elected members' briefings for 2015 including briefing from the Standards Commission</p> <p>No further action required</p>

<b>2.2 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard</b>			
2.2.1 Determine a Scheme of Delegation and reserve powers within constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required	<ul style="list-style-type: none"> <li>• Scheme of Delegation</li> <li>• Policies such as HR policies include delegation of powers to officers</li> </ul>	<p>New Standing Orders and Scheme of Delegation agreed by Council</p> <p>No further action required</p>	<p>Standing Orders reviewed regularly and revised as required</p> <p>No further action required</p>
2.2.2 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management within the Scheme of Delegation	<ul style="list-style-type: none"> <li>• Chief Executive's job description</li> <li>• Appraisal of Chief Executive</li> <li>• Peer review by Executive Directors</li> <li>• Scheme of Delegation</li> <li>• Members Library reports record decisions taken under delegated powers</li> </ul>	As above	No further action required
2.2.3 Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained	<ul style="list-style-type: none"> <li>• Member/ officer protocol within Council Standing Orders</li> <li>• Regular meetings between Chief Executive and Council Leader</li> <li>• Annual appraisal for Chief Executive with Leader and Depute Leader</li> <li>• New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council</li> <li>• Chief Executive and Council Leader jointly represent the Council at various forums</li> </ul>	See 2.1.1	No further action required

<p>2.2.4 Make a Senior Officer (the Section 95 Officer) responsible to the authority for ensuring appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control</p>	<ul style="list-style-type: none"> <li>• Section 95 Officer</li> <li>• Annual Accounts and Statement of Internal Financial Control</li> <li>• Internal and external audit reports</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
<p>2.2.5 Make a senior officer (the Monitoring Officer; and for social work services the Chief Social Work Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</p>	<ul style="list-style-type: none"> <li>• Monitoring Officer</li> <li>• Chief Social Work Officer</li> <li>• Internal audit reports</li> <li>• CSWO Annual Report</li> <li>• Scottish Government guidance on the role of CSWO and registered social workers</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
<p><b>2.3 Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of each other</b></p>			
<p>2.3.1 Develop protocols to ensure effective communication between Members and Officers in their respective roles</p>	<ul style="list-style-type: none"> <li>• Member/ officer protocol within Council Standing orders</li> <li>• New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council</li> <li>• Regular Joint Senior Officers and Members group meetings held</li> </ul>	<p>See 2.1.1</p>	<p>No further action required</p>

<p>2.3.2 Ensure that an established scheme for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place</p>	<ul style="list-style-type: none"> <li>• The Council follows the recommendations made by the Scottish Local Authorities Remuneration Committee</li> <li>• Chief Executives' scheme of remuneration</li> <li>• Registers of Interest for Members and Chief Officials</li> <li>• Auditors reviewed the outcome of the review of senior officers</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
<p>2.3.3 Ensure that effective mechanisms exist to monitor service delivery</p>	<ul style="list-style-type: none"> <li>• Performance Management / Improvement framework</li> <li>• Performance website includes details of key performance indicators</li> <li>• Members' quarterly briefings and reports to PPR Committee</li> <li>• HGIOC</li> <li>• Service Plans and Corporate Improvement Plan</li> <li>• Independent inspections</li> <li>• Assurance and Improvement Plan agreed with Local Area Network</li> </ul>	<p>See 1.3.1</p> <p>Monthly Heads of Service Highlight reports with a focus on performance considered by Council Management Team</p> <p>Focused work with Local Area Network on self-evaluation programme</p> <p>No further action required</p>	<p>See 1.2 and 1.3</p> <p>No further action required</p>
<p>2.3.4 Ensure that the authority's vision, corporate plans, priorities and targets are developed, through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</p>	<ul style="list-style-type: none"> <li>• New Council Plan based on draft approved in Jan 2012 and administration party manifestos</li> <li>• Single Outcome Agreement</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• Council's vision, Plan and priorities are communicated to the Senior Management Team, including Head Teachers</li> </ul>	<p>See 1.1.1</p>	<p>No further action required</p>

<p>2.3.5 When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority</p>	<ul style="list-style-type: none"> <li>• Scheme of Administration, including Scheme of Delegation and Councillors' Code of Conduct</li> <li>• Memorandums and Articles of arms length companies</li> <li>• Induction programme for new elected members</li> <li>• Improvement Service Notebooks for new elected members</li> <li>• Advice provided to members on partnerships and outside bodies (e.g. Enjoy Leisure and Musselburgh Joint Racecourse Committee)</li> </ul>	<p>See 2.1.1</p> <p>East Lothian Partnership Handbook includes roles and responsibilities of Partnership members</p> <p>No further action required</p>	<p>Training being developed for the members of the Integrated Joint Board</p> <p>The Council is actively engaged in trying to reverse the Scottish Local Government Boundary Commission's intention to reduce the number of elected members from 23 to 21 as a reduction in the number of elected members will reduce capacity to effectively engage with partnerships</p> <p>No further action required</p>
<p>2.3.6 When working in partnership, ensure that there is clarity about the legal status of the partnership; ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisations to partner decisions</p>	<ul style="list-style-type: none"> <li>• As above</li> <li>• Partnership Funding Strategy</li> <li>• East Lothian Partnership Improvement Plan</li> <li>• Service Level Agreements increasingly used when funding outside organisations</li> <li>• Procurement Improvement Plan</li> <li>• Adult and Children's Services Commissioning strategies</li> <li>• Draft Health and Social Care Integration scheme approved by Council</li> </ul>	<p>Joint Asset Management Group established by East Lothian Partnership</p> <p>Transfer of Community Centres to Management Committees progressing</p> <p>No further action required</p>	<p>Working group developing an Asset Transfer policy that will prepare the Council for the new responsibilities and duties arising from the Community Empowerment Bill</p> <p>No further action required</p>



**PRINCIPLE 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior**

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2014 Update and Improvement Points	Update and 2015 Improvement Points
<b>3.1 Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</b>			
3.1.1 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	<ul style="list-style-type: none"> <li>• Scheme of Administration, including Councillors' Code of Conduct</li> <li>• Various mechanisms used to inform council staff and the public of council decisions and policies</li> <li>• Customer Excellence</li> <li>• East Lothian Way</li> <li>• Service based Joint Consultative Committees have been established</li> <li>• Annual Employee Engagement Survey and feedback to staff</li> <li>• All FOI responses are on the Council's website</li> <li>• Whistleblowing Policy</li> <li>• Council's website has been improved and achieved positive SOCITM score</li> <li>• Workforce Development Plan</li> </ul>	<p>Review of Whistleblowing Policy completed</p> <p>Employee Engagement Survey found 90% of staff able to disclose personal information and 87% of staff feel they are treated fairly</p> <p>Management training (CMI 5 and CMI 3) rolled out for senior managers and frontline managers</p> <p>No further action required</p>	<p>2015 Employee Engagement Survey showed 91% of staff feel able to disclose personal information, 89% are able to discuss health and wellbeing issues with their manager and 88% feel they are treated fairly</p> <p>Three CMI 5 training courses have been run involving 20 service managers. Another course will begin in October 2015.</p> <p>Three CMI 3 courses have been run with further courses planned for later in 2015</p> <p>No further action required</p>

<p>3.1.2 Ensure that standards of conduct and personal behaviour expected of all Members and staff, and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols</p>	<ul style="list-style-type: none"> <li>• Scheme of Administration, including Councillors' Code of Conduct</li> <li>• East Lothian Partnership, three supporting Partnerships and six Area Partnerships</li> <li>• Disciplinary Code of Conduct for Employees</li> <li>• The East Lothian Way</li> <li>• Performance Review and Development Scheme for employees</li> <li>• Transformational Leadership Programme for senior officers and managers</li> <li>• Review of Impact of Multi-Member Wards and Officer Member Relations</li> <li>• Scottish Social Services Council Code of Conduct</li> <li>• Social Media Policy</li> </ul>	<p>East Lothian Partnership is to agree a Code of Conduct for members of the Partnership groups</p> <p>Elected members' Roles and responsibilities agreed by the Council</p> <p>Workforce Development Strategy includes refresh of PDFs and East Lothian Way</p> <p>Staff Communications being reviewed</p> <p>No further action required</p>	<p>East Lothian Partnership has agreed a Code of Conduct for members</p> <p>Performance Review and Development, incorporating the East Lothian Way for staff is being reviewed</p> <p>No further action required</p>
<p>3.1.3 Put in place arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice</p>	<ul style="list-style-type: none"> <li>• Members' and Officers Codes of Conduct and Registers of Interests</li> <li>• Standing Orders</li> <li>• Single Equality Scheme</li> <li>• Standing Orders including Scheme of Delegation and Equalities Policies</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality policy</li> <li>• Induction programme for new elected members</li> </ul>	<p>See 2.1.1</p>	<p>Gifts and Hospitality Policy was revised</p> <p>Internal audit audited elected members gifts and hospitality</p> <p>No further action required</p>

<b>3.2 Ensuring that organisational values are put into practice and are effective</b>			
3.2.1 Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicating these with Members, staff, the community and partners	<ul style="list-style-type: none"> <li>• East Lothian Way</li> <li>• Council Plan 2012-2017</li> <li>• SOA and Community Plan</li> <li>• Customer Excellence</li> <li>• Transformational Leadership Programme</li> <li>• Performance Review &amp; Development Scheme for employees</li> <li>• Corporate Induction Pack and Course for Managers</li> <li>• Code of Conduct and Disciplinary Procedures for all employees</li> <li>• Team Talk communication channel</li> <li>• Workforce Development Strategy and Plan</li> </ul>	<p>Workforce Development Strategy and plan developed including actions to review the East Lothian Way</p> <p>CMI 5 and CMI 3 programme for senior managers and frontline managers</p> <p>Response to Employee Engagement Survey 2014 being developed</p> <p>Staff communications being reviewed</p> <p>No further action required</p>	<p>See 3.1.1</p> <p>Council Plan was reviewed and refreshed in Oct 2014</p> <p>A series of One Council Workshops s being organised to engage with staff from across the Council</p> <p>No further action required</p>
3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	<ul style="list-style-type: none"> <li>• Standing Orders including Councillors' Code of Conduct</li> <li>• Gifts and Hospitality policy</li> </ul>	No further action required	<p>See 3.1.3</p> <p>No further action required</p>
3.2.3 Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority	<ul style="list-style-type: none"> <li>• Standing Orders</li> <li>• East Lothian Way</li> <li>• Roll out of PRDfor all employees</li> <li>• Annual Employee Engagement Survey</li> <li>• Council Plan 2012-2017</li> </ul>	No further action required	<p>See 3.2.1</p> <p>No further action required</p>

**PRINCIPLE 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2014 Update and Improvement Points	Update and 2015 Improvement Points
<b>4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</b>			
4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible	<ul style="list-style-type: none"> <li>• Scheme of Administration</li> <li>• Audit &amp; Governance Committee</li> <li>• PPR Committee</li> <li>• Reviews of the use of Scrutiny Guide by Audit &amp; Governance and PPR Committees</li> <li>• Local Area Network and external auditors review the Council's scrutiny activity</li> </ul>	<p>CIPFA course on the Role of Audit Committee attended by Audit &amp; Governance Committee and Chair of PPR Co</p> <p>LAN supported HGIOC peer review sessions and 2013 Corporate Governance Self-evaluation</p> <p><b>2014 Action:</b> <b><i>Scrutiny training for PPR Co members</i></b></p>	<p>Local Area Network has participated in HGIOC peer review sessions in early 2015</p> <p>Elected members' briefing on performance management to be held in September 2015</p> <p>No further action required</p>
4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	<ul style="list-style-type: none"> <li>• Scheme of Administration including Scheme of Delegation</li> <li>• Members Library Service and Bulletin to report delegated decisions</li> <li>• E-gov provides access to all reports and minutes</li> </ul>	No further action required	No further action required
4.1.3 Put in place arrangements to safeguard Members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice	<ul style="list-style-type: none"> <li>• Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Registers and Declarations of Interest</li> <li>• Recruitment and Selection procedures and training</li> <li>• Discipline and Grievance Procedures</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality policy</li> <li>• Procurement Strategy</li> </ul>	<p>Whistleblowing Policy reviewed and will be published and publicised to staff in May</p> <p>No further action required</p>	<p>See 3.1.3</p> <p>Standards Commission delivering training session for elected members on Declaration of Interest (May 2015)</p> <p>No further action required</p>

<p>4.1.4 Develop and maintain an effective Audit Committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee</p>	<ul style="list-style-type: none"> <li>• Standing Orders and Scheme of Administration</li> <li>• Audit &amp; Governance Committee</li> <li>• Elected members Scrutiny Guide</li> <li>• Assurance and Improvement Plan agreed with Local Area Network</li> <li>• Quarterly briefing on performance indicators</li> </ul>	<p>See 4.1.1</p>	<p>No further action required</p>
<p>4.1.5 Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints</p>	<ul style="list-style-type: none"> <li>• Complaints policy 'Feedback'</li> <li>• Publicity about complaints procedures</li> <li>• Six-monthly report on complaints and feedback made to PPR Committee</li> </ul>	<p>Six-monthly Customer Feedback performance reports presented to PPR Co. Poor customer feedback reflected back to relevant service for action</p> <p>No further action required</p>	<p>No further action required</p>

**4.2 Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs**

<p>4.2.1 Ensure that those making decisions are provided with information that is fit for purpose - relevant, timely and gives clear explanations of technical issues and their implications</p>	<ul style="list-style-type: none"> <li>• Format of Council, Cabinet, Audit &amp; Governance Co, PPR Co and Community Planning Board reports</li> <li>• Calendar of meetings and timely preparation of agendas and papers</li> <li>• Three-year Financial Strategy</li> <li>• Advice in preparing annual budget</li> <li>• Performance website and quarterly briefing for elected members</li> </ul>	<p>See 2.1.1</p>	<p>Survey of elected members carried out in December 2014 indicated that elected members are satisfied with the level and quality of information provided to assist them in decision making (e.g. 16 agreed they receive adequate information covering service performance and only 1 disagreed; 13 agreed they receive adequate information covering service costs and only 2 disagreed)</p> <p>Elected members briefings programme in 2015 will include sessions on performance management and capital planning</p> <p>No further action required</p>
<p>4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately</p>	<ul style="list-style-type: none"> <li>• Agendas and papers for Council, Cabinet, Audit &amp; Governance Co, PPR Co and Community Planning Board</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work Officer provide advice on legal or financial implications as required</li> </ul>	<p>No further action required</p>	<p>Arrangements for report preparation and presentation, including reporting of legal and financial implications, will be reviewed in line with the review of the report template</p> <p>No further action required</p>

**4.3 Ensuring that an effective risk management system is in place**

4.3.1 Ensure that risk management is embedded into the culture of the authority, with Members and Managers at all levels recognising that risk management is part of their jobs	<ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Management Groups</li> <li>• Role of Audit &amp; Governance Co</li> <li>• Corporate and Service Risk Registers</li> <li>• Service Plans reflect corporate and service risks</li> </ul>	No further action required	No further action required
4.3.2 Ensure that arrangements are in place for whistleblowing to which staff and all those contracting with the authority have access	<ul style="list-style-type: none"> <li>• Standing Orders including Codes of Conduct</li> <li>• Whistleblowing Policy</li> </ul>	See 4.1.3	No further action required
<b>4.4 Using the authority's legal powers to the full benefit of the citizens and communities in their areas.</b>			
4.4.1 Actively recognise the limits of lawful activity placed on the authority by, for example, the ultra vires doctrine, but also strive to utilise powers to the full benefit of East Lothian's communities	<ul style="list-style-type: none"> <li>• Senior officers and elected members have a general understanding of statutory powers</li> <li>• Standing Orders detail statutory powers under which senior officers operate</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice</li> <li>• Internal and external Audit reports</li> </ul>	No further action required	No further action required
4.4.2 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law	<ul style="list-style-type: none"> <li>• Scheme of Administration including Scheme of Delegation</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice</li> <li>• Internal and external Audit reports</li> </ul>	Standards Commission briefing session held for elected members No further action required	Standards Commission briefing session on declaration of interests to be held for elected members No further action required

<p>4.4.3 Observe all specific legislative requirements placed upon the authority, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into the authority’s procedures and decision making processes</p>	<ul style="list-style-type: none"> <li>• Standing Orders including establishment of quasi judicial committees and sub-committees</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work Officer provide appropriate advice</li> <li>• Legal advice provided to elected members to support decision-making; for example: <ul style="list-style-type: none"> <li>○ Procurement</li> <li>○ Coastal car park charging</li> <li>○ School catchment areas</li> </ul> </li> </ul>	<p>No further action required</p>	<p>See 4.2.2</p> <p>No further action required</p>
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**PRINCIPLE 5: Developing the capacity and capabilities of members and officers to be effective**

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2014 Update and Improvement Points	Update and 2015 Improvement Points
<b>5.1 Make sure that Members and Officers have the skills, knowledge, experience and resources they need to perform their roles well.</b>			
5.1.1 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis	<ul style="list-style-type: none"> <li>• Induction programme for officers, CPD and training opportunities for staff</li> <li>• Piloted CPD for members</li> <li>• Performance Review and Development for all employees</li> <li>• Corporate Learning</li> <li>• E-Learning / LearnNet on ELnet</li> <li>• Induction programme for new elected members</li> <li>• Induction Notebooks on Elnet</li> <li>• Programme of briefing sessions for elected members</li> </ul>	<p>Five elected members enrolled in CPD programme</p> <p>Programme of briefing sessions for elected members</p> <p>No further action required</p>	<p>See 4.2.1 and 4.4.2</p> <p>No further action required</p>
5.1.2 Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority	<ul style="list-style-type: none"> <li>• Job descriptions for statutory officers</li> <li>• Networking and development opportunities for statutory officers through professional associations</li> <li>• Role of statutory officers recognised in Scheme of Administration</li> <li>• People Strategy</li> <li>• Workforce Development Strategy and Plan</li> </ul>	<p>No further action required</p>	<p>No further action required</p>

**5.2 Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group**

<p>5.2.1 Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively</p>	<ul style="list-style-type: none"> <li>• CPD pilot for elected members</li> <li>• Performance Review and Development all employees</li> <li>• Guide to Scrutiny and Review published and scrutiny training provided for elected members</li> <li>• Elected members' Performance Briefings to encourage scrutiny of performance information</li> </ul>	<p>See 2.1.1</p>	<p>See 2.1.1 No further action required</p>
<p>5.2.2 Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed</p>	<p>As above</p>	<p>See 2.1.1</p>	<p>See 2.1.1 No further action required</p>
<p>5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan, which might, for example aim to address any training or development needs</p>	<ul style="list-style-type: none"> <li>• CPD pilot for elected members</li> <li>• Elected Members' Code of Conduct &amp; complaints about performance</li> </ul>	<p>See 2.1.1</p>	<p>See 2.1.1 No further action required</p>

**5.3 Encouraging new talent for membership of the authority so that best use can be made of individual's skills and resources in balancing continuity and renewal.**

<p>5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority</p>	<ul style="list-style-type: none"> <li>• Six Area Partnerships</li> <li>• Community Planning Community Engagement Strategy</li> <li>• Tenants and Residents Panel</li> <li>• Support for Voluntary Action East Lothian to participate in the Community Planning structures</li> <li>• Community Councils</li> <li>• Petitions Committee, including new online features</li> <li>• Council Consultation and Engagement Strategy</li> </ul>	<p>See 1.2.1</p>	<p>Citizens' Panel has been established with over 1,200 members</p> <p>Youth E-Panel being established</p> <p>Area Partnerships consulted on Main Issues Report and Health and Social care Strategy and developing Area Plans</p> <p>Pilot of Residents review (Citizens' Led Inspection) in Spring 2015</p> <p>Tenants' scrutiny activity including mystery shopping and rent level survey</p> <p>No further action required</p>
<p>5.3.2 Ensure that career structures are in place for members and officers to encourage participation and development</p>	<ul style="list-style-type: none"> <li>• CPDs for officers</li> <li>• People Strategy</li> <li>• Transformational Leadership Programme</li> <li>• Performance Review and Development for all employees</li> <li>• Customer Service Professional Qualification</li> <li>• CMI 3 and CMI 5 courses</li> <li>• Workforce Development Strategy and Plan</li> </ul>	<p>Workforce Development Strategy and Plan includes action around succession planning – creating a workforce for the future</p> <p>No further action required</p>	<p>See 3.1.1</p> <p>Performance Review and Development process has been reviewed; new PRD process is being piloted in the spring with a view to be rolled out across all services in the autumn.</p> <p>No further action required</p>

**PRINCIPLE 6: Engaging with local people and other stakeholders to ensure robust public accountability**

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2014 Update and Improvement Points	Update and 2015 Improvement Points
<b>6.1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</b>			
6.1.1 Make clear to all staff and the community to whom the authority's leadership are accountable and for what	<ul style="list-style-type: none"> <li>• Council Plan 2012-2017, SOA, Corporate Improvement Plan, Service and Business Plans</li> <li>• Information on Council structure available on Council website</li> <li>• Annual Performance Reports</li> <li>• Living newspaper</li> </ul>	No further action required	See 5.3.1 No further action required
6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required	<ul style="list-style-type: none"> <li>• Various forums for engaging with stakeholders including the CPP, Local Area Forums, ELTRP, Community Councils and Parents Councils</li> <li>• Consultation and Engagement Strategy</li> </ul>	See 1.2.1	No further action required
6.1.3 Produce an annual report on the activity of the scrutiny function	<ul style="list-style-type: none"> <li>• Annual Performance Reports</li> <li>• Internal and external Audit Plans reviewed</li> <li>• Quarterly performance information published on-line</li> <li>• Internal controls assurance statement</li> </ul>	No further action required	Both Audit & Governance and PPR Committee have work programmes that are reviewed at each meeting and at agenda setting meetings  Annual Performance Report includes review of work of these two scrutiny committees  No further action required

<b>6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership or by commissioning</b>			
6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively	<ul style="list-style-type: none"> <li>• Communications Strategy</li> <li>• Community Planning Community Engagement Strategy</li> <li>• People's Voice, the Community Planning Engagement Strategy includes monitoring framework</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• Complaints procedures and monitoring reports</li> </ul>	See 1.2.1	See 5.3.1 No further action required
6.2.2 Hold meetings in public unless there are good reasons for confidentiality	<ul style="list-style-type: none"> <li>• Council meetings are held in public</li> <li>• Agendas, papers and minutes are published on the Council's website</li> </ul>	No further action required	No further action required
6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	<ul style="list-style-type: none"> <li>• Equality and Diversity Network</li> <li>• Community Planning Community Engagement Strategy</li> <li>• Community Councils</li> <li>• Local Area Forums</li> <li>• ELTRP</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> </ul>	See 1.2.1	See 5.3.1 No further action required
6.2.4 Establish clear policy on the types of issues the authority will meaningfully consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result	<ul style="list-style-type: none"> <li>• Community Planning Community Engagement Strategy</li> <li>• ELTRP</li> <li>• Community Councils consulted on planning matters</li> <li>• Consultation and Engagement Strategy</li> </ul>	As above	See 5.3.1 No further action required

<p>6.2.5 Publish an annual performance plan giving information on the authority's vision, strategy, plans and finances well as information about incomes, achievements and satisfaction of service users in the previous period</p>	<ul style="list-style-type: none"> <li>• Annual Performance Reports</li> <li>• Annual Accounts</li> <li>• Performance Management Framework – Improvement to Excellence</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
<p>6.2.6 Ensure that the authority as a whole is open and accessible to the community, service users and its staff, and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</p>	<ul style="list-style-type: none"> <li>• Compliance with the Freedom of Information Act and Data Protection Act</li> <li>• Council meetings held in public</li> <li>• Agendas for meetings, minutes and reports published on the Council website</li> <li>• Living newspaper</li> <li>• Star Awards Public Nominations</li> <li>• Petitions Committee</li> <li>• Performance website</li> </ul>	<p>See 1.2.1</p> <p>Most recent FOI/ Data Protection inspection provided assurance that the Council is complying with legislation</p> <p>FOI responses published on website</p> <p>No further action required</p>	<p>See 5.3.1</p> <p>Trade Union and management Joint Efficiency Group has been established</p> <p>No further action required</p>
<p><b>6.3 Making best use of human resources by taking an active and planned approach to meet responsibility to staff</b></p>			
<p>6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making</p>	<ul style="list-style-type: none"> <li>• People Strategy</li> <li>• JCC and JC Groups</li> <li>• Employee and JTU Consultations</li> <li>• Annual Budget Review and Development Discussions for JTU</li> <li>• Employee Engagement Survey</li> <li>• Annual Working Together Forum</li> <li>• Staff involved in HGIOC</li> </ul>	<p>Workforce Development Plan responds to issues raised in the Employee Engagement Survey and Working together Forum</p> <p>Communications and engagement protocol being developed with Trade Unions and Joint Consultative Groups being revised</p> <p>No further action required</p>	<p>No further action required</p>

## Appendix 2: 2014/15 Council Improvement Plan: Monitoring Statement (April 2015)

### 2014/15 Council Improvement Plan

We deliver excellent services as effectively and efficiently as possible

	<b>ACTION</b>	<b>LEAD SERVICE</b>	<b>TIMESCALE</b>	<b>UPDATE</b>
1	Develop toolkit for self-evaluation of strategic partnerships	Communities and Partnerships	Completed	The East Lothian Partnership undertook a strategic self-assessment supported by the Improvement Service. The toolkit used for this self-evaluation can be adapted for use by other strategic partnerships. Work is also underway to develop a self-evaluation framework for the Children's Strategic Partnership.
2	Scrutiny training for PPR Co members	Council Resources	August 2015	An elected member survey was conducted in December 2014 to identify training needs. The survey has contributed to the development of the elected members' briefing programme for 2015 which includes a session on Performance Management to be held in August 2015
3	Review and revise the Improvement Framework and make more effective use of benchmarking, develop guidance and training on the use of benchmarking, Best Value reviews and options appraisal	Communities and Partnerships	Completed	The Improvement Framework has been reviewed.  The Council is participating in several benchmarking exercises based on the Local Government Benchmarking Framework and carried out a charges benchmarking exercise.  A template for undertaking Best Value Reviews, including options appraisal has been completed.
4	Introduce Combined Impact Assessment	Communities	September	A draft Combined Impact Assessment toolkit

	and process for monitoring the needs of minority and vulnerable groups	and Partnerships	2015	has been prepared jointly with Midlothian Council, City of Edinburgh Council and NHS Lothian. Roll out of the new impact assessment has been delayed but will commence in spring 2015.
5	Prepare and implement Records Management Plan setting out arrangements for management and retention of records in line with requirements of the Public Records (Scotland) Act 2011	Council Resources	Completed	The Records Management Plan was adopted by the 28 <sup>th</sup> October Council meeting.
6	Work with partners to develop and implement the Children's Services inspection Improvement Plan	Children's Wellbeing	Completed	The Improvement Plan has been approved and the Action Plan is being implemented by the Children's Strategic Partnership.
7	Review and develop elected members' training and briefings including briefing on Capital Investment Strategy and development issues arising from Councillors' responses to a survey based Audit Scotland Overview of Scottish Local Government Councillors' Checklist	Communities and Partnerships / Council Resources	Completed	See 2 above
8	Implement the action plan based on the Investors in People Improvement Plan and Workforce Development Plan	Communities and Partnerships	Completed	The key actions from the Investors in People assessment are reflected in the Workforce Development Plan
9	Review and revise the staff communications plan to ensure staff are fully informed and engaged	Communities and Partnerships	Completed	Staff communications has been revised and actions to improve staff engagement will be carried out over the next three months, including new staff newsletter / briefings.  A key part of the engagement with staff over the next year will be the roll out of a series of 'One Council – Working Together' workshops starting in February 2015.
10	Implement the Web Development strategy	Communities	September	The Web Development Strategy has been



	to provide a more responsive and effective Council website that will support more 'self-service' activity by council service users	and Partnerships	2016	<p>agreed to produce a new website using Responsive Design to suit a range of devices, replace existing website self-service functions with improved self-service facilities and extend self-service capability to other services and provide improved on-line booking and payments facilities.</p> <p>Implementation has been delayed but measures are now in place to begin the project.</p>
11	Further develop the Council's service planning process moving towards three-year service planning linked to financial planning based on staff and stakeholder engagement	Communities and Partnerships	Completed	<p>A three-year service planning framework linked to financial planning and How Good is Our Council self-evaluation with staff and stakeholder engagement has been developed. This will be rolled out for use by all services over the next year.</p>



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Depute Chief Executive – Resources and People Services

**7**

**SUBJECT:** Internal Audit Report – Mandatory and Discretionary  
Financial Assistance

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Mandatory and Discretionary Financial Assistance.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Mandatory and Discretionary Financial Assistance was undertaken as part of the audit plan for 2014/15.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Mandatory and Discretionary Financial Assistance were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - None  
6.2 Personnel - None  
6.3 Other - None

## **7 BACKGROUND PAPERS**

- 7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015

## **EAST LoTHIAN COUNCIL – INTERNAL AUDIT MANDATORY AND DISCRETIONARY FINANCIAL ASSISTANCE**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2014/15 a review was undertaken of Mandatory and Discretionary Financial Assistance. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- The Council has a statutory duty to provide advice and assistance to owner occupiers and private tenants. A Scheme of Assistance is in place to enable the Council to meet its statutory duties – the Scheme sets out the role of Care and Repair East Lothian in assisting the Council in fulfilling its duties.
- Adequate documentation is held to support all grant awards made.
- A grant award letter is sent to the applicant clearly outlining the approved expense, % grant award and the actual grant to be paid.
- All grant payments are properly authorised by a designated Council officer and correctly coded in the Council's general ledger.
- A consistent approach is adopted for assessing applicants' eligibility for discretionary grant awards.

#### **1.3 Areas with Scope for Improvement**

- Information on the Council's website on Mandatory and Discretionary Financial Assistance requires review – the summary guide to the Council's Scheme of Assistance was out of date and did not reflect the Council's current policy. *Risk – information provided may be inaccurate and incomplete.*
- No formal Service Level Agreement is in place between East Lothian Council and Care and Repair East Lothian. *Risk – failure to clearly outline the respective responsibilities of each party.*
- The 2013/14 annual budget and Council policy on Mandatory and Discretionary Financial Assistance was reported to and approved by Cabinet, however no similar reports have been prepared for subsequent years. *Risk – failure to adopt a consistent approach.*
- The awarding of work to contractors by Care and Repair is not consistent with the procurement requirements of the Council, however procurement procedures form part of ongoing discussions between Care and Repair East Lothian and the Council as part of the Care and Repair East Lothian Local Advisory Committee. *Risk – best value may not be achieved.*

#### **1.4 Summary**

Our review of Mandatory and Discretionary Financial Assistance identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**May 2015**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
MANDATORY AND DISCRETIONARY FINANCIAL ASSISTANCE**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	Management should ensure that the summary guidance on the Council's Scheme of Assistance, available on the Council's website, is updated to reflect current Council policy.	Medium	Housing Access Manager	Agreed – work underway as part of Community Housing Services website review.		October 2015
3.3.1	Management should ensure that a consistent approach is adopted to the reporting of the annual budget and Council policy on Mandatory and Discretionary Financial Assistance.	Medium	Housing Access Manager	Agreed		October 2015
3.7.1	Management should ensure that a Notice of Payment of Grant is held on file for all grants awarded to evidence that the Council has complied with legislation.	Medium	Housing Access Manager	Agreed		June 2015

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.9.1	Management should ensure that a formal Service Level Agreement is in place for the services provided by Care and Repair East Lothian.	Medium	Housing Access Manager	Agreed – discussions underway within steering group on need to establish a more effective funding regime either by contract or SLA.		October 2015
3.10.1	<p>Management should ensure that a consistent approach is adopted for the reporting and approval of housing service external grant awards.</p> <p>Management should implement the actions outlined in the Housing Service External Grant Awards 2013/14 report to Cabinet and a decision should be taken whether to competitively procure the Care and Repair service.</p>	Medium	Housing Access Manager	<p>Agreed</p> <p>Agreed</p>		<p>October 2015</p> <p>April 2016</p>
3.11.1	Management should ensure that the existing procurement procedures for the awarding of work to contractors by the Care and Repair service are consistent with the standards expected by the Council.	Medium	Housing Access Manager	Agreed		October 2015

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 19 May 2015  
**BY:** Depute Chief Executive – Resources and People Services  
**SUBJECT:** Internal Audit Report – Frameworki Payments on Schedule

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**8**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Frameworki – Payments on Schedule.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Frameworki – Payments on Schedule was undertaken as part of the audit plan for 2014/15.
- 3.2 The main objective of the audit was to ensure that the internal controls in place in respect of Frameworki – Payments on Schedule were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT FRAMEWORKi – PAYMENTS ON SCHEDULE**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2014/15 a review was undertaken of Frameworki – Payments on Schedule. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- All payments to providers are supported by a remittance advice detailing clients' names, the payment period, the weekly rate, the total payment cost and the client contribution.
- Payments for older people receiving residential nursing care are being made at the nationally agreed rates.
- Arrangements are in place to ensure that all providers sign and return their remittance advice notes to confirm that payment details in respect of individual clients are correct – where providers fail to return the remittance advice notes, payments are suspended and no further payments are made.
- Where providers identify information on the remittance advice notes that require changes, all corrections are properly made on a subsequent payment run.

#### **1.3 Areas with Scope for Improvement**

- No formal documentation is in place confirming the providers' agreement to the Council making Payments on Schedule. *Risk – failure to clearly outline the responsibilities of providers.*
- Frameworki provides an audit trail of the officers who initiate and certify individual client payments, however we found that detailed checks to confirm accuracy and completeness are not undertaken by officers certifying the payments. *Risk – errors and irregularities may occur and remain undetected.*
- In two cases there was a failure by the provider to properly review the details on the remittance advice and identify clients who were no longer in receipt of a service – in one case the provider continued to receive payments in respect of a deceased client for a nine month period prior to highlighting the change to the Council. *Risk – overpayments may occur.*
- The arrangements in place for monitoring ongoing disputes relating to client contributions require review. *Risk – failure to recover all sums due to the Council.*
- For non-standard residential care there was a lack of evidence on file to support the individual placement rates that had been agreed with the care home. *Risk – overpayments may occur.*

#### **1.4 Summary**

Our review of Frameworki – Payments on Schedule identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**May 2015**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
FRAMEWORKi – PAYMENTS ON SCHEDULE**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	<p>Management should ensure that formal agreements are in place with all providers receiving Payments on Schedule.</p> <p>The agreements should clearly set out the responsibilities of both the Council and the provider.</p>	Medium	<p>Service Manager – Operations</p> <p>(responsibility will transfer to Service Manager – Resources)</p>	Agreed		September 2015
3.3.2	<p>Management should ensure that appropriate accuracy and completeness checks are undertaken by officers certifying individual client payments.</p>	Medium	<p>Service Manager – Operations</p> <p>(responsibility will transfer to Service Manager – Resources)</p>	Agreed		June 2015
3.4.1	<p>Where providers fail to properly check the details on the remittance advice and inform the Council of relevant changes, Management should consider withdrawing the Payment on Schedule option from these providers.</p>	Medium	<p>Service Manager – Operations</p> <p>(responsibility will transfer to Service Manager – Resources)</p>	Agreed		June 2015

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.5.2	Management should ensure that appropriate evidence is held on file to confirm the agreed rates for non-standard residential placements.	Medium	Service Manager – Operations  (responsibility will transfer to Service Manager – Resources)	Agreed		September 2015
3.6.1	Management should monitor ongoing disputes relating to client contributions to ensure that appropriate action is taken to recover all amounts promptly, once the dispute has been resolved.	Medium	Service Manager – Operations  (responsibility will transfer to Service Manager – Resources)	Agreed		June 2015

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Depute Chief Executive – Resources and People Services

**SUBJECT:** Internal Audit Report – Borrowings

---

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Borrowings.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Borrowings was undertaken as part of the audit plan for 2014/15.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Borrowings were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT BORROWINGS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Borrowings was undertaken as part of the Audit Plan for 2014/15. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- The Council has a Treasury Management Strategy in place – the strategy is prepared in accordance with the CIPFA Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities.
- The Treasury Management Strategy sets out the authorised limits for external debt – the limits are approved by Council on an annual basis.
- The Council has a list of designated officers authorised to arrange borrowings.
- A detailed register is maintained to record all borrowings – the register includes details of the principal sum, interest and repayment terms.
- The loan interest on borrowings is correctly calculated and paid on the due date.
- A temporary loan record is completed for short term borrowings and is properly authorised by the designated Council officer.
- The information submitted to the Scottish Government in the quarterly borrowing and lending returns was accurate and complete.
- Adequate monitoring arrangements are in place to ensure that loans are correctly repaid on the maturity date.
- A formal contract is in place with the Council's external Treasury Management Advisors.

#### **1.3 Areas with Scope for Improvement**

- The cash flow forecast used for monitoring the Council's liquidity position is not being regularly updated with the actual bank balances. *Risk – failure to achieve optimum liquidity.*
- There was a lack of evidence to support the reconciliations being undertaken between the loans register and the Council's general ledger. *Risk – errors and irregularities may occur and remain undetected.*
- The existing arrangements in place for checking fair value adjustments and accrued interest require review. *Risk – errors and misstatements may occur and remain undetected.*

#### **1.4 Summary**

Our review of Borrowings identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
Internal Audit Manager

**May 2015**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
BORROWINGS**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.2	Management should ensure that the existing procedures in place are updated to include long term market borrowings.	Low	Service Manager – Corporate Finance	Agreed		May 2015
3.2.3	Appropriate checks should be carried out to ensure that the accrued interest on loans is correctly recorded on the loans register.	Medium	Service Manager – Corporate Finance	Agreed		May 2015
3.3.1	Management should ensure that a consistent approach is adopted for recording all borrowings – the existing temporary loan record form should be adapted and used for recording long term borrowings.  For all long term borrowings, the loan record form should be fully completed by the responsible officer and authorised by the Section 95 officer.	Medium	Service Manager – Corporate Finance	Agreed		June 2015

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.5.1	Management should ensure that the actual bank balances are recorded on the cash flow forecast on a regular basis.	Medium	Service Manager – Corporate Finance	Agreed		May 2015
3.8.2	Management should ensure that appropriate reconciliations are undertaken between the accrued interest calculations provided by the Council’s external advisors and the information held on the loans register.  Management should ensure that any variances identified are fully investigated and that appropriate action is taken.	Medium	Service Manager – Corporate Finance / Service Manager – Business Finance	Agreed		June 2015
3.9.2	Management should ensure that a summary sheet is completed for reconciliations undertaken between the loans register and the general ledger.  A person independent of processing should check the reconciliation and sign the summary sheet as evidence of checks being carried out.	Medium	Service Manager – Corporate Finance	Agreed		July 2015

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.9.3	Appropriate arrangements should be put in place to ensure that key information which forms part of the Council's Statement of Accounts is checked for accuracy and completeness.	Medium	Service Manager – Corporate Finance / Service Manager – Business Finance	Agreed		June 2015

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 19 May 2015  
**BY:** Depute Chief Executive – Resources and People Services  
**SUBJECT:** Internal Audit Report – Pensions

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**10**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Pensions.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Pensions was undertaken as part of the audit plan for 2014/15.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Pensions were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

**6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

**7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT PENSIONS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Pensions was undertaken as part of the Audit Plan for 2014/15. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- Adequate procedures are in place to ensure that payments to Pension Fund Administrators are properly authorised and submitted by the due date.
- Pension contribution rates for 2014/15 had been correctly updated on the CHRIS system for both teachers and Local Government employees.
- The Full Time Equivalent rate of pay for Local Government employees had been correctly assessed for financial year 2014/15.
- Adequate arrangements are in place to ensure that pension contributions are correctly posted in the Council's general ledger.
- The employer contribution rate had been properly applied for both teachers and Local Government employees.

#### **1.3 Areas with Scope for Improvement**

- In two cases, system errors were identified for employees changing posts from a casual to a permanent position resulting in incorrect deduction of pension contributions. For these cases staff had failed to override the CHRIS system correctly. *Risk – errors or irregularities may occur and remain undetected.*
- There was a lack of checking procedures in place to ensure that information submitted to the Lothian Pension Fund for leavers was accurate and complete. *Risk – errors or irregularities may occur and remain undetected.*
- In some instances, information on starters, change of hours, leavers and retirees had not been submitted to the Lothian Pension Fund within the specified time limit. *Risk – information may not be updated timeously.*
- In some cases, there had been a failure to authorise change of contract forms prior to the effective date of change. *Risk – over or under payments may occur.*
- There was a lack of detailed guidance in place to assist staff responsible for administering pensions. *Risk – failure to adopt a consistent approach.*

#### **1.4 Summary**

Our review of Pensions identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

**Mala Garden**  
Internal Audit Manager

**May 2015**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
PENSIONS**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	Management should ensure that detailed procedures are developed which incorporate the recent pension scheme changes – the procedures should be circulated to all relevant Payroll staff.	Medium	Payroll Manager	Agreed – new guidance to be put in place in line with scheme changes from April 2015.		August 2015
3.3.1	A person independent of processing should check that the annual pension contribution rates have been correctly updated on the CHRIS system – evidence of the checks should be retained on file.	Medium	Payroll Manager	Agreed		May 2015
3.4.4	Management should ensure that information on starters, change of hours, leavers and retirals is submitted by Service Managers timeously to enable the Payroll Section to submit pension returns within the specified time limits.	Medium	Service Manager – HR and Payroll	Agreed		May 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should fully investigate the system error identified which led to employee contributions not being deducted at the assessed rate for 2014/15.	Medium	Payroll Manager	Agreed		May 2015
3.6.3	For employees paying additional pension contributions appropriate documentary evidence should be obtained from the relevant pension providers.	Medium	Payroll Manager	Agreed		May 2015
3.7.1	Change of Contract Forms should be authorised by the Service Manager or an appropriate officer prior to the effective date of change.  The system anomalies identified for employees changing from a casual to a permanent position should be referred to the system provider.  Management should ensure that appropriate accuracy and completeness checks are carried out for all employees changing posts from a casual to a permanent position.	Medium	Service Manager – HR and Payroll  Payroll Manager  Payroll Manager	Agreed  Agreed  Agreed		May 2015  June 2015  May 2015

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.7.1 (cont)	Management should ensure that a clear audit trail exists on the CHRIS system – the audit log should be set up to track all manual overrides.	Medium	Payroll Manager	Agreed		May 2015
3.8.1	Appropriate checks should be carried out to ensure that the information submitted to the Lothian Pension Fund for leavers is accurate and complete.	Medium	Payroll Manager	Agreed		May 2015

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Depute Chief Executive – Resources and People Services

**SUBJECT:** Internal Audit Report – Payroll Overtime

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**11**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Payroll Overtime.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Payroll Overtime was undertaken as part of the audit plan for 2014/15.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Payroll Overtime were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT PAYROLL OVERTIME**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Payroll Overtime was undertaken as part of the Audit Plan for 2014/15. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- The Council has in place a Management of Overtime Policy – the Policy sets out the Council's approach to approved overtime and provides guidance to both Managers and employees.
- For the sample of cases examined, the correct hourly rates were applied to the calculation of overtime payments.

#### **1.3 Areas with Scope for Improvement**

- An up to date list of authorised signatories and specimen signatures is not currently held by Payroll – in some cases we were unable to verify the validity of the authorised signatories. *Risk – errors and irregularities may occur and remain undetected.*
- There is a lack of a clear audit trail in respect of overtime hours worked – in four service areas reviewed, we found that employees were not recording the actual start and finish times of hours worked. *Risk – errors and irregularities may occur and remain undetected.*
- In some cases, overtime claim forms had not been fully completed or signed by the claimant, while in other cases claim forms had not been properly authorised by the relevant supervisor. *Risk – errors and irregularities may occur and remain undetected.*
- The existing procedures for checking overtime claims require review – errors were found in overtime claims submitted to Payroll by service areas. *Risk – over or under payments may occur and remain undetected.*
- The checking mechanisms in place for ensuring accuracy and completeness of all overtime payments processed by Payroll require review. *Risk – over or under payments may occur and remain undetected.*
- The arrangements in place for monitoring overtime for employees with multi-post contracts require review. *Risk – overtime hours claimed may be duplicated.*

#### **1.4 Summary**

Our review of Payroll Overtime identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

**Mala Garden**  
**Internal Audit Manager**

**May 2015**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
PAYROLL OVERTIME**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	<p>An authorised signatory list should be established and distributed to all members of the Payroll Section who have responsibility for checking payroll documents.</p> <p>Procedures should also be put in place to ensure that all subsequent changes to authorised signatories are updated in a timely manner and re-distributed to all relevant staff.</p> <p>Budget holders/Managers should notify the Payroll Section of all changes to authorised signatories.</p>	Medium	Payroll Manager		Yes	
3.2.2	Management should ensure that overtime details submitted to Payroll in an electronic format are properly authorised by an appropriate officer within the service area.	Medium	Service Manager – HR and Payroll	Email alert to be sent to Service Managers.		May 2015
3.3.1	All overtime payments should be supported by a claim form which details the start and finish times of the hours worked – the standard overtime claim form available on ELNet should be used.	Medium	Service Manager – HR and Payroll	Email alert to be sent to Service Managers.		May 2015

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
<b>3.3.1 (cont)</b>	<p>All overtime claim forms should be completed and signed by the employee and certified as correct by an authorised signatory.</p> <p>Management should ensure that all overtime hours claimed are for work undertaken in addition to the employee's contracted hours.</p>					
<b>3.4.1</b>	<p>Management should review the current arrangements in place for checking overtime claims submitted by staff with multi-post contracts, to ensure that overtime hours claimed for one post are not overlapping with contracted hours in another post.</p> <p>Management should ensure that staff undertaking additional work as part of a separate post are properly set up for that post – under no circumstances should employees include hours worked in one post in their overtime claim for another post.</p>	<b>Medium</b>	<b>Service Manager – HR and Payroll</b>	<b>Email alert to be sent to Service Managers.</b>		<b>May 2015</b>
<b>3.5.1</b>	<b>Payroll staff should only process overtime claims that have been properly authorised by service areas.</b>	<b>Medium</b>	<b>Payroll Manager</b>	<b>Agreed – Payroll team will review existing procedures and update where necessary.</b>		<b>June 2015</b>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	<p>The existing arrangements in place for checking payroll information entered on to the CHRIS system should be reviewed.</p> <p>Management should ensure that evidence of all checks carried out by Payroll staff is retained on file.</p>					
3.6.1	Regular monitoring should be undertaken of the total number of hours worked by employees to ensure compliance with the EU Working Time Directive.	Medium	Service Manager – HR and Payroll	Email alert to be sent to Service Managers.		May 2015

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 May 2015

**BY:** Depute Chief Executive – Resources and People Services

**12**

**SUBJECT:** Internal Audit Progress Report 2014/15

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2014/15.

**2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2014/15.

**3 BACKGROUND**

- 3.1 This report is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.
- 3.2 The progress made to date is outlined in the attached report.

**4 POLICY IMPLICATIONS**

- 4.1 None

**5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015



## **INTERNAL AUDIT PROGRESS REPORT 2014/15**

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Fostering and Kinship Care Allowances	We will review the arrangements in place for the payment of fostering and kinship care allowances and fees.	August 2014	Completed
Bathroom Adaptations	We will examine the adequacy and effectiveness of the Council's Framework Agreement for bathroom adaptations.	August 2014	Completed
National Fraud Initiative	Internal Audit participates in the National Fraud Initiative, which is coordinated for Scottish Local Authorities by Audit Scotland. This initiative seeks to identify potential frauds and overpayments by matching data held within the Council to that held by other bodies.	August 2014	Completed
Public Records (Scotland) Act 2011	We will examine the adequacy of the existing arrangements in place within the Council for meeting the requirements of the Public Records (Scotland) Act 2011 – the audit will focus on how the Council uses, stores, makes secure, shares and destroys information.	October 2014	Completed
Residential Homes for Older People	A review of the financial arrangements operating at the Council's residential homes for older people will be undertaken.	October 2014	Completed
Fleet Management	We will review the adequacy and effectiveness of the Council's fleet management.	October 2014	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Review of Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.	October 2014	Completed
IT Disaster Recovery	We will review the IT disaster recovery arrangements for the Council's main data centres (John Muir House and Penston House).	October 2014	Completed
Tyne Esk LEADER Programme	We will examine the adequacy and effectiveness of the internal controls in place for the Tyne Esk LEADER Programme.	December 2014	Completed
Standards and Policies	<p>Internal Audit will report to the Audit and Governance Committee on the following:</p> <ul style="list-style-type: none"> <li>• The outcome of Internal Audit's assessment against Public Sector Internal Audit Standards (PSIAS)</li> <li>• The updated Internal Audit Charter</li> <li>• The Council's updated Whistleblowing Policy</li> <li>• The policies and procedures in place within the Council for the prevention and detection of fraud and corruption</li> </ul>	December 2014	<p>Completed</p> <p>Completed</p> <p>Completed</p> <p>In Progress</p>
Cash Handling and Banking	We will examine the cash handling and banking arrangements in operation throughout the Council.	December 2014	Completed
Self Directed Support	We will report on the progress being made by the Council in implementing Self Directed Support.	December 2014	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Partnership Funding	We will examine the arrangements in place for partnership funding provided by the Council.	December 2014	Completed
Schools Audit	We will examine the internal controls operating within one secondary school and one primary school in East Lothian.	December 2014	Partly Completed
Gifts and Hospitality – Members	We will review the arrangements in place for the recording and acceptance of offers of gifts and hospitality by Members.	February 2015	Completed
Mandatory and Discretionary Financial Assistance	We will review the adequacy and effectiveness of the arrangements in place for the processing of mandatory and discretionary housing grants.	February 2015	Completed
Contracts Audit	We will examine payments made to suppliers in respect of specific contracts. <i>(Findings from our review form part of the report on Mandatory and Discretionary Financial Assistance above)</i>	February 2015	Completed
Frameworki – Payments on Schedule	We will examine the adequacy and effectiveness of the internal controls in place for payments made to suppliers via Frameworki.	February 2015	Completed
Fees and Charges	For a range of Council services we will review the arrangements in place for the setting up, reviewing and updating of fees and charges.	February 2015	Completed (Draft)

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	February 2015	Completed
Non-Domestic Rates	We will examine the internal controls surrounding the administration of Non-Domestic Rates.	April 2015	Completed
Payroll Overtime	A review of the internal controls in place for the authorisation, processing and monitoring of Payroll Overtime will be carried out.	April 2015	Completed
Borrowings	We will examine the systems and controls in place in respect of borrowings – the audit will focus on the draw down and repayment of loans and the associated authorisation and monitoring procedures in place.	April 2015	Completed
Pensions	We will review the systems and controls in place in respect of pensions – the audit will focus on the accuracy and completeness of pension data sent to the Lothian Pension Fund.	April 2015	Completed

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 19 May 2015  
**BY:** Internal Audit Manager  
**SUBJECT:** Annual Internal Audit Report 2014/15

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**13**

## **1 PURPOSE**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Manager prepares an annual internal audit opinion and report to support the Council's Annual Governance Statement.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2014/15 and supports both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2014/15.

## **3 BACKGROUND**

- 3.1 Internal Audit is an independent appraisal function established by the Council to review its governance, risk management and control systems. East Lothian Council's Internal Audit Unit operates in accordance with the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013.
- 3.2 The Council's Internal Audit resources in 2014/15 were made up of:
  - The Internal Audit Manager
  - Three Senior Auditors
  - One Senior Audit Assistant
- 3.3 The Internal Audit Manager reports administratively to the Depute Chief Executive – Resources and People Services, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer.
- 3.4 Internal Audit is continuously seeking to improve its service and aims to provide a service that remains responsive to the needs of the Council and maintains

consistently high standards. This was achieved in 2014/15 through the following processes:

- Compliance with PSIAS.
- Ongoing development of a constructive working relationship with the Chair of the Audit and Governance Committee.
- A tailored audit approach using a defined methodology for financial audits.
- A programme of quality control measures which include the supervision of staff conducting audit reviews and the detailed review of working paper files and audit reports.
- The use of satisfaction surveys for completed audit assignments.
- Annual appraisal of audit staff and the development of personal and training plans – Internal Audit staff members are required to undertake a programme of Continuous Professional Development (CPD).

3.5 The PSIAS require the development of a Quality Assurance and Improvement Plan (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An internal assessment of internal audit practices was carried out against the PSIAS, indicating conformance to the Standards in most areas and this was presented to the Audit and Governance Committee in January 2015. As a result of the assessment an action plan was developed to address areas of non-conformance and good progress has been made against the action plan.

### **Delivery of Internal Audit Plan 2014/15**

3.6 In March 2014, the Audit and Governance Committee approved the Internal Audit Plan for 2014/15. Our audit plan was scoped to address the Council's key risks and strategic objectives.

3.7 In 2014/15 we issued 26 internal audit reports, of which 2 reports were on investigations undertaken during the year, 3 related to audits carried forward from the 2013/14 audit plan and 21 reviews formed part of the 2014/15 audit plan (see Table A below). The audit work undertaken as part of the 2014/15 audit plan resulted in the identification of 9 high, 107 medium and 6 low risk recommendations to improve the weaknesses identified in the design of controls and operating effectiveness.

3.8 In addition to the reviews listed in Table A, we undertook follow-up reviews of previous years' work to ensure that recommendations had been implemented by Management, presented a draft Internal Audit Charter to the Audit and Governance Committee and supported Management in the monitoring of ongoing projects and budget savings.

3.9 In 2014/15 we also undertook fraud and irregularity work, which included:

- reviewing and reporting on all recommended data matches received as part of the 2012/13 NFI exercise;
- assessing and where appropriate advising, investigating or supporting the investigation of cases where concerns were raised under the Council's Whistleblowing Policy;
- investigating concerns raised by Senior Management and/or the Audit and Governance Committee.

3.10 As part of the 2014/15 audit plan we have completed the following reviews:

**Table A**

<b>Audit Assignment</b>	<b>Report Status</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Fostering and Kinship Care Allowances	Final	-	7	1
Bathroom Adaptations	Final	3	4	-
National Fraud Initiative	Final	-	-	-
Records Management <i>Public Records (Scotland) Act 2011</i>	Final	-	1	-
Financial Arrangements – Crookston Care Home	Final	-	7	-
Fleet Management	Final	-	7	-
Performance Indicators 2013/14	Final	-	1	-
IT Disaster Recovery & Business Continuity	Final	-	7	-
Tyne Esk LEADER Programme	Final	2	11	-
Cash Handling and Banking	Final	-	10	-
Self-Directed Support	Final	3	6	-
Partnership Funding	Final	-	6	-
Schools Audit – Knox Academy	Final	1	1	1
Members' Gifts and Hospitality	Final	-	-	3
Mandatory and Discretionary Financial Assistance	Final	-	6	-
Frameworkki – Payments on Schedule	Final	-	5	-
Non-Domestic Rates	Final	-	4	-
Payroll Overtime	Final	-	6	-
Borrowings	Final	-	6	1
Pensions	Final	-	7	-
Fees and Charges	Draft	-	5	-
<b>Totals</b>		<b>9</b>	<b>107</b>	<b>6</b>

### **Conflicts of Interest**

3.11 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

### **Performance Indicators**

3.12 We have completed our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit and Governance Committee. Performance information for 2014/15 covers:

- Completion of the annual Audit Plan – 96%
- % of recommendations accepted by Management – 97%
- % of staff with CCAB accounting qualifications – 80%

3.13 Internal Audit received feedback from service areas relating to 2014/15 audit work undertaken, which included positive feedback on the value and performance of the Internal Audit Unit.

## **4 POLICY IMPLICATIONS**

4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 19 May 2015  
**BY:** Internal Audit Manager  
**SUBJECT:** Controls Assurance Statement 2014/15

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**14**

## **1 PURPOSE**

- 1.1 The Internal Audit Manager has the responsibility to independently review the internal control systems within East Lothian Council, make an assessment of the control environment and report annually on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to note that the Controls Assurance Statement is a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2015.

## **3 BACKGROUND**

### **3.1 Sound Internal Controls**

The Council's senior management has responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. The main objectives of the Council's internal control systems are:

- Achievement of the Council's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programmes.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls or the occurrence of unforeseen circumstances. The Council is continually seeking to improve the effectiveness of its system of internal control.

### **3.2 The Work of Internal Audit**

Internal Audit is an independent appraisal function established by the Council to review its internal control systems. Internal Audit objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.

In 2014/15 the Internal Audit Unit sought to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).

All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, Depute Chief Executives, the Council's External Auditor and the Audit and Governance Committee.

The weaknesses outlined in our audit reports are those that have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. It is the responsibility of Management to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations.

### **3.3 Basis of Opinion**

My evaluation of the control environment is informed by a number of sources:

1. The policies and procedures of the Council, including:
  - Standing Orders and Financial Regulations;
  - Strategy for the Prevention and Detection of Fraud and Corruption;
  - Information Security Policy;
  - IT Acceptable Use Policy;
  - Code of Conduct;
  - Disciplinary Code;
  - Disciplinary Procedure;
  - Gifts and Hospitality Policy;
  - Whistleblowing Policy.
2. The planning, monitoring, review and reporting arrangements within the Council, including:
  - The Budget Setting Process;
  - Monthly Budget Monitoring Statements;
  - Policy and Performance Review Committee;
  - Performance Management Framework;
  - The work of the Council Management Team.
3. The work undertaken by Internal Audit during 2014/15 including planned audits, investigations, follow-up reviews and one-off exercises.

My opinion does not cover the internal control systems of other organisations that are included in East Lothian Council's 2014/15 Statement of Accounts under the Group Accounts section.

### 3.4 Assessment of Controls and Governance

The Annual Internal Audit Report 2014/15 presented to the Audit and Governance Committee summarises the work of Internal Audit during the year.

An Executive Summary and Action Plan in respect of each system or activity reviewed by Internal Audit during 2014/15 has been reported to the Audit and Governance Committee. The Executive Summaries highlighted a number of areas where expected controls were met and also identified opportunities for improvement. The Action Plans contained detailed recommendations including Management responses to the recommendations made.

The majority of Internal Audit recommendations made in 2014/15 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a small number of high risk recommendations (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action). A summary of all recommendations made during 2014/15 is outlined below:

<b>Recommendations Priority Level</b>	<b>Number of Recommendations</b>	<b>Recommendations %</b>
High	9	7
Medium	107	88
Low	6	5
<b>Total</b>	<b>122</b>	<b>100</b>

During 2014/15 areas identified with scope for improvement included the following:

- Adherence to Council policies, procedures and guidance.
- Internal financial controls including segregation of duties, approval and authorisation, reconciliations, audit trail and supporting documentation, monitoring and checking arrangements.
- Weaknesses identified from our investigation of Housing Allocations and our audit reviews of Bathroom Adaptations, Modernisation Programme, Self-Directed Support, Payroll Overtime and the Tyne Esk LEADER Programme.

The implementation by Management of agreed actions to address the weaknesses identified should provide assurance that the system of internal control is operating as intended.

### **3.5 Opinion**

It is my opinion, subject to the weaknesses outlined in section 3.4 above, that reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year to 31 March 2015.

## **4 POLICY IMPLICATIONS**

4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	7 May 2015