



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

**TUESDAY 22 MARCH 2016
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 (Items 1 – 7)
Councillor J Goodfellow
Councillor F McAllister (Items 3 – 12)
Councillor J Williamson

Council Officials Present:

Mr A McCrorie, Depute Chief Executive - Resources and People Services
Mr J Lamond, Head of Council Resources
Mr R Montgomery, Head of Infrastructure
Mr T Shearer, Head of Communities & Partnerships
Mr D Proudfoot, Head of Development
Mr I Dagleish, Service Manager - Transport
Mr A Cruickshank, Service Manager – IT Infrastructure
Mr J Cunningham, Service Manager - Benefits
Mr P Vestri, Service Manager – Corporate Policy and Improvement
Ms S Fortune, Service Manager – Business Finance
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor

Visitors Present:

Ms S Burden, KPMG LLP
Ms L Nelson, KPMG LLP

Clerk:

Ms F Currie

Apologies:

None

Declarations of Interest:

None

The Convener advised Members of a potential change to the agenda order to accommodate the representatives of KPMG who would be arriving late.

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 19 JANUARY 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 19 January 2016 were approved.

In response to a question from Councillor Williamson, Ray Montgomery, Head of Infrastructure, provided an update on the survey work being undertaken at Fisherrow Harbour.

Sederunt: Councillor McAllister joined the meeting.

3. DEVELOPMENT RISK REGISTER

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

Paolo Vestri, Service Manager – Corporate Policy and Improvement, presented the report drawing Members' attention to the standard matrix used to evaluate risk and to the Register which included 13 'high', 33 'medium' and 9 'low' risks.

Douglas Proudfoot, Head of Development, responded to questions from Members on delivery of affordable housing, removal and replacement of solid fuel systems, external wall insulation, school extensions and filling staff vacancies.

Councillor Goodfellow expressed concerns about delivery of affordable housing, particularly in his own ward, and welcomed proposed control measures to review section 75 co-ordination and to secure greater project management control.

Councillor Currie commented that it was not always preferable to accept commuted sums as this would impact on the Council's ability to deliver affordable housing in the longer term. He said that only by having greater control over land could they ensure adequate provision of Council housing.

Decision

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

2. ELC INTERIM MANAGEMENT REPORT AND AUDIT STATUS SUMMARY

A report was submitted by KPMG to provide the Committee with an update on the findings of the interim audit including significant risks, other focus areas and the results of the control framework testing, encompassing overarching governance and systems controls.

Sarah Burden, Manager, KPMG LLP, presented the report and responded to questions from Members on additional monies for social care, progress of the capital budget and the impact on capital limits and associated borrowing, and the classification of the results of the interim audit.

Councillor Goodfellow welcomed the results of the interim audit and in particular the absence of any recommendations for action.

Councillor Currie added a note of caution suggesting that Members await the outcome of the final audit before celebrating the results.

Decision

The Committee agreed to note the contents of the report.

4. COMMUNITIES AND PARTNERSHIPS RISK REGISTER

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

Mr Vestri presented the report and drew Members' attention to the Register which included 1 'very high', 5 'high', 36 'medium' and 18 'low' risks.

Tom Shearer, Head of Communities and Partnerships, responded to questions from Members on private sector leasing to provide temporary accommodation, arrangements for monitoring and maintaining the condition of properties, the numbers of homelessness applications and the geographical split across the county. Mr Shearer acknowledged that there had been some issues in relation to repairs of private leasing properties and he advised Members that this and other matters would be addressed in a report on Housing Allocations which would go to Cabinet in April 2016.

John Cunningham, Service Manager - Benefits, addressed Members' questions in relation to the impact of welfare reform.

Councillor Currie expressed concerns at the recent increases in timescales for re-housing and said he looked forward to seeing the options contained in Cabinet report.

Decision

The Committee agreed to note the Communities and Partnerships Risk Register and, in doing so, note 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 and 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 and Partnerships and are likely to be a feature of the risk register over a number of years.

5. COUNCIL RESOURCES RISK REGISTER

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

Mr Vestri presented the report and drew Members' attention to the Register which included 1 'very high', 8 'high', 26 'medium' and 12 'low' risks.

Jim Lamond, Head of Council Resources, and Mr Cunningham responded to questions from Members on proposals to mitigate the impact of welfare reform, including monitoring of the Scotland Bill and any recommendations for further devolution of welfare, and the potential for increased debt charges based on non-payment of rent and Council Tax.

Alan Cruickshank, Service Manager – IT Infrastructure, responded to Members' queries relating to potential threats to the Council's network and IT systems and the role of staff awareness training.

Councillor Goodfellow noted that the potential impact of any major Council-wide failure of the IT system was scored '5' – the highest score possible. However, he acknowledged that control measures were in place to mitigate that risk.

Decision

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

6. ANNUAL WORK PLAN 2015/16

The Annual Work Plan 2015/16 was submitted to the Committee for information.

Mr Vestri presented the work plan inviting Members to note the reports proposed for future meetings.

Decision

The Committee agreed to note the contents of the Annual Work Plan.

7. INTERNAL AUDIT REPORT – HOUSING REPAIRS SHARED COSTS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Housing Repairs Shared Costs.

Mala Garden, Internal Audit Manager, presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan which had been accepted by Management.

Ms Garden responded to a number of questions from Members relating to potential loss of income to the Council due to procedural failures.

Mr Shearer confirmed that the recommendations contained in the report were being implemented and a follow up report would be provided to Members in due course.

Councillor McAllister referred to concerns expressed by constituents in his ward regarding the time taken to deal with repairs to lighting and security doors in communal stairwells.

Mr Shearer pointed out that the Council were sometimes restricted by issues out with their control.

Decision

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

Sederunt: Councillor Forrest left the meeting.

8. INTERNAL AUDIT REPORT – HOME TO SCHOOL TRANSPORT

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Home to School Transport.

Ms Garden presented the report, summarising the audit findings and the recommendations contained in the Action Plan, and she responded to questions from Members regarding the areas with scope for improvement.

Mr Montgomery advised that significant improvements had been made in recent years but he accepted that further work was required.

Councillor Currie emphasised the importance of following up the recommendations contained in the Action Plan, in particular those relating to procedures and Members' Library reports.

Decision

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

9. INTERNAL AUDIT REPORT – PAYROLL

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Payroll.

Ms Garden presented the report advising Members that Payroll was an area which was reviewed on a regular basis and that this most recent review, focusing on the administration of Payroll, had been undertaken as part of the Audit Plan for 2015/16.

Decision

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

10. INTERNAL AUDIT FOLLOW-UP REPORTS

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

Ms Garden presented the report, outlining the findings and drawing Members' attention to the outstanding actions in relation to Fleet Management and Partnership Funding.

Councillor Currie said that it would be helpful if, in future Follow-up reports, Internal Audit could indicate whether or not they were satisfied with the progress made since their initial audit.

Decision

The Committee agreed to note the findings of Internal Audit's follow-up work on the Financial Arrangements at Crookston Care Home, Fleet Management and Partnership Funding.

11. INTERNAL AUDIT PROGRESS REPORT 2015/16

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 2015/16.

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.

Councillor Currie commended the quality and quantity of work undertaken by Internal Audit. The Convener also offered his thanks to the team.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2015/16.

12. INTERNAL AUDIT PLAN 2016/17

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of Internal Audit's operational plan for 2016/17.

Ms Garden presented the report outlining the factors taken into account when preparing the annual audit plan, the procedures for undertaking reviews and the audit coverage. She also drew Members' attention to the arrangements in place for the East Lothian Integration Joint Board (IJB).

Responding to a question from Councillor Currie, Mr Lamond advised that the first part of a 'due diligence' report on the IJB's financial arrangements had already been presented to Council and the second part would be considered in April. He acknowledged concerns about how the Council should be kept informed of the IJB's spending on health and social care and agreed to give further consideration to how this information should be presented to Council.

Ms Garden responded to questions from Councillor McAllister on contract monitoring.

Decision

The Committee agreed to approve the audit plan for 2016/17.

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 May 2016

BY: Chief Executive

SUBJECT: 2016 Corporate Governance Self-evaluation/ Annual Governance Statement

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1 PURPOSE

- 1.1 To advise Audit and Governance Committee of the outcome of the 2016 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 3.3 – 3.4) for inclusion in the Annual Governance Statement that will form part of the Council's 2015/16 Annual Accounts.

3 BACKGROUND

- 3.1 Cabinet (11 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 year, the whole Council Management Team has undertaken the self-evaluation of the Corporate Governance, reviewing the documentary evidence and practice around each of the six supporting principles and requirements of the corporate governance code. The review formed the basis of the self-evaluation which is detailed in Appendix 1.
- 3.3 The 2016 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 reports of the Council's external auditors and inspectors (Interim Management Report to Audit and Governance Committee, March 2016) and the Local Area Network (Local Scrutiny Plan 2016/17, reported to Council, April 2016) provide assurance about the council's governance arrangements.

3.4 The Council Management Team's Corporate Governance self-evaluation has identified twelve areas of development and improvement, which build on existing good practice and improvement action already being implemented in order to ensure the Council's progress through continuous improvement. These are:

- The Council will begin developing a new Council Plan for 2017 – 2022 in autumn 2016. It will engage with communities and partners on a refresh of the Council Vision and priorities that will form the basis for the new Plan (1.1.2)
- The Council will undertake benchmarking exercises on three service areas in order to better understand the variance in East Lothian Council performance against other councils (1.2.2)
- A Best Value review will be undertaken of at least one service during 2016/17 (1.3.1)
- An elected members' Induction Programme, including mandatory elements and a briefing on the role of elected members on partnership bodies and arms length organisations, will be prepared for council approval prior to the May 2017 council elections (2.1.1 and others)
- The Council will review Standing Orders including Scheme of Administration and Scheme of Delegation (2.2.1)
- The Council will review the Workforce Development Plan (3.1.1)
- The Council will promote greater awareness of Council policies such as the Gifts and Hospitality policy and Register of Interests (3.1.1)
- The roles and remits of Audit & Governance and Policy Performance and Review Committees and scrutiny arrangements associated with the Integration Joint Board will be reviewed (4.1.1)
- Elected members to be offered the opportunity of undertaking a Continuous Personal Development programme (5.1.1)
- The Council will review and where appropriate, act on the recommendations of the East Lothian Poverty Commission (5.3.1)
- The Council will review and where appropriate, act on the new duties and responsibilities from the Community Empowerment (Scotland) Act 2015 (5.3.1)

- The Council will follow up the review of STRIVE to further strengthen the relationship between the third sector and the Council and East Lothian Partnership (6.1.2)

3.5 These actions will be incorporated into the 2016/17 Council Improvement Plan which will be submitted for approval to the Council in June 2016.

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 INTEGRATED IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Integrated 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, April 2016

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Service Manager: Corporate Policy and Improvement
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	5 May 2015

APPENDIX 1: CORPORATE GOVERNANCE SELF-EVALUATION: April 2016

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	Documentary Evidence	2015 Update and Improvement Points	Update and 2016 Improvement Points
1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose, vision and its intended outcome for citizens and service users			
1.1.1 Develop and promote the authority's purpose and vision	<ul style="list-style-type: none"> • 2020 Vision • Council Plan 2012-2017 • Council Improvement Plan • Single Outcome Agreement (SOA) • HGIOC Self Evaluations • Communications of corporate objectives across services • Incorporation of objectives and outcomes in Service Planning guidance • Corporate Induction Pack and training course • Three-year Financial Strategy • One Council Workshops <p>The 2016 Employee Engagement Survey showed 90% of staff agreed "I know how my job / individual objectives contribute to the Council's objectives"</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>The Council reviewed the Council Plan in October 2015 and agreed a set of priorities for the remaining period of the Plan that will contribute to meeting the Council's ambition.</p> <p>Over 700 staff have attended a One Council Workshop. Five further workshops are being held in the spring and a new round of Workshops will be held in the autumn</p> <p>Staff are being consulted on the Council's values and communications around values and vision will form a key focus of staff communications in 2016/17</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"> • Corporate Governance Code and self-evaluation framework adopted in May 2010 • Report on Council's vision, priorities and policies (Council, 22nd Feb 2011) • Council Plan 2012-2017 • Council Plan reviewed in October 2014 and October 2015 • Chief Officers/ Council Management Team re-structured March 2012 and in July 2013 • Senior Management level restructured in Nov 2013 	<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>	<p>The 2020 Vision forms the basis of the Council Plan and is still relevant.</p> <p>The reviews of the Council Plan and priorities have set priorities that will contribute to achieving the Council Plan's ambition.</p> <p>The Council has supported a bid for funding from the UK and Scottish Governments for a City Region Deal</p> <p>The Local Development Plan has been developed</p> <p>The Strategic Health and Social Care Plan and Children's and Young People Plan have established priorities that will contribute towards the achievement of the Single Outcome Agreement and the Council Plan</p> <p>The Community Planning Partnership's governance arrangements are being reviewed to ensure that it takes account of development such as the establishment of the Integratration Joint Board and the Children's Strategic Partnership</p> <p>Action</p> <p>The Council will begin developing a new Council Plan for 2017 – 2022 in autumn 2016. It will engage with communities and partners on a refresh of the Council Vision and priorities that will form the basis for the new Plan</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"> • SOA 2013 • East Lothian Partnership structure and remit and roles of partnerships • East Lothian Partnership self-evaluation carried out in Dec 2014 • New Children's Strategic Partnership established in 2014 • Agreements between East Lothian Council and partners • Shared Services agreement with Midlothian Council continuing through Joint Liaison Group • Local Policing Plan • Local Fire and Rescue Plan • Children and young People's Services Plan 2016-2019 • Integration Joint Board Strategic Plan • Six Area Partnerships are developing Area Plans • Joint Asset Management Planning group • Edinburgh and South East Scotland City Region Deal 	<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>	<p>The Children's Strategic Partnership has developed the Children and Young Peoples Plan</p> <p>The Integration Joint Board has developed a Strategic Plan</p> <p>The Safe & Vibrant Communities Partnership has taken on the role of Reducing Reoffending Strategic Partnership and a Community Justice Strategic Plan is being developed by relevant partners</p> <p>East Lothian partnership is reviewing its Single Outcome Agreement and its structure and governance arrangements to ensure that they are fully aligned with the common vision and priorities of the partnership</p> <p>The Council has played a major role in the partnership that has developed the proposals for the Edinburgh and South East Scotland City Region Deal around the theme of 'Accelerating Growth'</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"> • Annual Accounts • Annual Performance Reports • SOA Annual Report • Local Government Benchmarking Framework report to PPR Committee • Unaudited Annual Accounts reported to Audit & Governance Co in June and to Council in August 	<p>Unaudited accounts to be submitted to June meeting of Audit & Governance Committee instead of a meeting in the summer recess period.</p> <p>Annual Performance Report 2014/15 to be published on Council website in September</p> <p>No further action required</p>	<p>Unaudited accounts are being prepared for presentation to Audit governance Committee in June</p> <p>Annual Performance Report 2015/16 will be published in September</p> <p>No further action required</p>
<p>1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</p>			
<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"> • HGIOC, Business Plans and Improvement Plans • SOA Annual Report • Key Performance Indicators including local Government Benchmarking Framework indicators • PPR Co reporting and members' performance briefings • Complaints and compliments feedback • Independent inspection reports • Chief Social Work Officer's Annual Report • Service users' surveys • Citizens' Panel • Tenants' scrutiny activity including estate inspections • East Lothian Profile and Ward Profiles • Young People's Viewpoint and Education surveys 	<p>Citizens' Panel being surveyed twice a year</p> <p>Citizens' Led Inspection (Residents' Review) of amenity services piloted in 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>	<p>Citizens' Panel will be surveyed twice in 2016 and the results will be used to inform the Council and East Lothian Partnership performance monitoring</p> <p>The pilot Residents' Review was completed and the report is being used to inform improvements in amenity services</p> <p>Residents' Reviews will be held in 2016/17</p> <p>Budget consultation took place prior to setting the 2016/17 budget</p> <p>Tenants consultation took place over rent levels</p> <p>The Education and Children's Wellbeing services will use the results of the new children's Wellbeing Survey to inform service improvement</p> <p>No further action required</p>

<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"> • PPR Co reporting on key Performance Indicators, the Local Government Benchmarking Framework and customer feedback • HGIOC and service improvement plans incorporated into Service Plans • Significant case reviews in Social Work • Social Work Appeals Sub-Co • Social Work Complaints Review Co • Reporting of customer complaints and feedback • Whistleblowing Policy • External audits and inspection reports • Responding to issues raised by elected members 	<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>	<p>Continued participation in family group benchmarking supported by the Improvement Service, APSE and the Scottish Housing Network</p> <p>Council Management Team is reviewing quarterly performance indicators and the Local Government Benchmarking Framework to identify areas for further improvement or benchmarking</p> <p>The Council will participate in the new National Improvement Framework for education</p> <p>Action</p> <p>The Council will undertake benchmarking exercises on three service areas in order to better understand the variance in East Lothian Council performance against other councils</p>
<p>1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</p>			
<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"> • Procurement Strategy • Performance Management framework • PPR Co reporting • Audit & Governance Co reporting • Citizens' Panel • Customer feedback / surveys • Consultation and Engagement Strategy • Procurement Improvement Plan and Procurement Capability Assessment 	<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>	<p>A Best Value Review of Asset and Capital Plan Management has been completed</p> <p>Action</p> <p>A Best Value review will be undertaken of at least one other service during 2016/17</p>

PRINCIPLE 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles

Supporting Principle & Code Requirements	Documentary Evidence	2015 Update and Improvement Points	Update and 2016 Improvement Points
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			
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"> • Scheme of Delegation • Member/ officer protocol • CPD pilot for elected members • Review of Impact of Multi-Member Wards and Officer Member Relations carried out in 2011 • Induction programme for new elected members • Improvement Service Notebooks for new elected members • Guide to Scrutiny for elected members • Roles and Responsibilities for Elected members 	<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>	<p>Elected member survey to be carried out in May 2016 and results will inform the elected member training and briefing programme for 2016/17</p> <p>Action</p> <p>An elected members' Induction Programme, including mandatory elements and a briefing on the role of elected members on partnership bodies and arms length organisations, will be prepared for council approval prior to the May 2017 council elections</p>
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			
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"> • Scheme of Delegation • Policies such as HR policies include delegation of powers to officers 	<p>Standing Orders reviewed regularly and revised as required</p> <p>No further action required</p>	<p>Action</p> <p>The Council will review Standing Orders including Scheme of Administration and Scheme of Delegation</p>

<p>2.2.2 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of leadership and management within the Scheme of Delegation</p>	<ul style="list-style-type: none"> • Chief Executive’s job description • Appraisal of Chief Executive • Peer review by Depute Chief Executives • Scheme of Delegation • Members Library reports record decisions taken under delegated powers 	<p>No further action required</p>	<p>As above</p>
<p>2.2.3 Develop protocols to ensure that the Leader and Chief Executive establish their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained</p>	<ul style="list-style-type: none"> • Member/ officer protocol within Council Standing Orders • Regular meetings between Chief Executive and Council Leader • Annual appraisal for Chief Executive with Leader and Depute Leader • New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council • Chief Executive and Council Leader jointly represent the Council at various forums 	<p>No further action required</p>	<p>As above</p>
<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"> • Section 95 Officer • Annual Accounts and Statement of Internal Financial Control • Internal and external audit reports 	<p>No further action required</p>	<p>As above</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"> • Monitoring Officer • Chief Social Work Officer • Internal audit reports • CSWO Annual Report • Scottish Government guidance on the role of CSWO and registered social workers 	<p>No further action required</p>	<p>As above</p>
<p>2.3 Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of each other</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"> • Member/ officer protocol within Council Standing orders • New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council • Regular Joint Senior Officers and Members group meetings held 	<p>No further action required</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"> • The Council follows the recommendations made by the Scottish Local Authorities Remuneration Committee • Chief Executives' scheme of remuneration • Registers of Interest for Members and Chief Officials • Auditors reviewed the outcome of the review of senior officers 	<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"> • Performance Management / Improvement framework • Performance website includes details of key performance indicators • Members' quarterly briefings and reports to PPR Committee • HGIOC • Service Plans and Corporate Improvement Plan • Independent inspections • Assurance and Improvement Plan agreed with Local Area Network 	<p>See 1.2 and 1.3</p>	<p>See 1.2 and 1.3 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"> • New Council Plan based on draft approved in Jan 2012 and administration party manifestos • Single Outcome Agreement • Citizens' Panel • Consultation and Engagement Strategy • Council's vision, Plan and priorities are communicated to the Senior Management Team, including Head Teachers • Consultation around Main Issues Report and Local Development Plan 	<p>No further action required</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"> • Scheme of Administration, including Scheme of Delegation and Councillors' Code of Conduct • Memorandums and Articles of arms length companies • Induction programme for new elected members • Improvement Service Notebooks for new elected members • Advice provided to members on partnerships and outside bodies (e.g. Enjoy Leisure and Musselburgh Joint Racecourse Committee) 	<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>See 2.1.1</p> <p>Council has continued to argue against the Local Government boundary Commission proposal to reduce the number of elected members on East Lothian Council and is awaiting the final outcome of the review</p> <p>Six Area Partnerships are chaired by community representatives</p> <p>Action</p> <p>An elected members' Induction Programme, including mandatory elements and a briefing on the role of elected members on partnership bodies and arms length organisations, will be prepared for approval by the Council prior to the May 2017 council elections</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"> • As above • Partnership Funding Strategy • East Lothian Partnership Improvement Plan • Service Level Agreements increasingly used when funding outside organisations • Procurement Improvement Plan • Adult and Children's Services Commissioning strategies • Draft Health and Social Care Integration scheme approved by Council 	<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>	<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	2015 Update and Improvement Points	Update and 2016 Improvement Points
3.1 Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance			
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"> • Scheme of Administration, including Councillors' Code of Conduct • Various mechanisms used to inform council staff and the public of council decisions and policies • Customer Excellence • East Lothian Way • Service based Joint Consultative Committees have been established • Annual Employee Engagement Survey and feedback to staff • All FOI responses are published on the Council's website • Whistleblowing Policy • Workforce Development Plan 	<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>The final CMI 5 course was delayed but will begin in August 2016.</p> <p>CMI3 course is still being run for frontline managers and aspiring managers</p> <p>Senior Management Team (CMT, Service Managers and Head Teachers) meets 4-6 times a year</p> <p>New PRD for all staff is being rolled out across the council</p> <p>One Council Workshops have helped to strengthen the climate of openness amongst staff</p> <p>Action</p> <p>The Council will review the Workforce Development Plan</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"> • Scheme of Administration, including Councillors' Code of Conduct • East Lothian Partnership, three supporting Partnerships and six Area Partnerships • Disciplinary Code of Conduct for Employees • The East Lothian Way • Performance Review and Development Scheme for employees • Transformational Leadership Programme for senior officers and managers • Review of Impact of Multi-Member Wards and Officer Member Relations • Scottish Social Services Council Code of Conduct • Social Media Policy 	<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>Revision of PRD process has been completed and new PRD is being rolled out across all services</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"> • Members' and Officers Codes of Conduct and Registers of Interests • Standing Orders • Single Equality Scheme • Standing Orders including Scheme of Delegation and Equalities Policies • Whistleblowing Policy • Gifts and Hospitality policy • Induction programme for new elected members 	<p>Gifts and Hospitality Policy was revised</p> <p>Internal audit audited elected members gifts and hospitality</p> <p>No further action required</p>	<p>See 2.1.1</p> <p>Action</p> <p>The Council will promote greater awareness of Council policies such as the Gifts and Hospitality policy and Register of Interests</p>

3.2 Ensuring that organisational values are put into practice and are effective			
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"> • East Lothian Way • Council Plan 2012-2017 • SOA and Community Plan • Customer Excellence • Transformational Leadership Programme • Performance Review & Development Scheme for employees • Corporate Induction Pack and Course for Managers • Code of Conduct and Disciplinary Procedures for all employees • Team Talk communication channel • Workforce Development Strategy and Plan 	<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>	<p>See 3.1.1 and 3.1.2</p> <p>Staff are being consulted on the Council's values and communications around values and vision will form a key focus of staff communications in 2016/17</p> <p>These will be re-enforced through the Performance Review and Development process and staff communications</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"> • Standing Orders including Councillors' Code of Conduct • Gifts and Hospitality policy 	<p>See 3.1.3</p> <p>No further action required</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"> • Standing Orders • East Lothian Way • Roll out of PRD for all employees • Annual Employee Engagement Survey • Council Plan 2012-2017 	<p>See 3.2.1</p> <p>No further action required</p>	<p>See 3.1.2</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	2015 Update and Improvement Points	Update and 2016 Improvement Points
4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny			
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"> • Scheme of Administration • Audit & Governance Committee • PPR Committee • Reviews of the use of Scrutiny Guide by Audit & Governance and PPR Committees • Local Area Network and external auditors review the Council's scrutiny activity • Police, Fire & Rescue and Community Scrutiny Committee • Accounts Commission reports are considered by the Audit & Governance Committee 	<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>	<p>Police, Fire & Rescue and Community Scrutiny Committee established in 2015</p> <p>Elected members survey (May 2016) will identify whether members require further scrutiny training</p> <p>Action</p> <p>The roles and remits of Audit & Governance and PPR Committees along with the scrutiny arrangements associated with the Integration Joint Board will be reviewed</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"> • Scheme of Administration including Scheme of Delegation • Members Library Service and Bulletin to report delegated decisions • E-gov provides access to all reports and minutes 	No further action required	No further action required

<p>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</p>	<ul style="list-style-type: none"> • Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Registers and Declarations of Interest • Monitoring Officer • Recruitment and Selection procedures and training • Discipline and Grievance Procedures • Whistleblowing Policy • Gifts and Hospitality policy • Procurement Strategy 	<p>See 3.1.3 Standards Commission delivering training session for elected members on Declaration of Interest (May 2015) No further action required</p>	<p>See 2.1.1 Action An elected members' Induction Programme, including mandatory elements and a briefing on the role of elected members on partnership bodies and arms length organisations, will be prepared for council approval prior to the May 2017 council elections</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"> • Standing Orders and Scheme of Administration • Audit & Governance Committee • Elected members Scrutiny Guide • Assurance and Improvement Plan agreed with Local Area Network • Quarterly briefing on performance indicators 	<p>No further action required</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"> • Complaints / Feedback policy • Publicity about complaints procedures • Six-monthly report on complaints and feedback and lessons learned made to PPR Committee 	<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"> • Format of Council, Cabinet, Audit & Governance Co, PPR Co and Community Planning Board reports • Calendar of meetings and timely preparation of agendas and papers • Three-year Financial Strategy • Advice in preparing annual budget • Performance website and quarterly briefing for elected members 	<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>See 2.1.1</p> <p>Report templates are being reviewed</p> <p>East Lothian Profile, Ward Profiles and group specific profiles (e.g. Young People) will be reviewed and updated in 2016</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"> • Agendas and papers for Council, Cabinet, Audit & Governance Co, PPR Co and Community Planning Board • Monitoring Officer, s95 Officer and Chief Social Work Officer provide advice on legal or financial implications as required 	<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>	<p>No further action required</p>

4.3 Ensuring that an effective risk management system is in place

<p>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</p>	<ul style="list-style-type: none"> • Risk Management Strategy • Risk Management Groups • Role of Audit & Governance Co • Corporate and Service Risk Registers approved by Cabinet or Audit & Governance Committee • Service Plans reflect corporate and service risks 	<p>No further action required</p>	<p>Council Management Team (CMT) has reviewed Corporate and Service Risk Registers</p> <p>CMT has a programme of reviewing and approving Health & Safety policies and management arrangements</p> <p>No further action required</p>
<p>4.3.2 Ensure that arrangements are in place for whistleblowing to which staff and all those contracting with the authority have access</p>	<ul style="list-style-type: none"> • Standing Orders including Codes of Conduct • Whistleblowing Policy 	<p>No further action required</p>	<p>No further action required</p>
<p>4.4 Using the authority's legal powers to the full benefit of the citizens and communities in their areas.</p>			
<p>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</p>	<ul style="list-style-type: none"> • Senior officers and elected members have a general understanding of statutory powers • Standing Orders detail statutory powers under which senior officers operate • Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice • Internal and external Audit reports 	<p>No further action required</p>	<p>No further action required</p>
<p>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</p>	<ul style="list-style-type: none"> • Scheme of Administration including Scheme of Delegation • Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice • Internal and external Audit reports 	<p>Standards Commission briefing session on declaration of interests to be held for elected members</p> <p>No further action required</p>	<p>See 2.1.1</p> <p>No further action required</p>

<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"> • Standing Orders including establishment of quasi judicial committees and sub-committees • Monitoring Officer, s95 Officer and Chief Social Work Officer provide appropriate advice • Legal advice provided to elected members to support decision-making 	<p>See 4.2.2</p> <p>No further action required</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	2015 Update and Improvement Points	Update and 2016 Improvement Points
5.1 Make sure that Members and Officers have the skills, knowledge, experience and resources they need to perform their roles well.			
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"> • Induction programme for officers, CPD and training opportunities for staff • Piloted CPD for members • Performance Review and Development for all employees • Corporate Learning • E-Learning / LearnNet on ELnet • Induction programme for new elected members • Induction Notebooks on Elnet • Programme of briefing sessions for elected members 	See 4.2.1 and 4.4.2 No further action required	See 2.1.1 Action Elected members to be offered the opportunity to undertake a Continuous Personal Development programme
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"> • Job descriptions for statutory officers • Networking and development opportunities for statutory officers through professional associations • Role of statutory officers recognised in Scheme of Administration • People Strategy • Workforce Development Strategy and Plan 	No further action required	The review of Council Standing Orders and Scheme of Delegation (see 2.2) will include review of roles of statutory officers No further action required

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"> • CPD pilot for elected members • Performance Review and Development all employees • Guide to Scrutiny and Review published and scrutiny training provided for elected members • Elected members' Performance Briefings to encourage scrutiny of performance information 	<p>See 2.1.1</p>	<p>See 2.1.1 and 5.1.1</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>As above</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"> • CPD pilot for elected members • Elected Members' Code of Conduct & complaints about performance 	<p>See 2.1.1</p>	<p>As above</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"> • Six Area Partnerships • Community Planning Community Engagement Strategy • Tenants and Residents Panel • Support for Voluntary Action East Lothian to participate in the Community Planning structures • Community Councils • Petitions Committee, including new online features • Council Consultation and Engagement Strategy • Champions Board for Looked After Children 	<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>See 1.2.1</p> <p>The East Lothian Poverty Commission was established to recommend actions to tackle poverty based on evidence from the community and people' lived experience of poverty</p> <p>Action</p> <p>The Council will review and, where appropriate, act on the recommendations of the east Lothian Poverty Commission</p> <p>The Council will review and, where appropriate, act on the new duties and responsibilities from the Community Empowerment (Scotland) Act 2015</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"> • CPDs for officers • People Strategy • Transformational Leadership Programme • Performance Review and Development for all employees • Customer Service Professional Qualification • CMI 3 and CMI 5 courses • Workforce Development Strategy and Plan 	<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>	<p>The new PRD process is being rolled out across all services</p> <p>Action</p> <p>The Council will review the Workforce Development Plan</p>

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

Supporting Principle & Code Requirements	Documentary Evidence	2015 Update and Improvement Points	Update and 2016 Improvement Points
<p>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.</p>			
<p>6.1.1 Make clear to all staff and the community to whom the authority's leadership are accountable and for what</p>	<ul style="list-style-type: none"> • Council Plan 2012-2017, SOA, Corporate Improvement Plan, Service and Business Plans • Information on Council structure available on Council website • Annual Performance Reports • Living newspaper 	<p>See 5.3.1 No further action required</p>	<p>No further action required</p>
<p>6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required</p>	<ul style="list-style-type: none"> • Various forums for engaging with stakeholders including the East Lothian Partnership, Area Partnerships, East Lothian Tenants and Residents Panel, Community Councils and Parents Councils, STRIVE (the Third Sector Interface) • Consultation and Engagement Strategy 	<p>No further action required</p>	<p>STRIVE – East Lothian's Third Sector Interface is being reviewed</p> <p>Action</p> <p>The Council will follow up the review of STRIVE to further enhance the relationship between the third sector and the Council and East Lothian Partnership</p>
<p>6.1.3 Produce an annual report on the activity of the scrutiny function</p>	<ul style="list-style-type: none"> • Annual Performance Reports • Internal and external Audit Plans reviewed • Quarterly performance information published on-line • Internal controls assurance statement 	<p>Both Audit & Governance and PPR Committee have work programmes that are reviewed at each meeting and at agenda setting meetings</p> <p>Annual Performance Report includes a review of work of these two scrutiny committees</p> <p>No further action required</p>	<p>Audit Scotland's review of local authority Performance Reports showed that East Lothian Council fully met all but two of the criteria tested. Action is being taken to improve performance reporting in these two areas</p> <p>No further action required</p>

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			
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"> • Communications Strategy • Community Planning Community Engagement Strategy • People's Voice, the Community Planning Engagement Strategy includes monitoring framework • Citizens' Panel • Consultation and Engagement Strategy • Complaints procedures and monitoring reports 	<p>See 5.3.1</p> <p>No further action required</p>	No further action required
6.2.2 Hold meetings in public unless there are good reasons for confidentiality	<ul style="list-style-type: none"> • Council meetings are held in public • Agendas, papers and minutes are published on the Council's website 	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"> • Equality and Diversity Network • Community Planning Community Engagement Strategy • Community Councils • Local Area Forums • ELTRP • Citizens' Panel • Consultation and Engagement Strategy 	<p>See 5.3.1</p> <p>No further action required</p>	<p>See 1.2.1</p> <p>No further action required</p>

<p>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</p>	<ul style="list-style-type: none"> • Community Planning Community Engagement Strategy • ELTRP • Community Councils consulted on planning matters • Consultation and Engagement Strategy 	<p>As above</p>	<p>As above</p>
<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"> • Annual Performance Reports • Annual Accounts • Performance Management Framework – Improvement to Excellence 	<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"> • Compliance with the Freedom of Information Act and Data Protection Act • Council meetings held in public • Agendas for meetings, minutes and reports published on the Council website • Living newspaper • Star Awards Public Nominations • Petitions Committee • Performance website 	<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>No further action required</p>

6.3 Making best use of human resources by taking an active and planned approach to meet responsibility to staff

<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"> • People Strategy • JCC and JC Groups • Employee and JTU Consultations • Annual Budget Review and Development Discussions for JTU • Employee Engagement Survey • One Council Workshops • Staff involved in HGIOC 	<p>No further action required</p>	<p>No further action required</p>
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REPORT TO: Audit and Governance Committee

MEETING DATE: 17 May 2016

BY: Depute Chief Executive - Partnerships and Community Services

SUBJECT: An Overview of Local Government in Scotland 2016
(Accounts Commission, March 2016)

3

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 2016'*

2 RECOMMENDATIONS

- 2.1 The Committee should:
- note the position of East Lothian Council in regard to the issues raised in the Overview of Local Government in Scotland 2016;
 - use the recommendations in the Overview of Scottish Local Government 2016 and the self-assessment tool that accompanies the report to 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 2016 (Appendix 1) 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 and senior council officers as a source of information and to support them in their complex and demanding roles". It is in two parts:

- Part 1 reviews the financial context in which councils are operating and gives a national overview of council's financial performance
- Part 2 considers how councils are performing in delivering services and how they are changing the way they operate in the context of increasing pressures. It looks at the implications for councils' workforces and highlights key aspects of governance.

Part 1: The Financial Context

- 3.3 The report presents five key messages relating to the management of Councils' financial performance.
- 3.4 *"Councils received £10.76 billion of funding from the Scottish Government in 2014/15. This included £9.92 billion for revenue funding, which helps pay for day-to-day running costs, including staff. This was almost the same as the previous year and 6.5 per cent less in real terms than in 2010/11. While revenue funding in 2015/16 also remained largely unchanged in real terms, major challenges lie ahead for councils. The Scottish Government has reduced revenue funding in 2016/17 by five per cent in real terms. This equates to an 11 per cent reduction in revenue funding between 2010/11 and 2016/17. Councils also received capital funding in 2014/15 of £0.84 billion.*
- 3.5 *"Councils have continued to balance their budgets each year by reducing their spending. The majority underspent their 2014/15 budgets and increased their reserves in anticipation of future funding reductions.*
- 3.6 *"Local Government Pension Scheme (LGPS) funds report shortfalls between the value of funds and the future pension commitments to be paid. This does not create immediate problems. Pension funds have plans in place to reduce any deficits within a 20-year period.*
- 3.7 *"Councils' debt has been increasing since 2011/12, although it decreased slightly in 2014/15. In addition, many councils predict gaps between their income and spending in future years. This may threaten their financial sustainability if risks are not well managed.*
- 3.8 *"The challenging financial environment, together with changing demographics and rising demands on services, means that effective medium-term (three to five years) and longer-term (five or more years) financial planning is critical for councils. This is more challenging for councils when they do not know what their future funding and income will be, meaning that they need to plan for a range of possibilities."*
- 3.9 The Council has a three-year financial strategy, which was approved by Council on 9 February 2016, and which informs a 3 year General Service revenue and capital budget, as well as a 5 year Housing Revenue Account (revenue and capital) programme. The financial strategy sets out the Council's approach to the use and management of reserves, and despite informing the 3 year planning horizon, the strategy is underpinned by a number of longer term planning assumptions, including

the implication of revenue debt charges from capital investment decisions.

- 3.10 There continues to remain significant uncertainty in terms of the future financial landscape which the Council will operate within, and there will be a need to align once approved the capital commitments arising from the Local Development Plan, and any further commitments should any City Region Deal be forthcoming. The financial strategy and financial planning process is continually being reviewed however Members should however be aware that the Council's External Auditors have continued to be supportive of our approach to financial planning.

Part 2: Delivering Services

- 3.11 The report presents five key messages in relation to how councils are delivering services. These are presented below with a commentary on the position in East Lothian Council.

- 3.12 *"Councils' performance in 2014/15 continued to improve across many of the performance measures in the Local Government Benchmarking Framework (LGBF). Councils have well-established systems to manage their performance and are improving how they report to the public."*

- 3.13 The 2014/15 LGBF report was considered by the Policy and Performance Review Committee on 15 March 2016. The report highlighted some indicators which are above national trends and those that may require further investigation. The Committee noted that the Council will be working with the Improvement Service to undertake further analysis to better understand underlying factors behind these indicators. The most recent Audit Scotland review of public performance reporting showed that East Lothian Council fully meets its standard in reporting on all but two areas – procurement and asset management. Further work has been undertaken this year to further improve reporting in these two areas.

- 3.14 *"Health and social care integration is the most significant aspect of public sector reform for councils. New integration authorities may not be in a position to make an impact in 2016/17. Significant risks need to be addressed if integration is to fundamentally improve the way health and care services are delivered. "*

- 3.15 East Lothian's Integration Joint Board has been established and has agreed a Strategic Plan which will form the basis for the delivery of services from 2016/17 onwards. Some of the risks inherent in the development of the new integration model for delivering health and social care services have been identified in the 'Financial Assurance Update' report that was considered at the 26th April 2016 Council meeting.

- 3.16 *"The Accounts Commission continues to be concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings to existing models of service delivery. There are some examples of councils achieving savings and community benefits*

through increasing online access to services, sharing services, collaborating on procurement and using arm's-length external organisations (ALEOs). Councils, however, need to be more ambitious in their plans, better at longer-term planning, and willing to appraise all practical options for delivering services more efficiently and effectively. This includes empowering and supporting local communities in delivering local services.”

3.17 The Council has established an ambitious Transformation Programme that will include development of options for different models of service delivery. A key project within the Programme will be the implementation of a major programme of ‘Channel Shift’ – delivering services, where possible, through on-line channels. As reported to the 26 April 2016 Council meeting work has already begun on the procurement of Specialist Support and Care at Home services using a co-production model. The Council has been collaborating with Midlothian Council on developing partnering arrangements for services such as Trading Standards and the mobile library service. The Council has devolved almost £2m to Area Partnerships to determine spending on local priorities in areas such as amenity services, roads and educational initiatives to improve attainment and reduce the attainment gap.

3.18 *“Most councils continue to reduce staff numbers. It is essential that they have comprehensive workforce strategies and plans, which must take into account not only workforce-related cost pressures, but the staff knowledge, skills and time they will need to plan and deliver services differently in future.”*

3.19 The Council has a well established Workforce Development Plan which 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

3.20 *“There is a need for councillors to continuously review and develop their skills and knowledge to help them carry out their increasingly complex and challenging role effectively. They need to have the skills and the necessary information to allow them to carry out effective scrutiny of performance. This becomes ever more important as councils develop new and different ways of delivering services within their reducing budgets.”*

3.21 The Council carried out a councillors’ development and training survey in late 2014 and has repeated the survey in April/ May 2016. These surveys have been used to identify councillors’ training and development needs and identify issues to be included in the programme of elected members’ briefings that has been organised. Councillors will be involved in developing the Induction Programme for members elected to the Council in May 2017.

3.22 The report makes a series of recommendations intended to help councillors in carrying out their role effectively. The report states that councillors should:

- *Satisfy themselves that their council has a longer-term financial strategy (five or more years) supported by an effective medium-term financial plan (three to five years). These should show how the council will prioritise spending to achieve its objectives, make any necessary savings and remain financially sustainable*
- *Appraise all practical options for how to deliver the services their communities need within the resources available. This includes examining opportunities to work with and empower communities to deliver services in different ways, and learning lessons from others and from wider public service reform. They should ensure they get all necessary information and support from officers to help them fully assess the benefits and risks of each option*
- *Ensure their council continues to develop workforce strategies and plans that clarify the numbers and skills of staff needed in future. In assessing their council's workforce, councillors should consider whether they have people with the knowledge, skills and time to support them effectively in making the difficult decisions that lie ahead, and to design and implement new ways of delivering services*
- *Make sure that decision-making processes and scrutiny arrangements remain appropriate for different ways of delivering services. This includes:*
 - *having clearly written and manageable information to help them make decisions and scrutinise performance*
 - *carrying out business openly and improving public reporting*
- *Regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny. These opportunities should also be available to any new members after the local elections in 2017*
- *Use the questions in this report and the separate self-assessment tool to help them assess their council's position.*

3.23 The Accounts Commission also has published a self-assessment tool (Appendix 2) for elected members to use to help councillors identify how well informed they are about each area and to highlight areas where they may wish to ask further questions.

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 2016' will assist the Council in recognising the challenges that it faces in achieving Best Value in the future.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an 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 An Overview of Local Government in Scotland 2016', Accounts Commission, March 2016
7.2 Local Government Overview 2016: Self-assessment tool for councillors, Accounts Commission, March 2016

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DATE	26 April 2016

An overview of local government in Scotland 2016



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
March 2016


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.

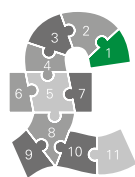
You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac 

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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These pound sign icons appear throughout this report and represent key facts.



These question mark icons appear throughout this report and represent questions for councillors.



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.

Chair's introduction



In our 2015 overview report we said, 'Councils tell us that they should manage budgetary pressures in 2015/16 but the years beyond pose a level of challenge not previously experienced.' The Commission recognises the achievement of councils – both councillors and officers – in meeting these challenges to date.

But the scale of the challenge in 2016/17 and beyond has significantly increased because of the local government funding settlement. The settlement has substantial implications for services to the public, councillors and the local government workforce.

Next year councils and health boards, through health and social care partnerships, jointly have the responsibility to make a significant start in the shift from hospital care to care at home and care in the community. This is the most far-reaching public service reform since the establishment of the Scottish Parliament.

And these challenges are compounded by: a one-year financial settlement, cost pressures, increasing demands on services from an ageing and growing population, the ambitions of the Community Empowerment (Scotland) Act 2015, and the political pressures created by elections in both 2016 and 2017.

The majority of our recent Best Value audits have highlighted a dependency on incremental changes to services, increasing charges and reducing employee numbers in order to make savings. But these are neither sufficient nor sustainable solutions set against the scale of the challenge facing councils. Cuts can only be part of the solution. What is required is a more strategic approach, longer-term planning and a greater openness to alternative forms of service delivery.

It is challenging for councillors and officers to fundamentally change the way a council has provided a service over a lengthy period of time. But there are significant consequences to not conducting comprehensive option appraisals: services may not be as efficient or effective as they could be and may not be achieving value for money, resources may not be directed to priority areas such as preventative services, and councils may not be able to demonstrate that they are achieving best value.

In considering all viable options, it will be essential that councillors are provided with comprehensive and objective information on the cost, benefits and risks of each option. This will help them make considered decisions in partnership with service users and communities.

the scale of the challenge has significantly increased – cuts can only be part of the solution

As the landscape of service delivery becomes ever more complex, councils will need to ensure they have people with the necessary knowledge and skills to manage that complexity. This is important for councillors and council officers, as both must have, for example, skills in options appraisal, programme management, commissioning, finance and scrutiny.

And in a climate of reducing resources the importance of scrutiny has never been greater. Scrutiny arrangements must add demonstrable value in monitoring the planning, execution and follow-up of key decisions. The public needs to have confidence that their council's arrangements are transparent, independent and effective. If they are not, the public interest is not being met.

The Commission hopes that this overview report will be a helpful tool for councillors and officers to stand back and assess their progress in the journey of improving outcomes for service users and communities. As always, the Commission welcomes feedback on its overview report.

Douglas Sinclair
Chair of the Accounts Commission

Summary



Key messages

- 1** Councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17, bringing the real terms reduction in revenue funding since 2010/11 to 11 per cent. At the same time, they face additional financial pressures and greater demands on services. Councils have been effective in balancing their annual budgets until now but councillors face increasingly difficult decisions about how best to spend their reducing budgets. This requires clear priorities and better long-term planning.
- 2** Councils' responses to budget reductions have mainly focused on incremental savings to existing services. In the face of further funding reductions, councils should be evaluating options for more significant changes to delivering key services, beyond health and social care integration.
- 3** Despite reducing their spending, performance measures show that councils improved in areas such as educational attainment, the quality of council housing and waste recycling, in 2014/15. However, customer satisfaction with some services declined and there are more significant funding reductions to come in 2016/17 and beyond.
- 4** Most councils have reduced their workforces to save money, and many are planning further staff reductions. In doing so, they need to ensure they have people with the knowledge, skills and time to design, develop and deliver effective services in the future.
- 5** Councils and their partners also need to respond to the Community Empowerment (Scotland) Act 2015, by involving local people more in making decisions about services, and empowering local communities to deliver services that are sustainable and meet local needs.
- 6** Councillors need to keep updating their skills and knowledge to fulfil their complex and demanding role. In particular, it is increasingly important that they are able to challenge and scrutinise decisions and performance, and fully assess options for new and different ways of delivering services within their reducing budgets.

Recommendations

Councillors are now leading complex organisations in increasingly challenging circumstances. There are a range of sources to help them understand and manage their council's financial and service performance, for example the Improvement Service. Our recommendations are intended to complement other sources of support and help councillors in carrying out their role effectively.

Councillors should:

- satisfy themselves that their council has a longer-term financial strategy (five or more years) supported by an effective medium-term financial plan (three to five years). These should show how the council will prioritise spending to achieve its objectives, make any necessary savings and remain financially sustainable
 - appraise all practical options for how to deliver the services their communities need within the resources available. This includes examining opportunities to work with and empower communities to deliver services in different ways, and learning lessons from others and from wider public service reform. They should ensure they get all necessary information and support from officers to help them fully assess the benefits and risks of each option
 - ensure their council continues to develop workforce strategies and plans that clarify the numbers and skills of staff needed in future. In assessing their council's workforce, councillors should consider whether they have people with the knowledge, skills and time to support them effectively in making the difficult decisions that lie ahead, and to design and implement new ways of delivering services
 - make sure that decision-making processes and scrutiny arrangements remain appropriate for different ways of delivering services. This includes:
 - having clearly written and manageable information to help them make decisions and scrutinise performance
 - carrying out business openly and improving public reporting
 - regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny. These opportunities should also be available to any new members after the local elections in 2017
 - use the questions in this report and the separate self-assessment tool to help them assess their council's position.
-

About this report

1. This report provides a high-level, independent view of councils' management and performance. It draws on the findings from local government audit work in 2015, including audits of 2014/15 financial statements, Best Value, Community Planning and performance. All reports are available on Audit Scotland's website.

2. The report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles:

- **Part 1** reviews the financial context in which councils are operating and gives a national overview of councils' financial performance. Information that compares one year with another is shown in real terms (taking inflation into account, based on 2014/15 prices) unless otherwise stated.
- **Part 2** considers how councils are performing in delivering services and how they are changing the way they operate in the context of increasing pressures. It looks at the implications for councils' workforces and highlights key aspects of governance.

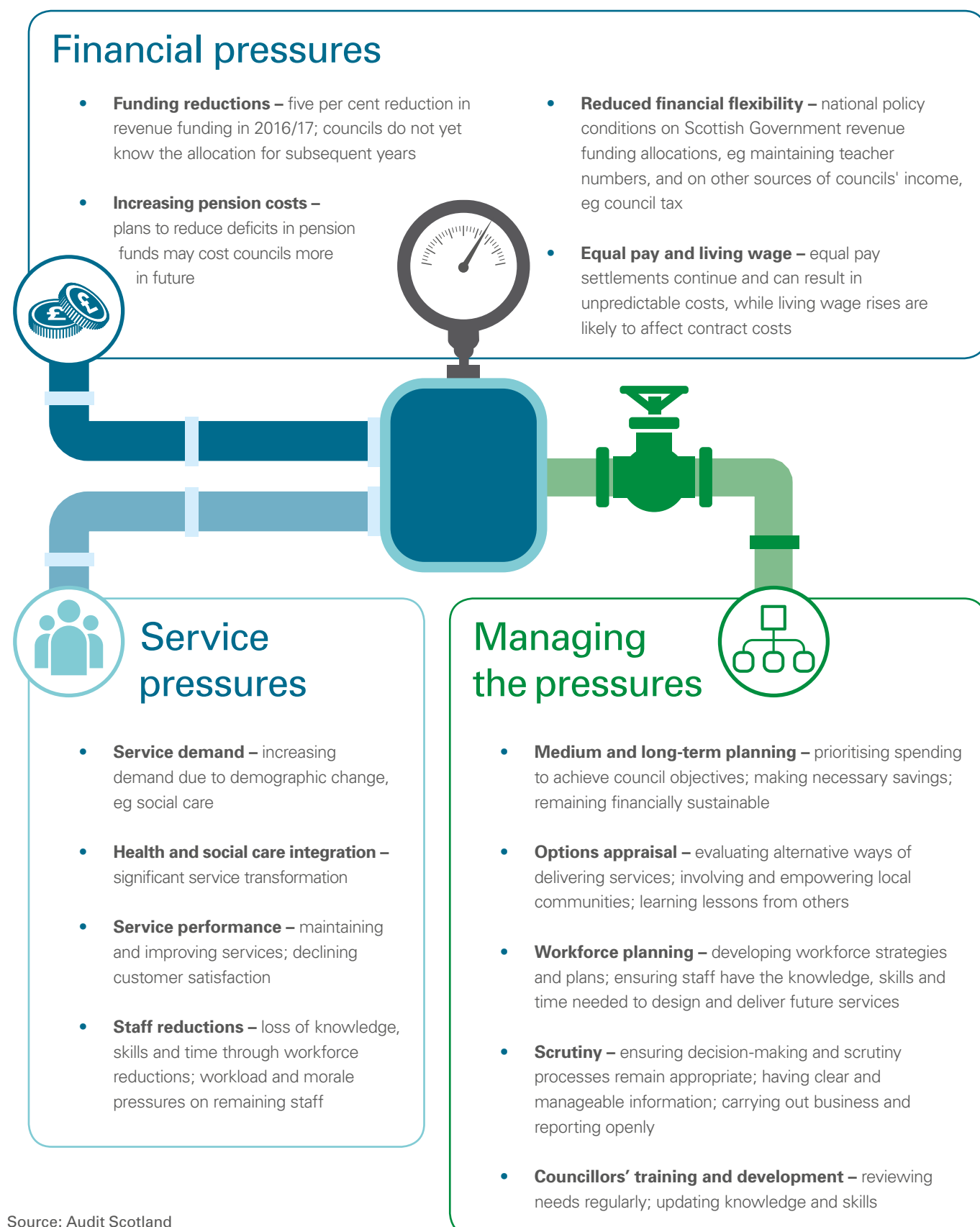
3. [Exhibit 1 \(page 9\)](#) provides a summary of the main pressures that councils face.

4. Throughout the report we identify questions that councillors could ask to help them understand their council's financial position, scrutinise performance and make good decisions. Councillors should satisfy themselves that they understand, and are comfortable with, the answers to the questions most relevant to them in their role within the council. These questions are also in a [separate self-assessment tool](#) on [Audit Scotland's website](#), where we have also provided selected financial facts about each council to help comparisons and benchmarking.

Exhibit 1

Local government pressures

In the face of financial and service pressures, councils should be planning for the longer term and evaluating options for more significant service redesign.



Source: Audit Scotland

Part 1

Managing financial performance

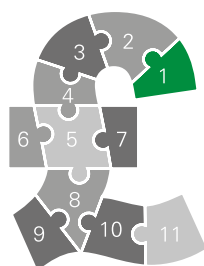


Key messages

- 1 Councils received £10.76 billion of funding from the Scottish Government in 2014/15. This included £9.92 billion for revenue funding, which helps pay for day-to-day running costs, including staff. This was almost the same as the previous year and 6.5 per cent less in real terms than in 2010/11. While revenue funding in 2015/16 also remained largely unchanged in real terms, major challenges lie ahead for councils. The Scottish Government has reduced revenue funding in 2016/17 by five per cent in real terms. This equates to an 11 per cent reduction in revenue funding between 2010/11 and 2016/17. Councils also received capital funding in 2014/15 of £0.84 billion.
- 2 Councils have continued to balance their budgets each year by reducing their spending. The majority underspent their 2014/15 budgets and increased their reserves in anticipation of future funding reductions.
- 3 Local Government Pension Scheme (LGPS) funds report shortfalls between the value of funds and the future pension commitments to be paid. This does not create immediate problems. Pension funds have plans in place to reduce any deficits within a 20-year period.
- 4 Councils' debt has been increasing since 2011/12, although it decreased slightly in 2014/15. In addition, many councils predict gaps between their income and spending in future years. This may threaten their financial sustainability if risks are not well managed.
- 5 The challenging financial environment, together with changing demographics and rising demands on services, means that effective medium-term (three to five years) and longer-term (five or more years) financial planning is critical for councils. This is more challenging for councils when they do not know what their future funding and income will be, meaning that they need to plan for a range of possibilities.

councils have effectively balanced their budgets but long-term planning is critical in this challenging financial environment

In 2016/17, Scottish Government revenue funding for councils is 11 per cent lower (in real terms) than in 2010/11



5.1 per cent: reduction in Scottish Government revenue funding for councils in 2016/17



6.5 per cent: reduction in Scottish Government revenue funding between 2010/11 and 2014/15

£0.4 billion: increase in non-domestic rates (NDR) income between 2010/11 and 2014/15

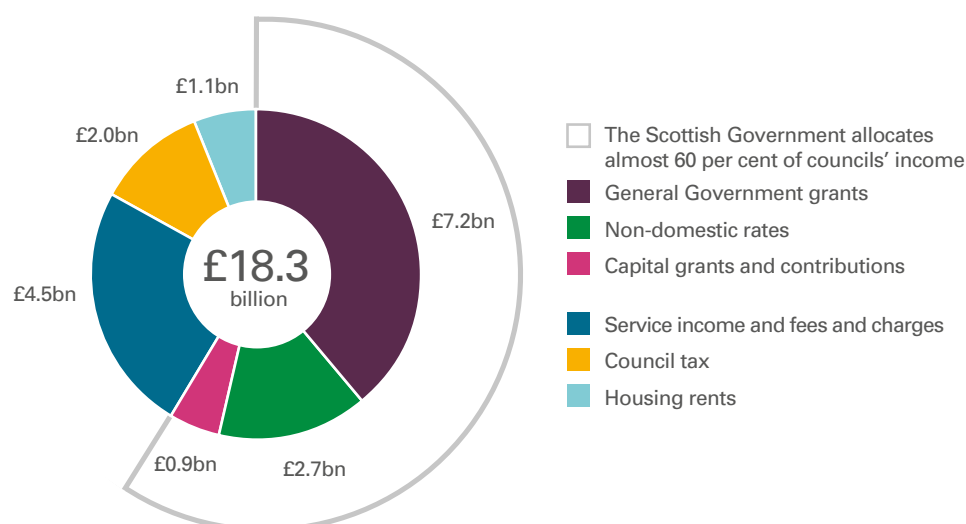
£18.3 billion: councils' total income in 2014/15

5. Councils' 2014/15 accounts showed that their total income was £18.3 billion. In line with previous years, the Scottish Government allocated almost 60 per cent of this (£10.76 billion) ([Exhibit 2](#)). This included revenue funding of £9.92 billion for day-to-day running costs, including staff; and capital funding of £0.84 billion to invest in buildings, roads and equipment. In real terms, the £10.76 billion is six per cent lower than in 2010/11, when total funding was at its highest.

Exhibit 2

Sources of councils' £18.3 billion of income in 2014/15

Almost 60 per cent of councils' income is allocated by the Scottish Government.



Notes:

1. Service income, fees and charges may include specific, service-related grants and income such as payments from the Scottish Government, NHS or other councils. They exclude housing rents which are shown separately as housing income.
2. Capital grants and contributions include income from the Scottish Government and others such as central government bodies, National Lottery and the European Union.
3. Figures sum to £18.4bn due to rounding.

Source: Councils' annual accounts, 2014/15

6. Scottish Government revenue funding remained almost unchanged (in real terms) in 2014/15 and 2015/16. In 2016/17, it will be five per cent lower than in 2015/16. This represents a reduction of 11 per cent in real terms since 2010/11.

7. In 2014/15, Scottish Government revenue funding included £343 million as part of the council tax reduction scheme, replacing council tax benefit that until 2013/14 came from the UK Government. It also included £490 million for freezing council tax at 2007/08 levels. The Scottish Government has added £70 million each year since 2008/09 to make up for income councils would have received if they had increased council tax in line with inflation each year. As part of the funding agreement for 2014/15, councils committed to implementing national policies to freeze council tax, and maintain teacher numbers and pupil to teacher ratios.

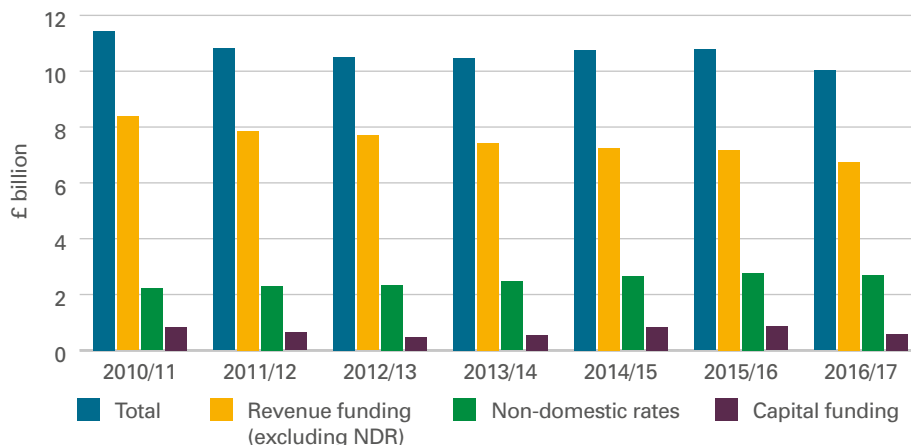
NDR makes up an increasing share of the revenue funding allocated by the Scottish Government

8. Non-domestic rates (NDR) are a tax on business property to help pay for local services. The Scottish Government sets the rate of tax, councils collect the money, and the Scottish Government redistributes it as part of its funding allocation to councils. NDR income has risen in recent years due to annual increases in the rate of tax and rises in the number of business properties on which the tax is paid ([Exhibit 3](#)). This increase, alongside total revenue funding decreases, has led to NDR making up 25 per cent of allocated revenue funding in 2014/15 compared with 19 per cent in 2010/11.

Exhibit 3

Scottish Government funding to councils from 2010/11 to 2016/17, at 2014/15 prices

NDR income has been rising while total revenue funding has reduced.



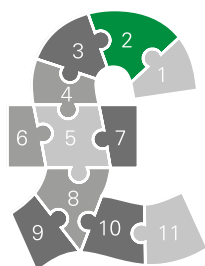
Notes:

1. Funding allocations up to 2012/13 have been adjusted to remove funding for police and fire. Responsibility for these services transferred from local to central government in April 2013.
2. The Scottish Government has not yet set out its plans for local government funding beyond 2016/17.
3. From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit which previously came from the UK Government. This was £356 million in 2013/14 and £343 million in 2014/15, at 2014/15 prices.
4. The 2016/17 figures do not include £250 million that the Scottish Government allocated to health and social care integration authorities. This is an allocation from the Scottish Government health budget to NHS boards, rather than councils. The NHS boards will direct the funding to the integration authorities.

Source: Local Government Finance Circulars, Scottish Government, 2011-2016



Capital funding from the Scottish Government increased significantly in 2014/15 as part of a phased plan



£37.1 billion: value of physical assets owned by councils, for example buildings, schools, roads and equipment



£2.2 billion: amount councils invested in capital projects in 2014/15

£498 million: revenue and capital payments for Private Finance Initiatives (PFI) and Non-Profit Distributing (NPD) contracts in 2014/15

9. As part of its 2011/12 Spending Review, the Scottish Government rescheduled payments of some planned capital grant funding for councils for 2012/13 and 2013/14 by two years. This was to provide more capital funding for government bodies that are not allowed to borrow money. The Scottish Government then increased capital allocations to councils by £120 million in 2014/15 and £94.2 million in 2015/16. Similar shifts in capital funding are planned between 2016/17 and 2019/20, with lower funding in the first two years and higher in the last two years.

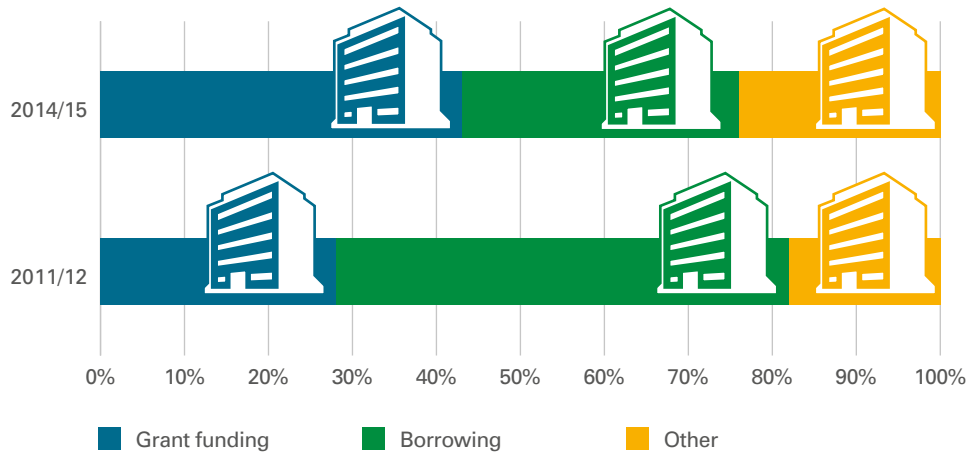
10. Between 2011/12 and 2014/15, capital grant funding increased from £720 million to £925 million (at 2014/15 prices). The Scottish Government provided about 80 per cent of grants in this period. Councils' total capital spending has decreased over the same period, from £2.5 billion to £2.2 billion (at 2014/15 prices). Councils are now using more capital grants than borrowing to fund their capital programmes ([Exhibit 4, page 14](#)). In 2016/17, councils face a decision about whether to increase their borrowing or decrease their capital programmes due to planned capital funding reductions by the Scottish Government.

11. Twenty-eight councils underspent their capital budgets in 2014/15. Capital underspends can have significant effects on a council's financial position, including cash flows from year to year, and how well it achieves its objectives. They may also have an effect on current and future borrowing. It is therefore important that capital spending plans are realistic. Councils should closely monitor capital spending and make sure there is effective communication between their capital investment and treasury management functions (the latter of which manages cash flow, borrowing and investments). Councils' treasury management strategies should set out for councillors how the borrowing strategy is informed by corporate priorities and capital investment needs ([Borrowing and treasury management in councils \[PDF\]](#)).¹ Councils should also demonstrate to elected members and service users how planned capital investment will help achieve their long-term strategic priorities ([Major capital investment in councils: follow-up \[PDF\]](#)).²

Exhibit 4

Sources of funding for capital spending

From 2011/12 to 2014/15, funding from capital grants increased and funding through borrowing decreased.



Note: Other sources of capital finance include money from the sale of assets, revenue funding used for capital spending and contributions from specific capital funds.

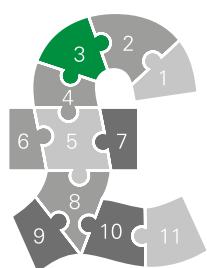
Source: Audit Scotland

12. As councils make decisions on how to manage reducing budgets, they must consider both the short and long-term implications of capital financing. This includes considering innovative funding options available for capital programmes, such as City Deals which attract additional funding from both the UK and Scottish Governments, as well as borrowing in traditional ways.

13. Councils are making significant revenue payments for Private Finance Initiatives (PFI) and Non-Profit Distributing (NPD) contracts, mostly for new and refurbished schools. In future, they will also face revenue charges associated with new projects financed through similar contracts or through newer funding models. It is important that both capital investment plans and treasury management strategies take into account the future revenue costs of capital financing options. Being aware of these costs allows councillors to fully scrutinise the long-term implications and affordability of funding decisions and to assess the sustainability of capital investment plans.

14. Councils have long-term assets worth nearly £40 billion, including physical assets, such as buildings, roads, vehicles and equipment, and long-term investments. The value increased by 1.7 per cent during 2014/15. The reported value of existing assets, shown in councils' annual accounts, is expected to increase greatly from 1 April 2016 when council-owned roads are to be valued on a different basis.

Councils have balanced their budgets by reducing their spending but face additional pressures on top of funding reductions



£18.7 billion: spending on day-to-day running of services (including interest costs and accounting adjustments)



23 councils spent less than their income on providing services in 2014/15

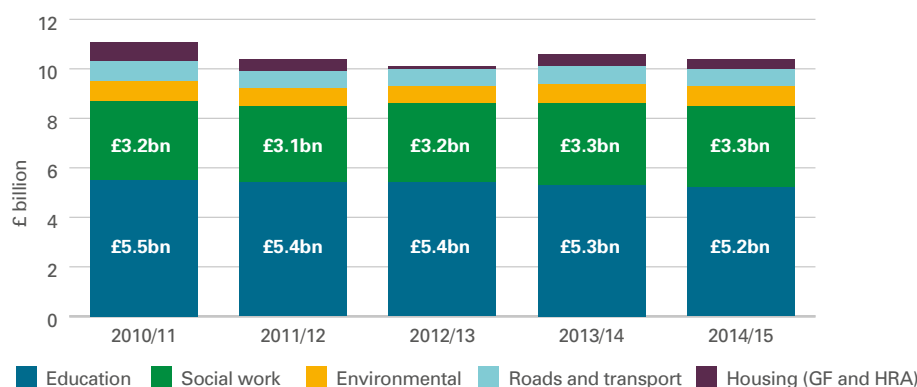
15. Councils have managed financial pressures by reducing spending across many of their main services and activities, except in social work ([Exhibit 5](#)). Councils' 2014/15 accounts showed expenditure of £18.7 billion. This looks like councils overspent by £0.4 billion but is actually due to adjustments that councils must make in their annual accounts, under local government accounting rules, for things like the accounting treatment of fixed assets and pension costs. In fact, the majority of councils underspent against their overall budgets in 2014/15. The one notable exception to this was Falkirk Council, which overspent by £2.9 million (0.8 per cent of its General Fund revenue budget). The most significant overspend of £3.3 million occurred in social work services and was partially offset by underspends in other areas.

16. The large number of underspends suggests that councils have successfully controlled their spending on services in preparation for the anticipated further funding reductions from 2016/17 onwards. Preparations for planned reductions in future years can also contribute to underspends if opportunities arise to

Exhibit 5

Council spending on main services 2010/11 to 2014/15, at 2014/15 prices

Councils have reduced their real terms net spending in service areas except in social work.



Notes:

- The figures show net spending, which is the total amount spent less any income from fees, charges or other service-related income.
- Housing figures include spending from the General Fund (GF) and Housing Revenue Account (HRA).

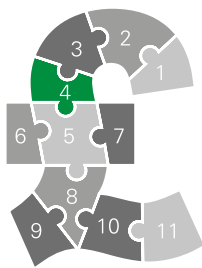
Source: Councils' annual accounts, 2010/11-2014/15



make savings ahead of schedule. Councils will find it increasingly challenging to underspend or balance their budgets from 2016/17 onwards because many incremental savings have already been made.

17. Even where councils underspent against their overall budgets, about a third of councils reported overspending their social work or social care budgets. The highest overspend in 2014/15 was in City of Edinburgh Council's health and social care service, which overspent its budget by £5.9 million due to demand pressures. The council has commissioned an external review to identify the main reasons for this and to help manage the budget in future. With demand rising because people are living longer, combined with further funding reductions, social care budgets will come under increasing pressure for many councils and for the new health and social care integration authorities. In 2016, we will publish a report, *Social work in Scotland*, which will look at the scale and impact of the financial and demand pressures facing social work and how councils and their partners are addressing these challenges.

Councils increased their usable reserves during 2014/15 in anticipation of further funding reductions



£1.9 billion: councils' usable reserves (excluding Orkney and Shetland Islands councils)



£375 million: unallocated General Funds (excluding Orkney and Shetland Islands councils)

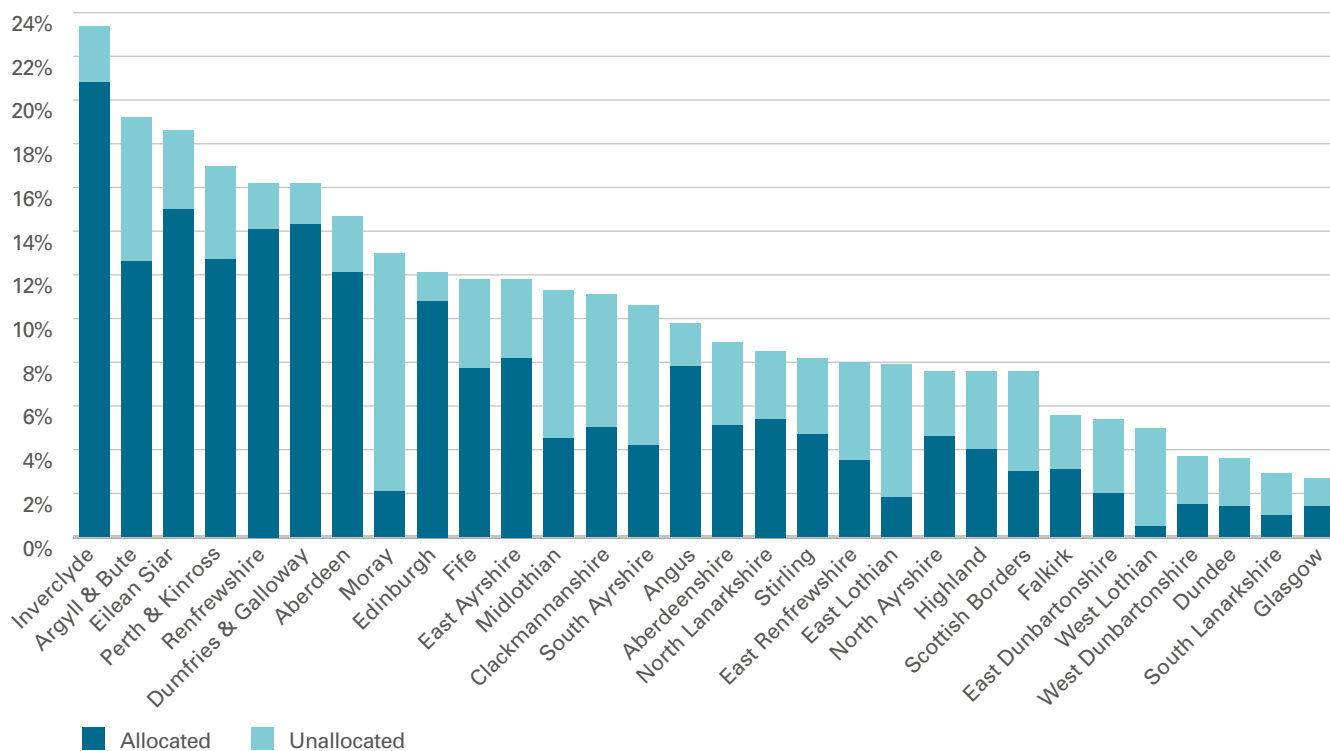
13 councils planned to use reserves for day-to-day spending in 2015/16

18. By the end of 2014/15, councils (excluding Orkney and Shetland Islands councils) had usable reserves of £1.9 billion, which is £31.4 million more than at the beginning of the year. £1.1 billion of this was in General Funds, available for councils to spend as required. £375 million of the £1.1 billion of General Funds were unallocated, meaning they were not earmarked for a specific purpose and therefore available as a contingency for unforeseen spending, such as making up shortfalls in income or savings, or for possible future commitments. Unallocated General Funds rose by 18.5 per cent during 2014/15. They are now 39 per cent higher than they were in 2010/11. Council finance directors tell us this is largely because they are being careful to save whenever opportunities arise, in anticipation of further funding reductions. Across Scotland, there is wide variation in the level of reserves councils hold and the levels of unallocated General Funds, with eighteen of the 30 councils having allocated more than half of their General Funds ([Exhibit 6, page 17](#)).

Exhibit 6

General Fund reserves held as a percentage of service costs, 2014/15

There is wide variation in the amount of General Fund reserves that councils hold compared to the cost of providing services.



Notes:

- Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities, which affect what is included in their General Funds.
- Service costs in this context are taken as the General Fund net cost of services, as reported in councils' annual accounts.

Source: Councils' annual accounts and data returns from auditors, 2014/15



19. Eighteen out of the 30 councils allocated more than half of their General Fund. Thirteen of Scotland's 32 councils planned to use reserves to bridge a gap between their income and spending in 2015/16 or beyond. Using reserves to support day-to-day spending on services is unsustainable. Financial plans and reserves policies must strike a balance between the planned use of reserves and being prepared for any unforeseen changes in circumstances to ensure councils can manage external pressures. For example, there have recently been multi-million pound compensation payments for multiple equal pay claims. Such events can significantly affect councils' reserves and their plans for using them.

20. The level of reserves that a council holds is a local decision, but should be clearly informed by an annually reviewed reserves policy. Thirty-one councils had a reserves policy in 2014/15, the exception being The Moray Council which plans to finalise a policy in March 2016. It is important that officers advise councillors of the rationale for holding specific levels of reserves. Councillors need to be satisfied that their council's reserve level is both appropriate and necessary. Reserves policies set a minimum or target level of reserves to be held but half of councils ended 2014/15 with unplanned increases or decreases in their General Fund ([Exhibit 7, page 18](#)). This underlines the importance of ensuring reserve levels are adequate and policies are regularly reviewed.



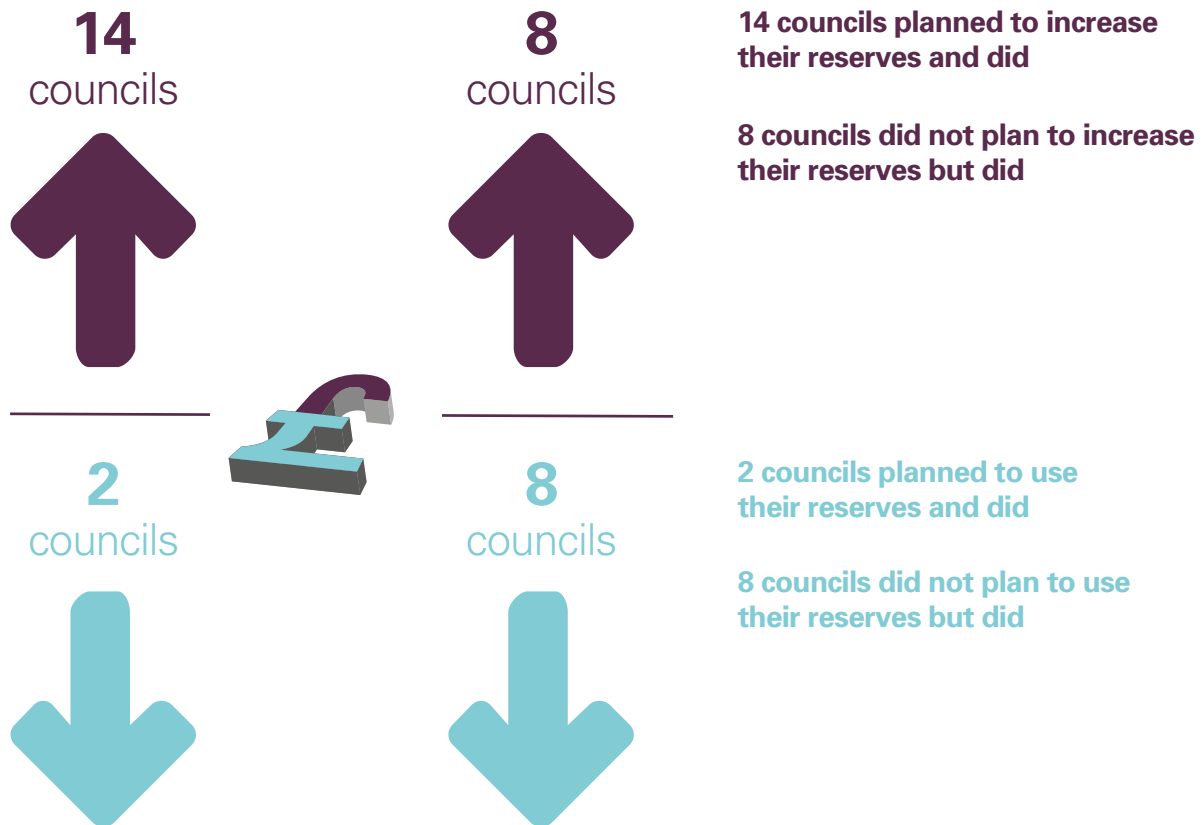
What level of reserves do we need, both allocated and unallocated?

How effectively are we using the reserves we hold?

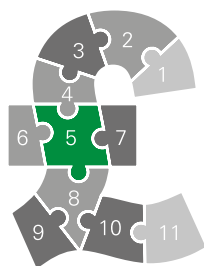
Exhibit 7

Increases and decreases in General Fund reserves

Total General Fund reserves increased overall but half of councils did not increase or decrease their reserves as planned.



Source: Councils' annual accounts and data returns from auditors, 2014/15



£39.9 billion: value of councils' long-term assets including their physical assets (£37.1 billion) and other assets such as long-term investments and money they are owed



£13.8 billion: councils' net debt – the difference between what is borrowed and owed (£15.2 billion) and the value of short-term investments (£1.4 billion)

£12.5 billion: councils' total short and long-term borrowing, which is the majority of their debt

£0.5 billion: increase in borrowing during 2014/15

Councils' net debt has increased since 2010/11, but decreased slightly in 2014/15.

21. Councils' debt includes money they have borrowed as well as commitments made under PFI, NPD and finance leases. Councils paid interest and repayment charges of about £1.5 billion in 2014/15, similar to the amount they paid in 2013/14. Most of councils' borrowing is for capital projects and helps them spread the cost of building, refurbishing and replacing their assets over a number of years.

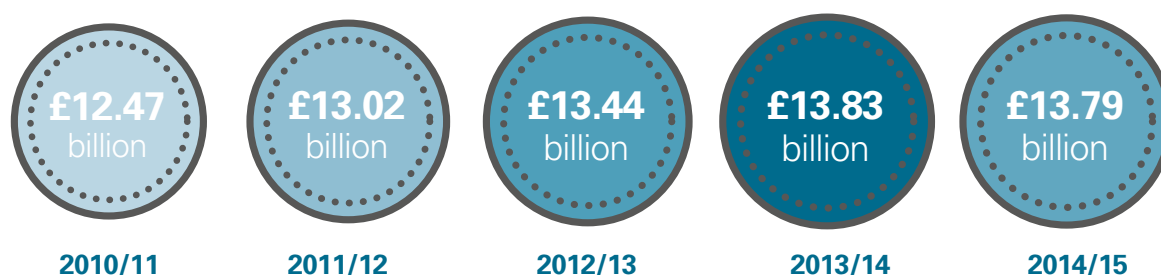
22. Councils' net debt (total debt minus investments and cash) decreased by £44 million during 2014/15. At £13.8 billion (excluding Orkney and Shetland Islands councils), it remains £1.3 billion more than in 2010/11 ([Exhibit 8](#)).

23. Councils need to assess the affordability of borrowing and other forms of debt. In the short term, they do this using a number of 'prudential indicators', which show the effects on revenue budgets, in compliance with The Prudential Code.³ We recommended in [Borrowing and treasury management in councils \[PDF\]](#) that councils should do more to assess the long-term affordability of borrowing and other forms of debt.

Exhibit 8

Councils' net debt, 2010/11 to 2014/15

Councils' net debt has increased since 2010/11, but decreased slightly in the last year.



Notes:

1. Net debt is calculated as total debt (long-term borrowing, short-term borrowing, bank overdrafts and other long-term liabilities) minus external investments (short-term investments and cash, and cash equivalents).
2. Figures exclude Orkney and Shetland Islands councils, which have large investments associated with harbour and oil activities.

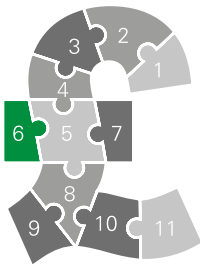
Source: Councils' audited accounts, 2010/11-2014/15

24. Borrowing levels are not an indication of financial problems or that a council may not be financially sustainable. As long as repayments are affordable and the council can finance its debts, then borrowing is a valuable means of financing longer-term capital costs. It is up to individual councils, taking into account their existing commitments, to determine how much they can afford to pay in annual repayments. Councils have reduced their borrowing in recent years, at the same time as there were changes in capital funding allocations from the Scottish Government and reductions in the overall size of capital programmes. Their overall level of outstanding borrowing has increased to £12.5 billion.



What implications do different borrowing and financing options have for our future revenue budgets?

Local Government Pension Scheme fund deficits can vary from year to year and long-term plans are in place to finance them



£33.8 billion: assets managed by the 11 separate LGPS funds in Scotland

£44.5 billion: total liabilities of the 11 LGPS funds

£10 billion: councils' share of the £10.7 billion long-term LGPS fund deficits



25. Pension contributions are a significant cost for councils. Most council staff pay into either the Scottish Teachers' Superannuation Scheme (STSS) or the Local Government Pension Scheme (LGPS). The Scottish Government is responsible for the STSS while councils are responsible for the LGPS. Staff in other related organisations, such as colleges, can also be members of these schemes.

26. The LGPS has 11 separate investment funds. These vary in size from Strathclyde Pension Fund, which manages about £16 billion (over 45 per cent) of the £33.8 billion LGPS assets, to a number of smaller funds each managing less than five per cent of total assets.

27. The value of the pension funds is fully assessed every three years to set contribution rates, most recently in 2014. Annual estimates are also made in between assessments. A range of factors are taken into account each time, for example inflation and life expectancy, and so annual estimates of fund values and future pension payments can vary from year to year.

28. At the end of 2014/15, there was an estimated £10 billion shortfall, or deficit, between the value of councils' pension funds and the future pension payments that will be made. This has increased by around £2.5 billion since 2011. During 2014/15, there were significant deficit increases in Glasgow City (£234m, 18 per cent), City of Edinburgh (£191m, 36 per cent), South Lanarkshire (£140m, 28 per cent), Falkirk (£128m, 51 per cent) and North Lanarkshire (£111m, 26 per cent) councils.

29. Pension deficits do not create immediate problems because staff and employer contributions and future payments will be made over a long period. There are long-term plans in place for funds to address current estimated deficits within 20 years.

The LGPS costs for councils are increasing

30. There are three main factors that determine variation in costs associated with the LGPS, and may result in increased pension costs for councils:

- Employer contribution rates: these range from around 17 to 22 per cent of employees' pay in 2014/15. They are not directly comparable between funds, or between councils within the same fund, because some councils make separate payments specifically to reduce deficits. But rates are set to increase. For example, by 2017/18 contribution rates will increase for five of the 11 councils that manage and administer the funds.

- Administration costs: these include the investment management fees for each fund, and other administration costs, and have been increasing. These are not comparable between funds, but the way the fees are reported has been changed to improve transparency and comparability between funds.
- Investment performance: the investment strategy for a fund takes into account the size of the fund's assets compared to its future liabilities, as well as other external market factors, when setting performance targets. Expected returns on investments are used to set employer contribution rates. In 2014/15, eight of the 11 LGPS funds reported above-expected returns and three reported returns below the targets they set for themselves (Highland, North East and Shetland).

31. Most LGPS funds have a growing number of pensioners within their schemes. The number of contributing members has also been increasing, despite staff reductions. Auto-enrolment into pension schemes is expected to result in more people joining. However, increases in the number of contributing members alone are not expected to offset the growing number of pensioners.

32. Councils face rising pension costs due to increases in pension scheme membership, raising the number of employees for whom they must contribute. Voluntary severance agreements can also increase the costs of paying pensions early and adding years to relevant employees' pensions. These agreements also result in councils having to make separate redundancy payments, although these are not pension costs.

33. Future employer contributions are part of a cost-sharing arrangement which may limit future increases. Employee contributions may however increase. Also, from 2016/17, employees and employers will no longer benefit from a reduction in National Insurance contributions, leading to increased costs for both.

34. There have been several recent developments to strengthen the governance and reporting of LGPS funds. In compliance with The Public Sector Pensions Act 2013, a local pension board was established for each LGPS fund before 1 April 2015. The board's role is to assist the fund manager to comply with rules relating to governance and administration of the fund.

35. A new Scottish Local Government Pension Scheme Advisory Board has also been set up as part of these reforms. Its role includes advising ministers on how the LGPS is operating and on any changes that may be desirable. It is likely to consider whether the structure of the LGPS in Scotland, with 11 separately administered funds, is efficient. That might include considering the value of the approach taken in England, of combining LGPS fund assets to allow collective investments to be made. The Accounts Commission welcomes this review of the LGPS.

Equal pay remains a significant cost pressure

36. By March 2015, councils had paid out £605 million to employees in equal pay compensation. During 2014/15, 24 councils settled nearly 4,000 equal pay claims, worth a total of £24.9 million. Councils currently estimate that about 30,000 cases remain outstanding. Councils had put aside £117 million in anticipation of further payments in 2015/16 and beyond. This includes £78 million by North Lanarkshire Council to compensate employees whose claims were brought to tribunal and agreed in 2014/15.



What are the implications of workforce reductions on our pension costs?

How will these affect our pension liabilities and pension administration costs?

37. Some councils do not expect many more significant equal pay claims and have reduced the money set aside for this purpose. However, recent cases highlight that councils' provisions can be significantly lower than the final costs. For example, Fife Council made a provision for equal pay claims of about £7 million in its 2014/15 accounts, based on the number of existing cases it had. However, in 2015/16 the council agreed to settle a large number of claims brought against it on the basis that the council's application of its job evaluation, pay protection and job assimilation arrangements under single status were unfair. The council's previous estimates of equal pay liability did not anticipate the application of its job evaluation scheme as being at risk. Therefore, the cost to the council of settling these cases is predicted to be many times greater than the financial provision it had made. This will significantly affect the council's financial position, including its planned spending on services and other projects or programmes. It is unclear how many other councils could potentially be in a similar position to Fife. The Accounts Commission plans to look at equal pay issues across local government in more detail during 2016/17.

Minimum and living wage rises have cost implications for councils

38. The living wage in Scotland is £8.25 per hour.⁴ Councils have a collective agreement with Scottish Joint Council trade unions on pay for the period 2015/16 to 2016/17. As part of this agreement, councils committed to a pay settlement which set the living wage at a level of £8.33 per hour. In addition, the UK Government is aiming for a minimum wage of £9 per hour by 2020, which would mean significant pay rises for those currently on or near the current minimum wage (£7.20 per hour for those aged 25 and over from April 2016). While there are clearly benefits to low-paid workers through the living wage commitment, the increases in employee costs and contract costs – when contractors pay their staff the living wage – will put additional pressure on councils' finances. It will also require councils to review their grading structures where the living wage moves jobs out of existing pay scales.

Good financial planning and management is required to manage future pressures and ensure financial sustainability

39. At March 2015, all councils had balanced their budgets and were not planning to spend more in 2015/16 than they could afford. External auditors reported that councils had adequate reserves and could afford to repay their current debts. However, audit work has highlighted concerns about some aspects of financial planning, management and sustainability in a small number of councils.

40. Auditors are most concerned about those councils that have been spending, or plan to spend, a significant amount of their reserves but still face a large gap between their expected income and spending. At March 2015, more than half of councils that had prepared indicative budgets for both 2016/17 and 2017/18 were reporting a funding gap between income and expenditure, even after they had identified savings and planned whether to use some of their reserves. At that point, five councils were predicting cumulative funding gaps of more than five per cent of their service costs by 2017/18. These were Clackmannanshire (14 per cent), Argyll and Bute (ten per cent), and Aberdeenshire, Orkney and Fife (five to six per cent) ([Exhibit 9, page 23](#)).

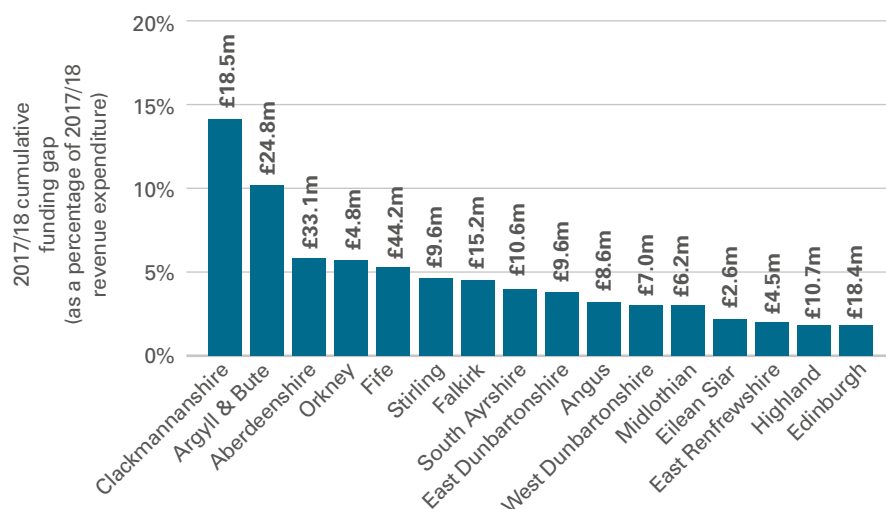


How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?

Exhibit 9

Predicted funding gaps at March 2015

At March 2015, five councils were predicting cumulative funding gaps of more than five per cent in 2017/18.



Notes:

1. Figures are the 2017/18 cumulative funding gaps. Ten councils predict a balanced budget in 2017/18. Six councils had not prepared a budget for 2017/18 by March 2015.
2. Many councils have updated their estimates of funding gaps since this data was collected in March 2015 but we have not collected this updated information.

Source: Audit Scotland



41. The extent of the Scottish Government's funding reduction for 2016/17 is likely to result in councils identifying even larger funding gaps between the cost of delivering current services and their income, after taking account of planned savings or additional sources of income. Addressing this will require councils to go beyond incremental cost-saving measures to existing services and to fundamentally rethink their models of service delivery.

42. Councils' financial sustainability continues to be at risk as they face the combined challenges of reduced funding, increasing cost pressures (such as pensions, the living wage and equal pay) and rising demand for services from an ageing and growing population. Auditors will continue to assess councils' financial health and how well they are planning and managing their finances. Councils with good medium and longer-term financial plans and strategies are better equipped to manage these risks effectively.

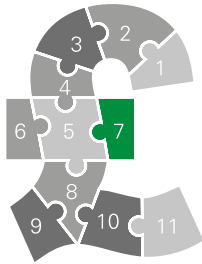


What options do we have to address this budget shortfall for example, redesign services, use reserves?

How big is the remaining funding gap after we implement our selected options?

What actions are we taking to close any remaining funding gap?

Financial planning is crucial as councils face significant pressures in 2016/17 and beyond



15 councils have long-term financial strategies covering five or more years

29 councils have medium-term financial plans covering three to five years



43. A good financial strategy sets out a council's financial objectives and how it will achieve them. It shows clearly how the council will use the money it has to help achieve its Single Outcome Agreement (SOA) and strategic objectives. A financial strategy should cover at least five years and should set out the risks and liabilities, any assumptions made about income and the implications for affordability. Councils should also have in place detailed financial plans that set out fully-costed annual spending plans over at least the medium term (three to five years). When future Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding and income.

44. Almost all councils have financial strategies that are accompanied by detailed financial plans covering at least three years. About a third of councils have financial plans covering five or more years. In a small number of councils, auditors reported that plans and strategies were still being developed.

45. Effective financial strategies and plans must take into account future financial pressures and how the council intends to respond to these. For example, councils need to assess how affordable the different options are for changing the way they deliver services. It is therefore important that financial plans support councils' priorities, savings and service change programmes, and asset management and workforce plans.

46. Shetland Islands Council, for example, has a five-year financial plan based on forecasts of future income, cost pressures, managing spending within the budget and financial risks. The council also intends to develop a 35-year asset investment plan to help it maintain the assets needed to deliver its priorities without reducing the money left for day-to-day running of services.



Do we have a long-term financial strategy covering at least five years that accounts for future pressures?

Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?

How well do our financial plans set out the implications of different levels of income spending and activity?

How does our financial strategy link to our vision for the future?

Part 2

Delivering services



Key messages

- 1 Councils' performance in 2014/15 continued to improve across many of the performance measures in the Local Government Benchmarking Framework (LGBF). Councils have well-established systems to manage their performance and are improving how they report to the public.
- 2 Health and social care integration is the most significant aspect of public sector reform for councils. New integration authorities may not be in a position to make an impact in 2016/17. Significant risks need to be addressed if integration is to fundamentally improve the way health and care services are delivered.
- 3 The Accounts Commission continues to be concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings to existing models of service delivery. There are some examples of councils achieving savings and community benefits through increasing online access to services, sharing services, collaborating on procurement and using arm's-length external organisations (ALEOs). Councils, however, need to be more ambitious in their plans, better at longer-term planning, and willing to appraise all practical options for delivering services more efficiently and effectively. This includes empowering and supporting local communities in delivering local services.
- 4 Most councils continue to reduce staff numbers. It is essential that they have comprehensive workforce strategies and plans, which must take into account not only workforce-related cost pressures, but the staff knowledge, skills and time they will need to plan and deliver services differently in future.
- 5 There is a need for councillors to continuously review and develop their skills and knowledge to help them carry out their increasingly complex and challenging role effectively. They need to have the skills and the necessary information to allow them to carry out effective scrutiny of performance. This becomes ever more important as councils develop new and different ways of delivering services within their reducing budgets.

councils need to be more ambitious and consider all the practical options for delivering services differently in future

Councils' performance improved in many service areas in 2014/15





47. Within the resources they had available in 2014/15 (for example money, people and buildings), councils continued to improve several key service performance measures, such as secondary school educational attainment, the balance between care at home and in care homes, the quality of council housing and waste recycling (**Exhibit 10**). Whatever their performance, the LGBF provides the starting point for councils to compare themselves with others to understand differences and learn lessons that will help them to improve performance.

48. The LGBF shows that public satisfaction with services has generally declined in recent years. This suggests a need for councils to work more closely with their communities and service users to establish service priorities.

Exhibit 10






Councils' service performance at a national level






There have been improvements across many of the performance indicators in the LGBF.

LGBF indicator		2010/11	2011/12	2012/13	2013/14	2014/15
 Education and Children's service	% of pupils gaining 5+ awards at Higher (Level 6)	23.0	25.0	25.7	28.1	29.3
	% pupils from deprived areas gaining 5+ awards at Higher (Level 6) ¹	8.0	9.0	10.1	12.6	12.8
	% of children being looked after in the community ²	91.0	91.2	91.0	91.0	–
	% of adults satisfied with local schools	83.1	–	83.0	81.0	79.0
	% of pupils entering positive destinations	88.9	89.9	91.4	92.3	92.9
 Corporate services	% of the highest paid 5% of employees who are women	46.3	48.5	48.7	50.7	51.7
	Domestic noise – average time (hours) to respond	47.8	31.6	43.2	80.7	58.9
	Sickness absence days per teacher	6.6	6.2	6.6	6.1	6.3
	Sickness absence days per employee (non-teacher)	10.8	10.4	10.9	10.3	10.8
	% of income due from council tax received by the end of the year	94.7	95.1	95.2	95.2	95.5
% of invoices sampled that were paid within 30 days	89.5	90.2	90.5	91.9	92.5	
 Adult social care	SDS ³ spend on adults 18+ as a % of total social work spend on adults 18+	1.6	3.1	5.9	6.4	6.9
	% of people aged 65+ with intensive needs receiving care at home	32.2	33.0	34.1	34.3	35.6
	% of adults satisfied with social care or social work services	62.1	–	57.0	55.0	51.0
 Culture and leisure	% of adults satisfied with libraries	83.5	–	83.0	81.0	77.0
	% of adults satisfied with parks and open spaces	83.1	–	86.0	86.0	86.0
	% of adults satisfied with museums and galleries	75.5	–	78.0	76.0	75.0
	% of adults satisfied with leisure facilities	74.6	–	80.0	78.0	76.0

Cont

Exhibit 10 continued

LGBF indicator		2010/11	2011/12	2012/13	2013/14	2014/15
 Environmental services	Street cleanliness score (% acceptable)	95.4	96.1	95.8	96.1	93.9
	% of total household waste that is recycled	38.7	41.0	41.7	42.2	42.8
	% of adults satisfied with refuse collection	80.9	–	83.0	83.0	84.0
	% of adults satisfied with street cleaning	73.3	–	75.0	74.0	74.0
 Housing	Gross rent arrears (all tenants) as a % of rent due for the reporting year	–	–	–	5.6	5.9
	% of rent due in the year that was lost due to empty properties	1.3	1.3	1.2	1.3	1.2
	% of dwellings meeting Scottish Housing Quality Standards	53.6	66.1	76.6	83.7	90.4
	Average time taken to complete non-emergency repairs (days)	–	–	–	10.2	9.9
	% of council dwellings that are energy efficient	74.9	81.2	88.8	94.0	96.5
 Corporate assets	% of operational buildings that are suitable for their current use	73.7	74.8	75.9	78.2	79.0
	% of internal floor area of operational buildings in satisfactory condition	81.3	82.7	82.6	80.9	82.9
 Economic development	% unemployed people assisted into work from council operated / funded employability programmes	–	–	9.6	12.5	14.2
		2009/11	2010/12	2011/13	2012/14	2013/15
 Roads maintenance	% of A class roads that should be considered for maintenance treatment	30.3	30.5	29.4	28.7	29.0
	% of B class roads that should be considered for maintenance treatment	35.8	36.3	35.0	35.2	36.1
	% of C class roads that should be considered for maintenance treatment	35.0	36.0	34.8	36.6	37.3

	Decline in performance from previous year		Improvement from previous year		No change in performance
	Baseline year		No data available		

Notes:

- This data is calculated from the Scottish Index of Multiple Deprivation (SIMD).
- Balance of care for looked after children: percentage of children being looked after in the community.
- Self-directed support.
- We have not included unit cost measures in this exhibit. Additional performance information is available at www.improvementservice.org.uk

Source: Local Government Benchmarking Framework, Improvement Service, 2016

Councils have well-established systems to help manage their performance and are improving how they report to the public

49. Councils have well-established systems for monitoring performance and continue to develop them. For example, in conjunction with the Scottish Public Services Ombudsman's (SPSO's) Complaints Standards Authority, councils are improving complaints monitoring as a means of better understanding public satisfaction with their services. Local government scrutiny bodies (Audit Scotland, the Care Inspectorate, Education Scotland, Scottish Housing Regulator and Healthcare Improvement Scotland), working collectively through the annual Shared Risk Assessment (SRA) process, have highlighted scope in some councils to use information more effectively in order to manage performance. This includes comparing performance with other councils and using self-evaluation.

50. Public performance reporting (PPR) is an important way for councils to demonstrate their performance to the public. Many councils have improved how they report their performance in public but there is a significant gap between top-performing councils and those that still need to improve their PPR.

51. The Accounts Commission will use LGBF data, complaints information and public performance reports as important sources of intelligence to inform future audits of Best Value.

Health and social care integration is intended to transform services across Scotland, but councils and their partners still need to address significant risks

52. The most significant transformation to council services taking place is the integration of health and social care services. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out an ambitious programme of reform for the Scottish public sector to improve support for people who need health and social care services. It creates a number of new public organisations and aims to encourage more effective joint working between NHS boards and councils.

53. Councils and NHS boards are required to establish integration authorities by 1 April 2016. There are now 31 integration authorities, including a joint arrangement in Stirling and Clackmannanshire. All integration authorities are required to integrate adult health and social care services, but they can also choose to integrate other services. The scope of services being integrated varies widely across Scotland. Most notably, in Argyll and Bute, and Dumfries and Galloway, the integrated services will include all NHS acute services, including planned and unplanned hospital services. The integration authorities are now establishing management and governance arrangements, including organisational structures and internal processes.


54. Our [Health and social care integration \[PDF\]](#) report found that integration authorities may not be in a position to make an impact in 2016/17.⁵ We reported on the significant risks that need to be addressed if integration is to fundamentally change the delivery of health and care services. These include:

- difficulties in agreeing budgets and finalising comprehensive strategic plans, due to councils having to set their budgets before NHS boards, and uncertainty about longer-term funding



How clearly do we report our plans and performance to the public?

- uncertainty about how complex governance arrangements will work in practice
- significant long-term workforce issues, such as different terms and conditions for NHS and council staff, and difficulties in recruiting and retaining GPs and care staff.


55. The issues around budgeting, strategic planning and governance need to be addressed quickly in order to improve local health and social care services in the next few years. In the longer term, joint action by councils and NHS boards will be needed to address workforce issues. Our [Changing models of health and social care \[PDF\]](#)  report highlighted that, to transform services and successfully deliver better outcomes for users, NHS boards, councils and integration authorities will have to adopt innovative models of care and ways of working that are quite different from traditional services.⁶

The quality and ambition of councils' savings and service change programmes vary greatly

56. Most of the savings councils have made over the last four years have relied on incremental reductions to a wide range of services and relatively small increases in income from fees and charges. Many savings have come from staff voluntary redundancies. There is a limit to how many staff can be lost before there is a major impact on the quality or quantity of services. Councils need to consider options for more fundamental changes to the way they deliver services.

57. Councils have been developing savings plans and service change programmes in response to current and future reductions in their income. However, auditors have highlighted variation in the ability of councils' programmes to make the savings required. Some are making good progress towards tangible savings and improvements to services for communities. For example, East Ayrshire Council's transformation strategy is designed to achieve sustainable savings of £34.7 million over the five-year period up to 2016/17. Planned savings in the first three years have already been achieved and, at the time of approving its 2015/16 budget, the council reported no funding gap up to 2016/17. The council reviews its transformation strategy annually and consults local communities and stakeholders on its priorities as part of the review.

58. Auditors have expressed concerns about the extent to which planned changes in some councils are enough to make required savings, whether these changes are being implemented quickly enough, and how any changes reflect a council's priorities. For example, in Aberdeenshire Council, the auditor has reported that there is little evidence of robust plans with clear links to outcomes.

59. The Accounts Commission is concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings and staff reductions. Recent Best Value audits on East Dunbartonshire, Falkirk, and Argyll and Bute councils highlight that, regardless of the ambition of savings plans and service change programmes, only relatively small-scale changes have been delivered so far.^{7,8,9} Larger-scale changes that make a bigger impact on budget shortfalls have proved more difficult to achieve. Our [East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report \[PDF\]](#)  found a clear commitment to improvement but expressed concerns about the pace of delivering the improvements in practice. We recommended the council take urgent action to identify clearer priorities for its transformation programme.



How will our savings plans help us achieve our corporate objectives and commitments made to our Single Outcome Agreement?



How open are we to considering all possible options to reduce the cost, and improve the quality and effectiveness of the services we provide?

60. One area where councils are changing the way they work is in providing services online. This allows councils to provide services that better meet the needs of users, as set out in the Scottish Government's and COSLA's 2012 vision *Scotland's Digital Future – Delivery of Public Services*.¹⁰ It also allows councils to deliver greater efficiency, reducing the number of staff required to deliver these services ([Case study 1](#)). However, it is important that councils continue to provide services for those who do not have access to, or simply do not want to use, online services.

Case study 1



Examples of online services in councils

City of Edinburgh Council

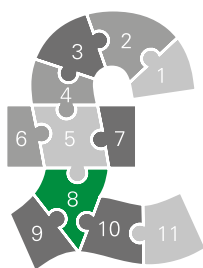
The council is currently redesigning many of its customer care services and moving services online where possible. The council plans to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact: 40 transactions, such as school placing requests, are already available online and savings of £355,000 over the past year have been made. The council now aims to roll out a further 153 new types of online transaction in 2016/17.

The Highland Council

The council aims to reduce the equivalent of 54.2 full-time employees and save £1.3 million by 2018/19 through its Digital First programme. In 2014, 82,000 transactions took place online with a corresponding ten per cent decrease in face-to-face transactions. The council currently offers 87 services online, such as paying rent online, and is aiming to have 40 per cent of customer transactions online by April 2017. The council has implemented the Improvement Service's customer portal 'myaccount'. This reduces the requirement for customers to prove their identity every time they apply, and gives customers the ability to upload scanned and photographed evidence.

Source: Audit Scotland

There is limited evidence of councils collaborating or sharing services



£43 million: saved by councils in 2012/13 by using collaborative procurement contracts



61. Collaborating or sharing services can help meet financial challenges. For example, East Ayrshire and South Ayrshire councils have a shared roads maintenance service, which has been operating since April 2014. It aims to maintain and improve the service while saving £8.6 million over the next ten years. Stirling and Clackmannanshire councils are jointly delivering social work and education services. However, they decided in late 2015 to withdraw from this arrangement, and they will revert to single-council services by April 2017. These shared services involved a lot of preparatory work. They highlight the need for sustained commitment if councils are to deliver shared services successfully and realise any planned longer-term benefits.

62. Our [Procurement in councils \[PDF\]](#) report found that councils had saved £43 million in 2012/13 through using Scotland Excel or Scottish Government collaborative procurement contracts, and councils' use of collaborative contracts has been increasing since then.¹¹ Savings were not the only benefit to this collaborative working. Councils had been systematically using procurement spending to support local economic development, and they had begun to achieve community benefits, such as apprenticeships and environmental improvements, into procurement contracts.

63. Whatever the means of delivering services, a crucial element of achieving best value is using options appraisal effectively to evaluate current and alternative ways to deliver services. Our [How councils work: Options appraisal – are you getting it right? \[PDF\]](#) report recommends rigorous and challenging appraisal of all the options.¹² It is important that councils consider a wide range of alternatives, including fundamentally different approaches, to help find the most effective and efficient way to achieve the council's priorities for its local communities ([Exhibit 11, page 32](#)).

64. In looking at possible options for delivering services, councils and their partners need to consider the opportunities presented by the Community Empowerment (Scotland) Act 2015. The Act aims to empower community bodies through ownership or control of land and buildings, and by giving them more say in decisions about public services.



How fully have we appraised the options for sharing services with similar or neighbouring authorities or other public sector bodies?

What options do we have for collaborating or sharing services?

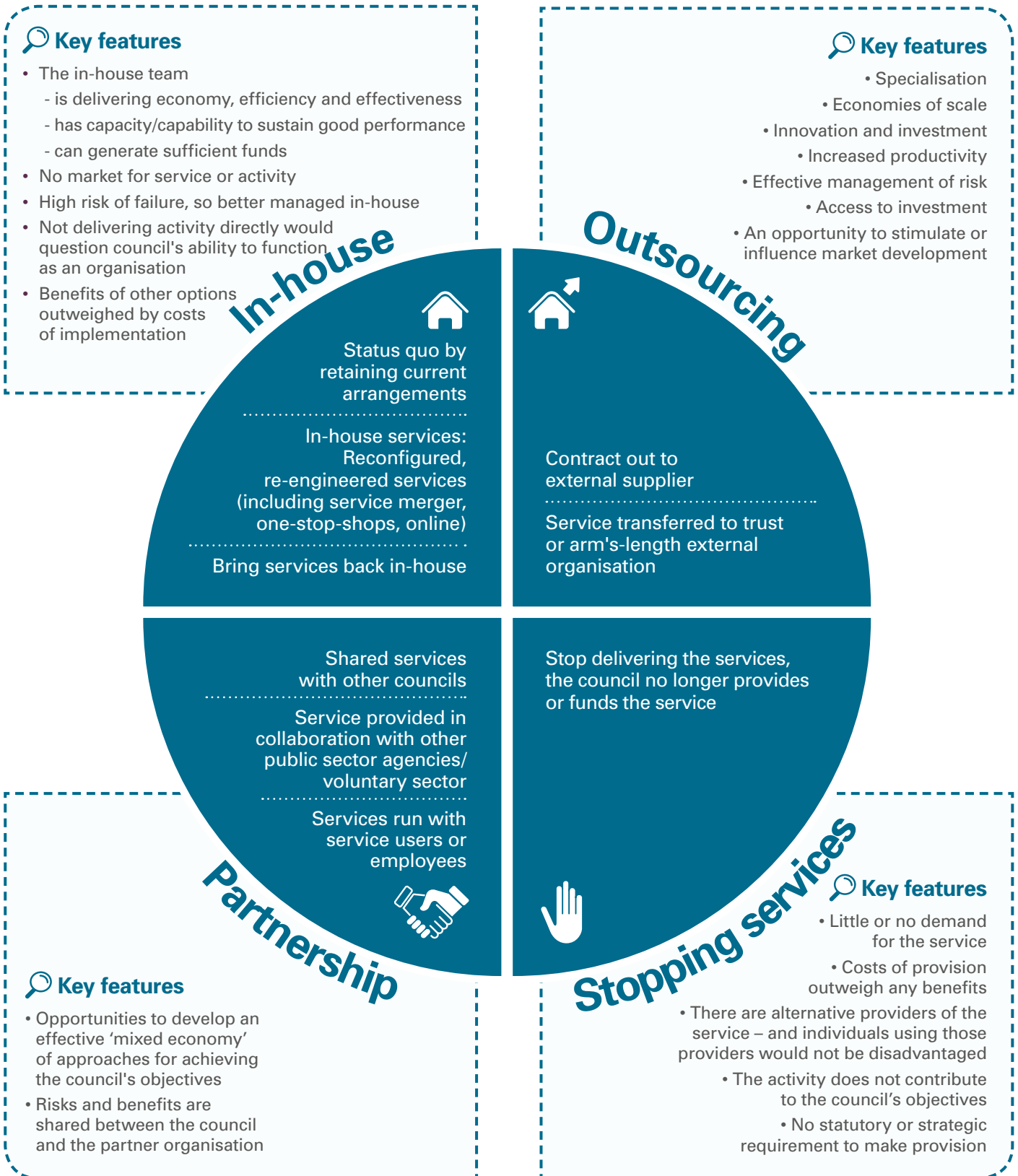


How are we involving and empowering local communities to design and deliver services to suit local needs?

Exhibit 11

Options for delivering services

Councils should use options appraisal to consider alternative ways of delivering services.



Source: Audit Scotland

Councils are planning to increase the number of ALEOs to deliver services

65. Councils use ALEOs to deliver services differently and more efficiently, as they offer different opportunities for generating income and making tax savings. ALEOs are typically used to provide more commercial activities, including leisure, property development, car parking, energy generation, and conference facilities such as the Edinburgh International Conference Centre. They are also used across a diverse range of services including social care and waste recycling. Auditors have identified approximately 140 ALEOs operated by Scotland's councils, with around three-quarters of these providing cultural, leisure, housing or economic development services. Councils are planning to deliver more services through ALEOs by establishing new ALEOs or expanding the remit of existing ALEOs ([Case study 2](#)).



How do we learn from other changes we have made and the experiences of other organisations when identifying and considering all the options?

Case study 2

Examples of new and expanded ALEOs



SB Cares

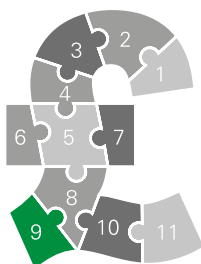
Scottish Borders Council established SB Cares to deliver most of the council's adult social care provision. Around 800 staff transferred to SB Cares on 1 April 2015. The new ALEO aims to make more efficient and flexible use of staff and generate additional income. The council expects to deliver £0.5 million savings in the first year.

Renfrewshire Leisure Limited

Renfrewshire Council expanded Renfrewshire Leisure Limited by transferring the management and staffing of cultural and leisure services, such as town halls, libraries and playing fields. It estimates £0.6 million of annual savings from the transferred services being eligible to pay reduced NDR.

Source: Audit Scotland

As councils continue to reduce staff numbers, it is essential that they plan to have the staff knowledge, skills and time to deliver services differently in future



24 councils, in September 2015, were planning to further reduce staff numbers during 2015/16 and beyond

31 councils have reduced and/or restructured their senior management in recent years, and 11 councils, in September 2015, were planning to make further changes




66. The majority of councils have reduced their workforces over the last few years to save money and establish more efficient ways of working. At 31 March 2015, there were approximately 200,800 people (full-time equivalent or FTE) employed by councils. This was around 800 fewer people (FTE) working in councils compared with the previous year. The net reduction in employment may be lower than 800 as it includes jobs transferring into ALEOs, although we do not have data on this. We have highlighted in previous reports that relying on reducing staff numbers to save money without changing the way councils deliver services is not sustainable.

67. With their income falling further, and as they identify funding gaps in the next two years or longer term, councils are planning further staff reductions. Some councils are now making compulsory redundancies to reduce costs and better manage their workforces. For example, over half of councils have policies that allow them to make compulsory redundancies if necessary, and seven have already made a very small number of compulsory redundancies in 2014/15. At the same time, councils feel that their ability to fully manage their workforce in line with local priorities is affected by other factors outwith their control, such as the Scottish Government's requirement for councils to maintain teacher numbers.

68. A key area of savings has been in reducing and restructuring senior management. Councils need to ensure that they manage the risks of relying on smaller numbers of individual officers with an increasingly wide range of responsibilities. There is also the risk that they may not have the management skills and time they need to plan and implement new ways of delivering services. In contrast, some councils have difficulties in recruiting and retaining people in some key roles. For example, Aberdeen City Council had difficulty filling the position of Director of Corporate Governance. More widely, there is a recognised shortage of qualified procurement professionals. Councils may therefore have to develop the skills of their existing staff or find new ways to attract people with the specialist skills they need. This highlights the importance of succession plans as part of workforce planning to avoid losing essential skills and knowledge, particularly when considering further staff reductions.

Further workforce reductions must reflect councils' priorities

69. A number of councils have been developing their workforce strategies and plans. An effective workforce strategy takes account of the skills needed for the future, not just the numbers and grades of staff. This means tying it in with the council's identified priorities and its plans for changing how services are delivered. For example, with councils expected to involve local communities more in planning, managing and delivering services, in response to the Community Empowerment (Scotland) Act 2015, they may need to retain or develop further their skills in this area.

70. Some councils have still to fully, or further, develop their workforce planning. We have raised concerns about workforce planning in recent Best Value reports. For example, East Dunbartonshire Council has a workforce strategy in place but it does not contain clear targets or timescales for meeting objectives, and so it is difficult to assess its impact. Our [Health and social care integration \[PDF\]](#)  report also identifies the need for long-term workforce strategies in the new integration authorities. Developing a suitably skilled workforce is particularly challenging in health and social care integration, given the wide range of people involved and the size of the workforce.



How do we ensure our senior officers have the knowledge, skills and time to support us in making difficult decisions?

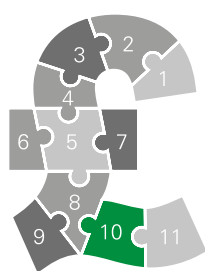


What do we need the workforce to look like in terms of numbers, skills and knowledge?

How do we ensure the council's future pay structures do not discriminate against any groups of staff?

71. We have also identified a risk that staff in some support services may be under severe pressure after significant staff reductions. For example, information collected by auditors shows that most councils have reduced finance staff. This has not had a negative impact on service delivery to date, with all councils submitting their unaudited accounts on time and all council audits being completed by the due date of 30 September 2015. Some councils are planning to reduce finance staffing further. This can pose risks for councils in being able to carry out good long-term financial planning, effective monitoring of budgets and savings, and responding to the additional work involved in budgeting for the new health and social care arrangements. However, it can also indicate better use of technology and therefore a need for fewer finance staff.

There is potential to reduce staff time lost due to sickness absence



10.8 days: the average number of sickness days per employee (excluding teachers) in 2014/15

6.3 days: the average number of sickness days per teacher in 2014/15



72. In 2014/15, sickness absence across councils increased by almost half a day per employee, excluding teachers. Sickness absence per employee varied across councils from an average of 8.8 days per year in Orkney to 14.5 days per year in West Dunbartonshire ([Exhibit 12, page 36](#)). If councils with high absence levels could lower this to match the top eight performing councils (lower than 9.9 days), that would gain the equivalent staff time of close to 700 full-time employees (excluding teachers) across Scotland.

73. Sickness absence also varied in 2014/15 among teachers from an average of 3.6 days per year in North Ayrshire to 10.1 days per year in Clackmannanshire. Similarly, if councils with high teacher absences could match the top eight performing councils (lower than 5.7 days), that would gain the equivalent staff time of close to 200 full-time teachers across Scotland.

74. With councils' workforces reducing, this potentially increases the workload for remaining staff, which in turn can negatively affect morale and sickness absence. It can also impact on the ability of managers to deal with absence issues.

75. Reasons for sickness absence are complex and varied and therefore reducing absence is not easy. East Dunbartonshire Council has taken steps to reduce sickness absence, for example, by introducing better monitoring of short and long-term absences, identifying departments with high absence rates, and providing further support and guidance for managers. This has led to a decrease in staff absence levels, although they are still above the Scottish average. To try to reduce the cost of absence, the Improvement Service is helping councils to learn from each other, using the LGBF as a starting point.

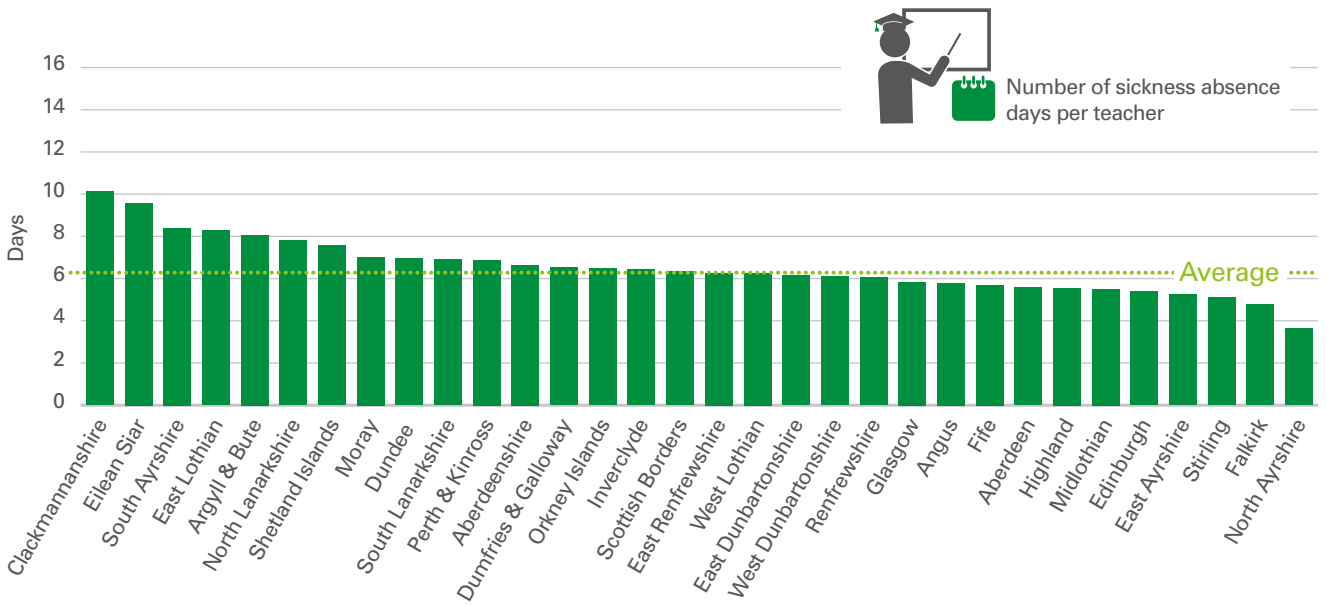
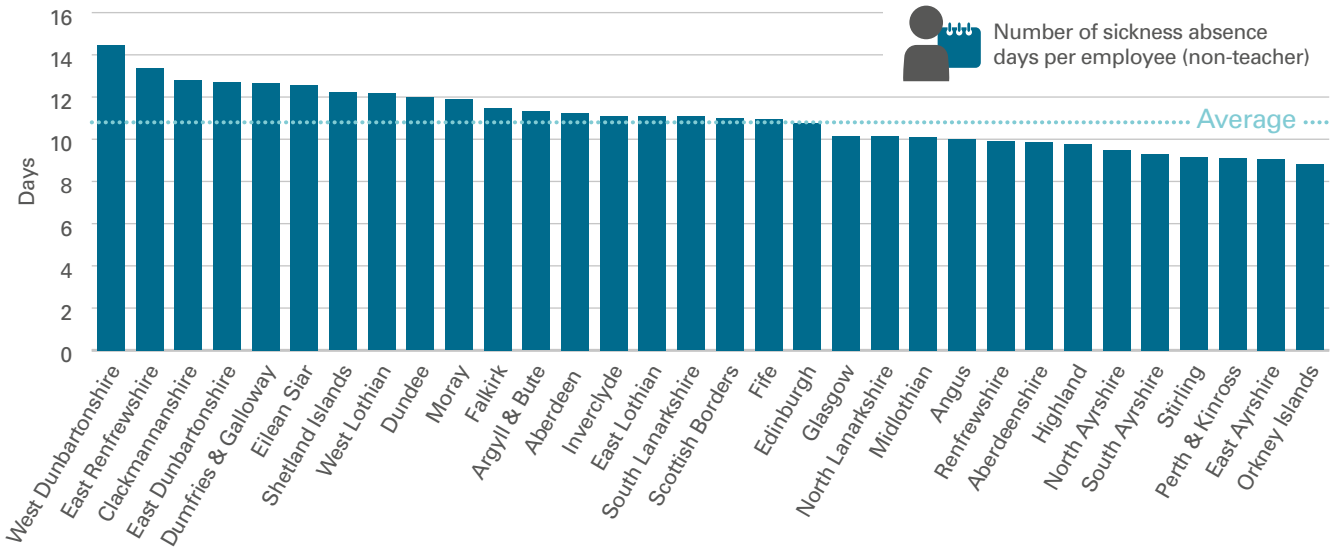


How effectively is the council working to improve sickness absence among employees?

Exhibit 12

Sickness absence for council employees in 2014/15

Clackmannanshire and West Dunbartonshire councils have the highest average number of sickness days for teachers and other employees respectively.

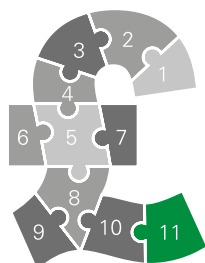


Note: Sickness absence varies from year to year. When councils use this LGBF information, they will want to consider the data for more than one year.

Source: Local Government Benchmarking Framework, Improvement Service, 2016



Councillors need good quality information to make decisions and the appropriate skills to carry out their scrutiny role




1,223: the number of councillors in Scotland

32: all councils' audited accounts were unqualified in 2014/15



76. It is important that councillors have clear, understandable and manageable information to help them make decisions and scrutinise effectively. We have seen meeting papers where councillors were expected to read over 700 pages of information. Committee reports can be long, complex and written in very bureaucratic language, making them difficult to understand. This places significant demands on councillors and makes it difficult for them to focus on the most important issues, such as the council's underlying financial position.

77. Councils were required to add a management commentary to their annual financial reports for the first time in 2014/15. It replaces the previous explanatory foreword, as part of the move to make the accounts more accessible to readers. This should enable councillors and others to scrutinise the annual financial reports more effectively. We have prepared guidance for councils about financial reporting and scrutiny, with suggested questions for councillors to ask. This is available on our [website](#). We will review these in more detail next year.

78. As well as making the accounts more understandable, officers need to provide councillors with information, support and advice to help them scrutinise the accounts and other financial and service performance information. For example, there are gaps between the technical information, such as prudential indicators, and the straightforward explanations that many councillors need to fully understand the consequences of their decisions. Our [Borrowing and treasury management in councils \[PDF\]](#)  report found that councils need to improve their scrutiny in this area.

Councils need to conduct their business openly in the interests of local accountability

79. Good governance requires councils to conduct their business in a transparent manner. In some of the Best Value audits we carried out in 2015, for example in East Dunbartonshire and Argyll and Bute councils, we highlighted that they are carrying out a relatively high proportion of business in private. A wider analysis of the number of reports that councils consider in private, rather than in public, has highlighted variation in approach. For example, around a quarter of councils discuss less than two per cent of reports in private at meetings of the full council or at a policy and resources committee (or equivalent). In contrast, a few councils consider over 15 per cent of items in private.



How do we ensure that the information we receive is clearly written, jargon-free and manageable?




How can we consider more of our business in public?

80. Decisions on considering items publicly or privately are influenced by a range of factors. In particular, they may be affected by local schemes of delegation to senior officers, allowing them to make certain operational decisions. They may also be influenced by the local culture developed over time in councils. In our recent Best Value report on Argyll and Bute Council, we recommended that the council establishes a more open and transparent culture and style of working, which includes minimising the amount of business it carries out in private. Councils should be looking to identify and adopt best practice to strengthen local accountability.

81. Every year, the Accounts Commission emphasises in its overview report the importance of good governance. This includes procedures for authorising spending decisions, systems for managing risks, processes for reporting and scrutinising financial and service performance, and the way councillors and staff behave. All of these are increasingly important as councils continue to adapt to changing circumstances and develop more creative and ambitious ways of achieving positive outcomes for communities. In doing this, they are working more with partners in the public, private and third sectors, and in partnership with their communities. It is therefore even more important for councils to review and update governance arrangements to ensure that they are fit for purpose. The principles of good governance are:

- creating and implementing a vision and focusing on outcomes
- councillors and 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.¹³

82. Councils should have appropriate arrangements in place to approve, monitor and hold ALEOs to account for the public funding that is provided to them. This includes complying with the Following the Public Pound Code. The Code is designed to ensure that openness, integrity and accountability are applied to all council decisions when public money is being spent, for example when establishing funding relationships with ALEOs. The importance of good governance was highlighted in Audit Scotland's [Conclusions on issues relating to the Lennoxton Initiative \[PDF\]](#)  in November 2015.¹⁴ The report found that more robust processes should have been put in place to demonstrate that the public funds provided were used for the charitable purposes intended, and that using resources in this way represented best value.

83. In 2015, the chair of the Accounts Commission wrote to all chief executives and council leaders highlighting the importance of good governance and to encourage councils to apply good practice more consistently across all ALEOs. Local Area Networks will continue to monitor how effectively councils are overseeing ALEOs, with audit work looking at the role of ALEOs in service delivery being considered for 2017/18.




How can we involve our communities more in local decisions?

Councillors must develop their skills and knowledge as their role becomes more complex and demanding

84. Councillors face taking increasingly difficult decisions, often needing to consider new and more complex ways of delivering services. They need to be confident in their ability to appraise new ways of working and to scrutinise operational and financial performance. This will help them carry out their role effectively in the current demanding environment. Their continuing professional development should identify the skills and knowledge they need to develop.

85. Training on scrutiny tends to be provided at the start of a political term, as part of the induction scheme for new councillors, or targeted towards councillors who sit on scrutiny committees. However, scrutiny training needs to be provided more widely. Perth and Kinross Council, for example, developed an action plan after identifying a risk in councillors appointed to ALEOs not having the appropriate skills and training.

86. Our [Borrowing and treasury management in councils \[PDF\]](#)  report found that councillors said it was often difficult to attend training due to other commitments. This was said to be particularly difficult where training courses were scheduled to last for a full day. To keep knowledge and skills up to date, councils could consider providing more training in a variety of ways to suit councillors' needs, including short briefings and online training.

87. Following local elections in 2017, the induction and training for new and re-elected councillors will be very important in helping them fulfil their role and responsibilities in an increasingly complex and challenging environment. To contribute to this, the Accounts Commission is doing more work on roles and responsibilities in 2016/17.













How well do we scrutinise decisions on financial and service performance?

How do we ensure we have the knowledge and expertise we need to scrutinise effectively?


Endnotes



-
- ◀ 1 [Borrowing and treasury management in councils \[PDF\]](#) , Audit Scotland, March 2015.
 - ◀ 2 [Major capital investment in councils: follow-up \[PDF\]](#) , Audit Scotland, January 2015.
 - ◀ 3 *The Prudential Code for Capital Finance in Local Authorities*, CIPFA.
 - ◀ 4 Living Wage Foundation.
 - ◀ 5 [Health and social care integration \[PDF\]](#) , Audit Scotland, December 2015.
 - ◀ 6 [Changing models of health and social care \[PDF\]](#) , Audit Scotland, March 2016.
 - ◀ 7 [East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report \[PDF\]](#) , Audit Scotland, June 2015.
 - ◀ 8 [Falkirk Council: the Audit of Best Value and Community Planning \[PDF\]](#) , Audit Scotland, August 2015.
 - ◀ 9 [Argyll and Bute Council: Best Value audit 2015 \[PDF\]](#) , Audit Scotland, December 2015.
 - ◀ 10 *Scotland's Digital Future – Delivery of Public Services*, November 2012.
 - ◀ 11 [Procurement in councils \[PDF\]](#) , Audit Scotland, April 2014.
 - ◀ 12 [How councils work: Options appraisal – are you getting it right? \[PDF\]](#) , Audit Scotland, March 2014.
 - ◀ 13 *Delivering good governance in local government, Guidance note for Scottish authorities*, SOLACE/CIPFA, 2008.
 - ◀ 14 [Conclusions on issues relating to the Lennoxton initiative \[PDF\]](#) , Audit Scotland, November 2015.


An overview of local government in Scotland 2016

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Local government overview 2016

Self-assessment tool for councillors



ACCOUNTS COMMISSION

This self-assessment brings together a number of potential questions for councillors related to [An overview of local government in Scotland 2016 \[PDF\]](#) . It is designed to help councillors identify how well informed they are about each area and to highlight areas where they may wish to ask further questions.

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Reserves (paragraphs 18 to 20)		
What level of reserves do we need, both allocated and unallocated?		
How effectively are we using the reserves we hold?		
Borrowing and financing (paragraphs 21 to 24)		
What implications do different borrowing and financing options have for our future revenue budgets?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Pension costs (paragraphs 30 to 35)		
What are the implications of workforce reductions on our pension costs?		
How will these affect our pension liabilities and pension administration costs?		
Funding gaps (paragraphs 39 to 42)		
How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?		
What options do we have to address this budget shortfall for example, redesign services, use reserves?		
How big is the remaining funding gap after we implement our selected options?		
What actions are we taking to close any remaining funding gap?		
Long-term planning (paragraphs 43 to 46)		
Do we have a long-term financial strategy covering at least five years that accounts for future pressures?		
Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?		
How well do our financial plans set out the implications of different levels of income spending and activity?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
How does our financial strategy link to our vision for the future?		
Public Performance Reporting (paragraph 50)		
How clearly do we report our plans and performance to the public?		
Service redesign (paragraphs 56 to 65)		
How will our savings plans help us achieve our corporate objectives and commitments made to our Single Outcome Agreement?		
How open are we to considering all possible options to reduce the cost, and improve the quality and effectiveness of the services we provide?		
How fully have we appraised the options for sharing services with similar or neighbouring authorities or other public sector bodies?		
What options do we have for collaborating or sharing services?		
How are we involving and empowering local communities to design and deliver services to suit local needs?		
How do we learn from other changes we have made and the experiences of other organisations when identifying and considering all the options?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Workforce planning (paragraphs 66 to 75)		
How do we ensure our senior officers have the knowledge, skills and time to support us in making difficult decisions?		
What do we need the workforce to look like in terms of numbers, skills and knowledge?		
How do we ensure the council's future pay structures do not discriminate against any groups of staff?		
How effectively is the council working to improve sickness absence among employees?		
Openness and scrutiny (paragraphs 76 to 87)		
How do we ensure that the information we receive is clearly written, jargon-free and manageable?		
How can we consider more of our business in public?		
How can we involve our communities more in local decisions?		
How well do we scrutinise decisions on financial and service performance?		
How do we ensure we have the knowledge and expertise we need to scrutinise effectively?		

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 May 2016
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Universal Credit

4

1 PURPOSE

- 1.1 To provide the Audit and Governance Committee with an update on the introduction of Universal Credit.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of this update.

3 BACKGROUND

- 3.1 Universal Credit was introduced in 2013 as part of the UK Government's Welfare Reform Act 2012. It is a single monthly payment to support working age persons who are on a low income or out of work and is paid monthly in arrears directly into the claimant's bank account.
- 3.2 Claimants will only have to make a single application for Universal Credit, which replaces six existing benefits:
- Income-based Jobseeker's Allowance
 - Income-related Employment and Support Allowance
 - Income Support
 - Child Tax Credit
 - Working Tax Credit
 - Housing Benefit
- 3.3 In East Lothian, the roll out of Universal Credit began in April 2015 for single working age persons. However, the full "Digital" Universal Credit

Service (to be claimed online) was introduced in East Lothian on 23 March 2016 and has seen Universal Credit extended to all new claimants of working age (including couples and families). We are informed that most changes in circumstances for existing working age claimants will result in Housing Benefit stopping and a new claim for Universal Credit being made.

- 3.4 The Council has been planning ahead to mitigate against the impact of Welfare Reform – a Welfare Reform Task Group was established and a Welfare Reform action plan has been prepared which focuses on assessing the impact on the Council. The work of the Group has been based around communications, data sharing and training.
- 3.5 We note that the Council undertook a variety of publicity and marketing routes to engage with third sector agencies and also to notify claimants of the changes that were being introduced.
- 3.6 For the Council, Universal Credit will have a major impact as housing costs now form part of the Universal Credit payment made to the claimant – in the past housing costs (Housing Benefit) were paid directly to the Landlord (Council).
- 3.7 The new arrangements will result in the Council having to collect rent on Council properties directly from claimants, thereby increasing the risk of rent arrears. When full implementation of Universal Credit is achieved, which is expected to be by 2018/19, it is estimated that the Council's rent income team will have responsibility for collecting an additional £8.3 million per annum from claimants whose rent is currently paid direct to their rent account by Housing Benefit.
- 3.8 In addition, the introduction of Universal Credit is having an impact on a number of other service areas within the Council including:
 - Customer Services – the introduction of Universal Credit has seen ELC frontline staff receiving more Universal Credit related enquiries and to staff providing claimants with assistance in a number of areas.
 - Benefits – the Council's Housing Benefit team will continue to process Housing Benefit for non working age claimants and will continue to administer the Council Tax Reduction Scheme. However, we are informed that there is likely to be a significant reduction in the Council's Housing Benefit caseload over the next two years as Universal Credit is fully rolled out.
 - Homelessness – we are informed that Universal Credit will have a number of implications for the Council's Homelessness Section and that the Council is currently seeking to find the best solution for both the client and the Council.

- 3.9 We are informed that the Council's existing housing IT system is not currently fit for purpose to meet the functionality required for Universal Credit, however Senior Management have recently approved investment in a new IT solution which seeks to mitigate the impact of ongoing Welfare Reform. We further note that work is ongoing to redesign working methods and processes to meet the challenges of Universal Credit.
- 3.10 A detailed audit review of Universal Credit will be undertaken in 2016/17 and our findings will be reported to the Audit and Governance Committee.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 May 2016

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 May 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Council Tax

5

1 PURPOSE

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

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 Council Tax was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Council Tax 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 May 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT COUNCIL TAX

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Council Tax was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adequate billing arrangements in place to ensure compliance with legislation.
- Billing system parameters were correctly set up on the Capita system to reflect the Council Tax and water charges for 2015/16.
- The Capita system is correctly updated to reflect the information contained in the Assessor's interface reports.
- The opening gross Council Tax debit was correctly calculated on the Capita system, based on the total number of chargeable properties.
- Systems are in place to ensure that the total number of Council Tax bills created as part of the annual billing run reconciles to the total number of live properties on the Capita system.
- The Council's general ledger is correctly updated with the monthly Council Tax transactions from the Capita system.
- All Council Tax income collected through the Income Management System is correctly posted to both the Capita system and the Council's general ledger.

1.3 Areas with Scope for Improvement

- There was a lack of segregation of duties in respect of the printing and dispatch of 'failed' bills. *Risk – errors and irregularities may remain undetected.*
- There were delays in reconciling the property control totals between the Capita system and the Assessor's interface reports. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of checking procedures in place to ensure that the Council was being correctly charged for the number of annual bills dispatched. *Risk – over or under payments may occur.*

1.4 Summary

Our review of Council Tax has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

April 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
COUNCIL TAX**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should ensure that the reconciliation of property control totals between the Capita system and the Assessor's report is undertaken timeously.	Medium	Council Tax Team Leader	Agreed – we will seek to perform the reconciliations on a weekly basis.		April 2016
3.5.3	<p>Management should ensure that adequate separation of duties exists for the printing and dispatch of 'failed' bills.</p> <p>Management should ensure that a clear audit trail is available on the Capita system to confirm that 'failed' bills have been printed and dispatched.</p>	Medium	Systems Development and Business Support Team Leader	<p>Agreed – the notices will be passed to the Council Tax Section for internal printing and enveloping.</p> <p>Agreed – where the notice is only re-printed and not recreated following a change (e.g. a postcode or mailing address amendment) a note will be applied to the account.</p>		<p>February 2017</p> <p>February 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.4	Appropriate checks should be undertaken to ensure that the Council is being correctly charged for the number of bills dispatched.	Medium	Systems Development and Business Support Team Leader	Agreed		April 2016

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
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	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: 17 May 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Other Income

6

1 PURPOSE

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

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 Other Income was undertaken as part of the audit plan for 2015/16. The review covered fees and charges relating to Building Control, Planning, Estates and Transportation.
- 3.2 The main objective of the audit was to ensure that the internal controls in place 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 May 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT OTHER INCOME

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Other Income (fees and charges) was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an Income Management System for the collection, recording and management of income received.
- Systems are in place to ensure that all income received directly by service areas and through the Income Management System is correctly posted to the Council's general ledger.
- The statutory fees paid for building warrants and planning applications were in accordance with legislation.
- Adequate segregation of duties exists between staff responsible for the administration and management of commercial rents and those responsible for the collection of rental income.

1.3 Areas with Scope for Improvement

- The building warrant fee scale on the Uniform system requires review – in some cases there were anomalies in the estimated value of work and related building warrant fees. *Risk – over or under payments may occur.*
- The Transportation fees and charges on the Council's website require review – in some instances the fees listed were out of date. *Risk – incorrect payments may be made.*
- The monitoring arrangements in place for the issuing of Transportation consents require review – in some cases there was a lack of evidence to confirm that consents had been issued to applicants following receipt of payment. *Risk – lack of a clear audit trail.*
- In some instances, payments received and banked for both building warrants and planning applications had not been recorded in the income received book. *Risk – errors and irregularities may occur and remain undetected.*
- In some service areas, there was a failure to ensure adequate segregation of duties for the collection of income. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Our review of Other Income has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

May 2016

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2	Management should ensure that the non-statutory fees and charges for Building Control are reviewed on a regular basis.	Medium	Service Manager – Engineering Services and Building Standards	Agreed		August 2016
3.5.3	Management should ensure that the building warrant fee scale on the Uniform system is accurate and complete. Appropriate checks should be carried out by an independent person to ensure that the estimated value of work and related building warrant fees have been correctly updated on the Uniform system – evidence of the checks should be retained on file.	Medium	Management System and Administration Officer	Agreed Agreed – will be implemented for future changes.		In place May 2016
3.5.5	Management should ensure that all income received for Building Control is recorded in the income received book.	Medium	Management System and Administration Officer	Agreed		May 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.5 (cont)	The informal arrangements in place whereby Building Standards Officers collect inspection fees on site should cease with immediate effect – all fees in respect of letters of comfort should be paid when the application is submitted.	Medium	Service Manager – Engineering Services and Building Standards	Agreed – the application form will be amended to ensure that fees are paid when the application is submitted.		May 2016
3.5.6	Management should ensure that the existing fund code (EW) which has been set up for telephone payments is also used for online building warrant payments.	Medium	Management System and Administration Officer	Agreed – to be used when eBuilding Standards becomes available in August.		August 2016
3.5.7	Management should ensure that all Building Control income recorded on the Uniform system is reconciled to the Council’s general ledger.	Medium	Management System and Administration Officer	Agreed – current process to be reviewed.		August 2016
3.6.2	Management should ensure that all income received for planning applications is recorded in the income received book. Management should ensure that all income received is banked timeously.	Medium	Management System and Administration Officer	Agreed		May 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.4	Management should ensure that all Planning income recorded on the Uniform system is reconciled to the Council's general ledger.	Medium	Management System and Administration Officer	Agreed – current process to be reviewed.		August 2016
3.7.1	Management should ensure that the information held on the Badger system is accurate and complete. Management should ensure that the rateable value of commercial properties on the Badger system is consistent with the Assessors valuation roll.	Medium	Team Manager – Estates	Agreed		May 2016
3.7.2	Management should ensure that the rent charged for commercial properties is in accordance with the agreement signed by both parties. Checks should be carried out to ensure that any under payments are correctly identified following rent reviews and that appropriate recovery action is taken.	Medium	Team Manager – Estates Senior Sundry Accounts Officer	Agreed Agreed		May 2016 May 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.6	Management should ensure that regular reconciliations are carried out between the rental income due per the Badger system and the total rental income invoiced through Sundry Debtors.	Medium	Team Manager – Estates	Agreed		July 2016
3.8.2	Management should ensure that adequate segregation of duties exists for the collection of income – payments for vehicle re-tests should be made using the Council’s existing payment options available.	Medium	Service Manager – Transport	Agreed		July 2016
3.8.4	Management should ensure that the fee list for Transportation consents on the Council’s website is updated to accurately reflect the fees being charged. Management should ensure that fees and charges for Transportation are reviewed on a regular basis.	Medium	Team Manager – Assets and Regulatory	Agreed Agreed		May 2016 October 2016
3.8.5	Management should review the adequacy and effectiveness of the arrangements in place for administering Road Construction Consents.	Medium	Team Manager – Assets and Regulatory	Agreed		August 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.5 (cont)	Management should ensure that a clear audit trail exists for Transportation consents – all consents issued to applicants following receipt of payment should be clearly recorded.	Medium	Team Manager – Assets and Regulatory	Agreed		August 2016
3.8.7	Management should ensure that regular meetings are held with the Sundry Debtors Section to monitor the recovery of amounts due in respect of Road Construction Consents – a record should be maintained of the meetings held.	Medium	Team Manager – Assets and Regulatory	Agreed – the current process will be reviewed.		August 2016

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
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	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: 17 May 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Agency Workers

7

1 PURPOSE

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

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 Agency Workers was undertaken as part of the audit plan for 2015/16.
- 3.2 We note that the Council Management Team is monitoring the use of agency workers as part of the Efficient Workforce Management Plan – regular reports are prepared by Human Resources on expenditure relating to agency workers and we are informed that meetings have been held with individual service managers to help manage the issues relating to agency workers.
- 3.3 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.4 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 May 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT AGENCY WORKERS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2015/16 a review was undertaken of the controls surrounding the sourcing and management of agency workers. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Two separate framework agreements are in place to facilitate the use of agency workers – the Scottish Procurement and Commercial Directorate (SPCD) Framework (covering Interim Professional & Interim IT and Administrative, Catering & Manual workers) and Scotland Excel Framework (covering Social and Care workers).
- Supporting documentation was held in respect of payments made for agency workers – for the sample of cases reviewed, authorised timesheets were held by service areas.

1.3 Areas with Scope for Improvement

- No clear policy is in place to ensure that a consistent approach is adopted throughout the Council for the use of agency workers. *Risk – lack of consistency.*
- In a number of cases, there had been a failure by managers to complete an Agency Worker Authorisation Form (AWAF) to evidence that appropriate authorisation had been provided by the Head of Service. *Risk – inappropriate expenditure may be incurred.*
- In a number of cases, managers had failed to use the framework agreements in place, but had sourced workers directly from other agencies. *Risk – failure to comply with the procedures.*
- There was a failure by managers to obtain a breakdown of the worker's hourly charge rate from the agencies, to ensure that the pay rate corresponds to the hourly rate for a Council employee undertaking a similar role. *Risk – over or underpayments may occur.*
- There was a lack of effective mechanisms in place for monitoring the length of agency worker assignments – in some cases there had been a failure to identify agency workers who had been with the Council in excess of 12 weeks and were entitled to the same basic working and employment conditions as if they had been directly employed by the Council. *Risk – non-compliance with legislation.*

1.4 Summary

Our review of agency workers 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 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
AGENCY WORKERS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that a clear Policy on the use of agency workers is in place to ensure that a consistent approach is adopted throughout the Council.	Medium	Performance & Business Support Manager / Procurement Officer	Agreed		July 2016
3.2.2	Management should ensure that guidance on recruiting agency workers is readily available to all relevant staff on the Council's intranet.	Medium	Performance & Business Support Manager / Procurement Officer	Agreed		July 2016
3.2.3	Management should ensure that an Agency Worker Authorisation Form (AWAF) is completed when the requirement for an agency worker is identified. The form should be authorised by the Head of Service and a copy of the authorised form passed to HR for monitoring purposes.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.4	<p>Management should ensure that agency workers are appointed from the framework agreements currently in place.</p> <p>Where the approved agencies are unable to meet the requirements, managers should contact Procurement for advice.</p>	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016
3.2.5	<p>Management should ensure that agency workers are appointed by using the appropriate method (mini-competition or ranked solution) specified in the framework agreement.</p> <p>Management should ensure that a clear audit trail exists of all attempts to fill the post with workers from the approved agencies and that reasons for approved agencies being unable to meet the requirements are fully evidenced.</p>	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016
3.2.6	For agency workers not appointed through the Scotland Excel Framework, Management should ensure that appropriate checks are undertaken on qualifications, experience and PVG clearance.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	Management should ensure that effective mechanisms are in place for monitoring the length of agency worker assignments to ensure compliance with legislation.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016
3.4.1	Management should ensure that for all appointments a breakdown of the worker's contract charge rate is requested from the agency including pay rate, commission rate, national insurance, working time (holiday) payment and pension contribution. Management should ensure that the pay rate corresponds to the hourly rate for a Council employee undertaking a similar role.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016
3.4.2	Management should ensure that rates paid to agency workers are monitored and that increases are applied where appropriate.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure compliance with the procedures in place – all payments to agency workers should be processed through the Council’s Pecos system.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016
3.6.1	Management should ensure that agency workers’ costs are correctly coded in the Council’s general ledger.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016
3.7.2	For agency workers appointed through the Scotland Excel Framework, Management should ensure that appropriate discounts are applied to the supplier’s commission for assignments which exceed the 12 week period.	Medium	Service Managers	Agreed – Memo to be issued by Performance & Business Support Manager / Procurement Officer		July 2016

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
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	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: 17 May 2016

BY: Depute Chief Executive – Resources & People Services

8

SUBJECT: Internal Audit Progress Report 2015/16

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2015/16.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2015/16.

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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 May 2016

INTERNAL AUDIT PROGRESS REPORT 2015/16

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Fuel Management	We will review the adequacy and effectiveness of the controls operating in respect of Fuel Management.	September 2015	Completed
Exceptional Needs Funding	We will review the arrangements in place for the allocation of Exceptional Needs Funding to Schools.	September 2015	Completed
Fisheries Local Action Group (FLAG)	We will examine the arrangements in place for the payment of grants by East Lothian Fisheries Local Action Group (FLAG).	September 2015	Completed
Schools Audit	We will examine the internal controls operating within one primary school in East Lothian.	November 2015	Completed
Waste Management	We will review the Council's waste collection arrangements, focusing on whether value for money is being obtained and how efficiency savings are being achieved and will be achieved in the future.	November 2015	Completed
Employee Expenses (Travel & Subsistence)	We will examine the internal controls in place for employee travel and subsistence claims.	November 2015	Completed

AUDIT REPORTS	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.	November 2015	Completed
Bad Debt Write-offs	We will examine the systems in place for the write-off of Bad Debts and Credit Balances.	November 2015	Completed
Funding – Third Sector Organisations	We will review the partnership arrangements in place with Third Sector Organisations and assess if the Council is getting value for money from grants awarded to Third Sector Organisations.	November 2015	Completed
Risk Management	We will evaluate the effectiveness of the Council's risk management processes in place including risk appetite, risk identification and the mitigation of risks.	September 2015	Completed
Out of Authority Placements	We will review the way the Council manages the delivery of services to children with special education needs – the audit will focus on planning, budgeting, commissioning and the monitoring of service delivery.	January 2016	Completed
National Fraud Initiative	The 2014/15 National Fraud Initiative data matching exercise was undertaken by the Audit Commission in 2014. The results of the matches were provided to the Council in January 2015. We will investigate all recommended matches.	January 2016	Completed

AUDIT REPORTS	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.	January 2016	Completed
Housing Repairs – Shared Costs	We will review the arrangements in place for charging mutual repairs and shared costs to private owners.	March 2016	Completed
Home to School Transport	We will examine the procurement process for the provision of Home to School transport – our review will focus on the tendering, evaluation and awarding of contracts to operators.	March 2016	Completed
Contracts Audit	We will examine payments made to suppliers in respect of specific contracts.	March 2016	Completed
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.	March 2016	Completed
Internal Audit Plan 2016/17	Internal Audit will present the detailed operational Audit Plan for 2016/17 for approval by the Audit and Governance Committee.	March 2016	Completed
Payroll	We will undertake a risk based review of the Payroll system, examining in particular controls relating to starters and leavers.	May 2016	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Section 75 Payments	Section 75 payments (developer contributions) bring significant funds to the Council for infrastructure projects. We will examine all aspects of the section 75 process and seek to provide management with assurances that the controls in place are operating effectively.	January 2016	Completed
Self-Directed Support – Children’s Wellbeing	We will continue our review of Self-Directed Support by reviewing the progress being made within Children’s Wellbeing.	January 2016	In Progress
Universal Credit	We will review the Council’s arrangements for dealing with the impact of Universal Credit and Direct Payments.	May 2016	Interim report completed
Council Tax	We will review the internal control arrangements in place for Council Tax.	May 2016	Completed
Other Income	Our audit will focus on the internal controls in place for sundry income received by the Council.	May 2016	Completed
Agency Workers	We will examine the arrangements in place for the engaging and use of agency workers – the review will include the monitoring and payment arrangements in place.	May 2016	Completed
Annual Internal Audit Report 2015/16	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2015/16, as required by the Public Sector Internal Audit Standards.	May 2016	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Controls Assurance Statement 2015/16	Internal Audit will provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the financial year 1 April 2015 to 31 March 2016.	May 2016	Completed
Managing Capital Projects	We will review the Council's management of significant capital projects that are underway. The review will also examine the whole approach that the Council takes to property management.	May 2016	To be completed

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 May 2016
BY: Internal Audit Manager
SUBJECT: Annual Internal Audit Report 2015/16

9

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 2015/16 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 2015/16.

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).
- 3.2 The Council's Internal Audit resources in 2015/16 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 2015/16 through the following processes:

- Compliance with PSIAS.
- 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 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 Programme (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 to ensure conformance to the Standards. There has been ongoing monitoring of the QAIP throughout 2015/16.

Delivery of the Internal Audit Service 2015/16

- 3.6 In March 2015, the Audit and Governance Committee approved the Internal Audit Plan for 2015/16. Our audit plan was scoped to address the Council's key risks and strategic objectives.
- 3.7 In 2015/16 Internal Audit issued 20 reports (see Table A below). In addition, two audit reviews (Self-Directed Support – Children's Wellbeing and Section 75 Payments) are currently being finalised and a further review (Managing Capital Projects) is outstanding.
- 3.8 The audit work undertaken as part of the 2015/16 audit plan resulted in a number of recommendations being made (see Table A) – 15 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action), 112 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) and one low risk recommendation was made (i.e. a recommendation concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency). Our recommendations sought to address the weaknesses identified in the design of controls and operating effectiveness.
- 3.9 In addition to the reviews listed in Table A, Internal Audit has undertaken follow-up reviews of previous years' work to ensure that recommendations have been implemented by Management; carried out a review in respect of an associated committee of the Council and prepared reports for the Integration Joint Board Audit and Risk Committee.

3.10 As part of the 2015/16 audit plan we have completed the following reviews:

Table A

Audit Assignment	Report Status	High	Medium	Low
Exceptional Needs Funding	Final	-	6	-
Fuel Management	Final	1	7	-
Fisheries Local Action Group (FLAG)	Final	-	1	-
Travel and Subsistence	Final	-	8	-
Musselburgh Burgh Primary School	Final	-	12	1
Bad Debt Write-Offs	Final	-	7	-
Waste Management	Final	2	4	-
Risk Management	Final	-	3	-
Payments to Third Sector Organisations	Final	-	7	-
Out of Authority Placements	Final	-	7	-
Performance Indicators	Final	-	2	-
National Fraud Initiative	Final	-	7	-
Contracts Audit – Mid Road, Prestonpans	Final	5	-	-
Payroll	Final	-	8	-
Home to School Transport	Final	2	3	-
Housing Repairs Shared Costs	Final	5	1	-
Other Income	Final	-	14	-
Council Tax	Final	-	3	-
Agency Workers	Final	-	12	-
Universal Credit	Interim	-	-	-
Totals		15	112	1

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 undertaken 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 2015/16 covers:

- Completion of the annual Audit Plan – 95%
- % of recommendations accepted by Management – 99%
- % of staff with CCAB accounting qualifications – 80%

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 May 2016

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 May 2016
BY: Internal Audit Manager
SUBJECT: Controls Assurance Statement 2015/16

10

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 2016.

3 BACKGROUND

Sound Internal Controls

- 3.1 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.
- 3.2 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.

The Work of Internal Audit

- 3.3 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.
- 3.4 In 2015/16 the Internal Audit Unit sought to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 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.
- 3.6 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.

Basis of Opinion

- 3.7 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 2015/16 including planned audits, investigations, follow-up reviews and one-off exercises.
- 3.8 My opinion does not cover the internal control systems of other organisations that are included in East Lothian Council's 2015/16 Statement of Accounts under the Group Accounts section.

Assessment of Controls and Governance

- 3.9 The Annual Internal Audit Report 2015/16 presented to the Audit and Governance Committee summarises the work of Internal Audit during the year.
- 3.10 An Executive Summary and Action Plan in respect of each system or activity reviewed by Internal Audit during 2015/16 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.
- 3.11 The majority of Internal Audit recommendations made in 2015/16 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a 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 2015/16 is outlined below:

Recommendations Priority Level	Number of Recommendations	Recommendations %
High	15	12
Medium	112	87
Low	1	1
Total	128	100

- 3.12 During 2015/16 areas identified with scope for improvement included the following:
- Adherence to Council policies, procedures and guidance.

- Compliance with EU Procurement rules and Corporate Procurement Procedures.
- Internal financial controls including segregation of duties, reconciliations, audit trail, supporting documentation, monitoring and checking arrangements.
- The arrangements in place for the administration, management and monitoring of Section 75 payments.
- The approach adopted for the allocation of work to external contractors.
- Failure to issue invoices timeously for the recovery of amounts due to the Council.
- Informal arrangements in place for agreeing rates with contractors.

3.13 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.

Opinion

3.14 It is my opinion, subject to the weaknesses outlined in section 3.12 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 2016

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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