

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Partnerships and Community Services)

**SUBJECT:** Guide to Scrutiny and Review

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## **1 PURPOSE**

- 1.1 To provide the Committee with the opportunity to review the Guide to Scrutiny and Review.

## **2 RECOMMENDATIONS**

- 2.1 The Committee is asked to note the content of the Guide to Scrutiny and Review and use it to guide its future work.

## **3 BACKGROUND**

- 3.1 The Council approved the Guide to Scrutiny and Review as a toolkit for use by the Policy and Performance Review and Audit and Governance Committees in October 2010. The Guide was prepared taking into account the views and comments of elected members as well as good practice from other councils. The Guide was reviewed in early 2012. A further review, taking account of changes and practice since the Guide was originally produced, has been carried out. A revised version of the Guide is appended to this report.

- 3.2 The Guide consists of sections on:

- Scrutiny at East Lothian
- The work programme
- Selecting topics for scrutiny and review
- Conducting a policy review
- Scrutiny techniques
- Making sense of performance data.

It also includes appendices with background information, including the Best Value Toolkit, the remits of the Council's scrutiny committees and key questions for elected members.

- 3.3 The Guide will inform all elected member about how the scrutiny and review functions can be carried out by the Council's scrutiny committees. The Guide will assist the members of the Committees in carrying out their audit, scrutiny and review roles.

#### **4 POLICY IMPLICATIONS**

- 4.1 Rigorous scrutiny of the Council's achievement of Best Value by elected members is an essential part of the Council's governance arrangements. The Guide to Scrutiny and Review will assist elected members to fulfil their audit, scrutiny and review roles.

#### **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 Guide to Scrutiny and Review, June 2017

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# **Guide to Scrutiny & Review**

**June 2017**

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## Introduction

Scrutiny is the term used to describe the way in which the performance, decisions and plans of the Council are examined by the Elected Members who are not part of the Cabinet. Scrutiny in its widest sense might also include audit, inspection and regulation. Although there is no set definition for what is meant by scrutiny, this Guide will provide some guidance on how it will be approached at East Lothian Council.

Numerous bodies perform some kind of scrutiny of local government, including Audit Scotland, Education Scotland, and the Care Inspectorate. These bodies provide 'external scrutiny'; equally important, if not more so, is the way that the Council scrutinises itself. Internal scrutiny by Elected Members has taken on much greater significance in recent years, following the Crerar Review (2007). The Review recommended that rather than rely on the results of external scrutiny exercises 'The primary responsibility for demonstrating compliance and performance should rest with service providers.'

**Rigorous scrutiny of the Council's achievement of Best Value by Elected Members is an essential part of the Council's governance arrangements, although it should not be conducted in a partisan manner. Audit, scrutiny, review of performance and policy review need not be done in a confrontational and oppositional way. As far as possible scrutiny should be a non-partisan, non-party political process. However, it is important to be aware, and accept that there remains a place for straightforward political opposition in the political arena of local government.**

Four principles that were developed by the Centre for Public Scrutiny<sup>1</sup> underpin the Council's approach to scrutiny:

1. Scrutiny provides 'critical friend' challenge to executive policy-makers and decision-makers
2. Scrutiny enables the voice and concerns of the public
3. Scrutiny is carried out by 'independent minded governors' who lead and own the scrutiny role
4. Scrutiny drives improvement in public services

The Council's scrutiny arrangements were developed taking into account the criteria for good practice in scrutiny as set out by Audit Scotland in its Best Value Toolkit for Governance and Accountability (see Appendix 1).

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<sup>1</sup> 'Overview and scrutiny in local government', Centre for Public Scrutiny

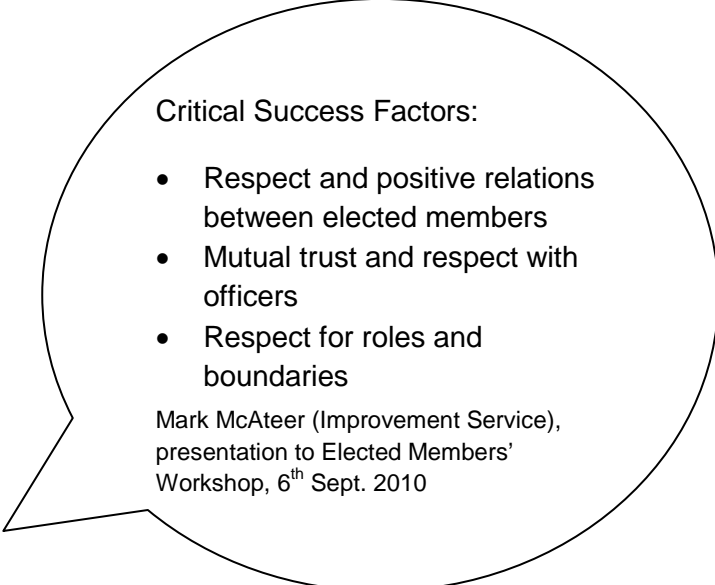
## 1. Scrutiny at East Lothian Council

East Lothian Council three committees that perform the 'scrutiny' function: the Audit and Governance Committee, the Policy and Performance Review Committee and the Police, Fire and Community Safety Scrutiny Committee. Appendix 2 provides details of the remits of these committees.

The Audit and Governance Committee has responsibility for scrutinising the Council's approach to risk and corporate governance. It also considers reports on the work of the Council's Internal Audit service and reports from the external auditors and Audit Scotland.

The Policy and Performance Review Committee covers all matters relating to the performance of the Council's services. The work of the Committee focuses on the review of performance and considering report on matters of concern to the Committee seeking assurance that under-performance is being addressed. Members of the Committees will determine what items are included in the work plan with the help of the '*Selecting topics for scrutiny*' section of this guide.

The Police, Fire and Community Safety Scrutiny Committee scrutinises the performance of the Police and Fire and Rescue Services and other services that perform a community safety function in East Lothian. The Committee receives quarterly reports focussing on the performance of the Police and Fire and Rescue Services but will also consider reports on issues such as anti-social behaviour.



Critical Success Factors:

- Respect and positive relations between elected members
- Mutual trust and respect with officers
- Respect for roles and boundaries

Mark McAteer (Improvement Service),  
presentation to Elected Members'  
Workshop, 6<sup>th</sup> Sept. 2010

Responsibilities for decision making and for scrutiny are separated under the Council's Scheme of Delegation and executive decision making arrangements. Decisions are taken by the Cabinet and by Council, while decisions on certain matters relating to education are taken by the Council Committee for Education. Recommendations from any of the scrutiny committees may be referred to the Council, Cabinet or Education Committee for a decision to be made if necessary. The roles and responsibilities of elected members and council officers involved in scrutiny are detailed in Appendix 3.

Recommendations made by the scrutiny committees will be reported to the Cabinet or Council as appropriate if a formal decision is required to amend policy or practice. Alternatively recommendations will be made to the appropriate Head of Service if a decision falls within their delegated powers.

## 2. The Work Programme

The work of the scrutiny committees will be set-out in annual work plans. The Audit and Governance Committee's work plan will largely be governed by the Audit Plan and the annual cycle of audit reports. The Policy and Performance Review Committee's work programme contains a mix of on-going, regular items and items that have been selected for review by members.

The work programme of the Police, Fire and Community Safety Scrutiny Committee mainly consists of the quarterly performance reports presented by Police Scotland and the Fire and Rescue Service and reports requested by members on community safety issues.

### ***On-going regular items***

Some items will be reviewed on a regular annual or quarterly basis (e.g. external and internal audit plans, the annual accounts and quarterly performance monitoring reports); these will need to be factored into the programme at the appropriate intervals.

Regular items for scrutiny follow the annual planning and performance cycle with quarterly performance reports early in the second, third and fourth quarters and annual reports, if possible, at the end of the first quarter. Members will need to ensure that time is set aside in the work programme to allow for proper scrutiny of these regular items alongside specific policy reviews.

### ***Items that have met the topic selection criteria for policy review***

Some items for inclusion in the work programme will have passed through the topic selection criteria outlined previously. Topics that are identified as possible items for scrutiny through the selection criteria should be placed on to a reserve list to be periodically reviewed for priority and workload capacity.

Examples of annual work programmes for the Audit and Governance and Policy and Performance Review Committees are provided below.

## Example work programmes

The following tables are examples of how the work programmes for the scrutiny committees might look. The columns reflect the areas of responsibility of each of the committees to ensure that their work load is well balanced.

### Audit and Governance Committee Example Work Programme

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
15/09/15	Fuel Management Exceptional Needs Funding Fisheries Local Action Group Risk Management Internal Audit Progress Report	Draft Annual Report to Members  Statutory Performance Indicators			Service Risk Register
17/11/15	Schools Audit Waste Management Funding – Third Sector Organisations Employee Expenses Bad Debt Write-offs Internal Audit Follow-up Reports Internal Audit Progress Report			Treasury Management Mid-Year Review Report	Service Risk Register
19/01/16	Self-Directed Support – Children’s Wellbeing Out of Authority Placements Section 75 Payments	ELC Audit Strategy and Plan		Council Improvement Plan Monitoring Report	Risk Management Strategy Update Service Risk Register



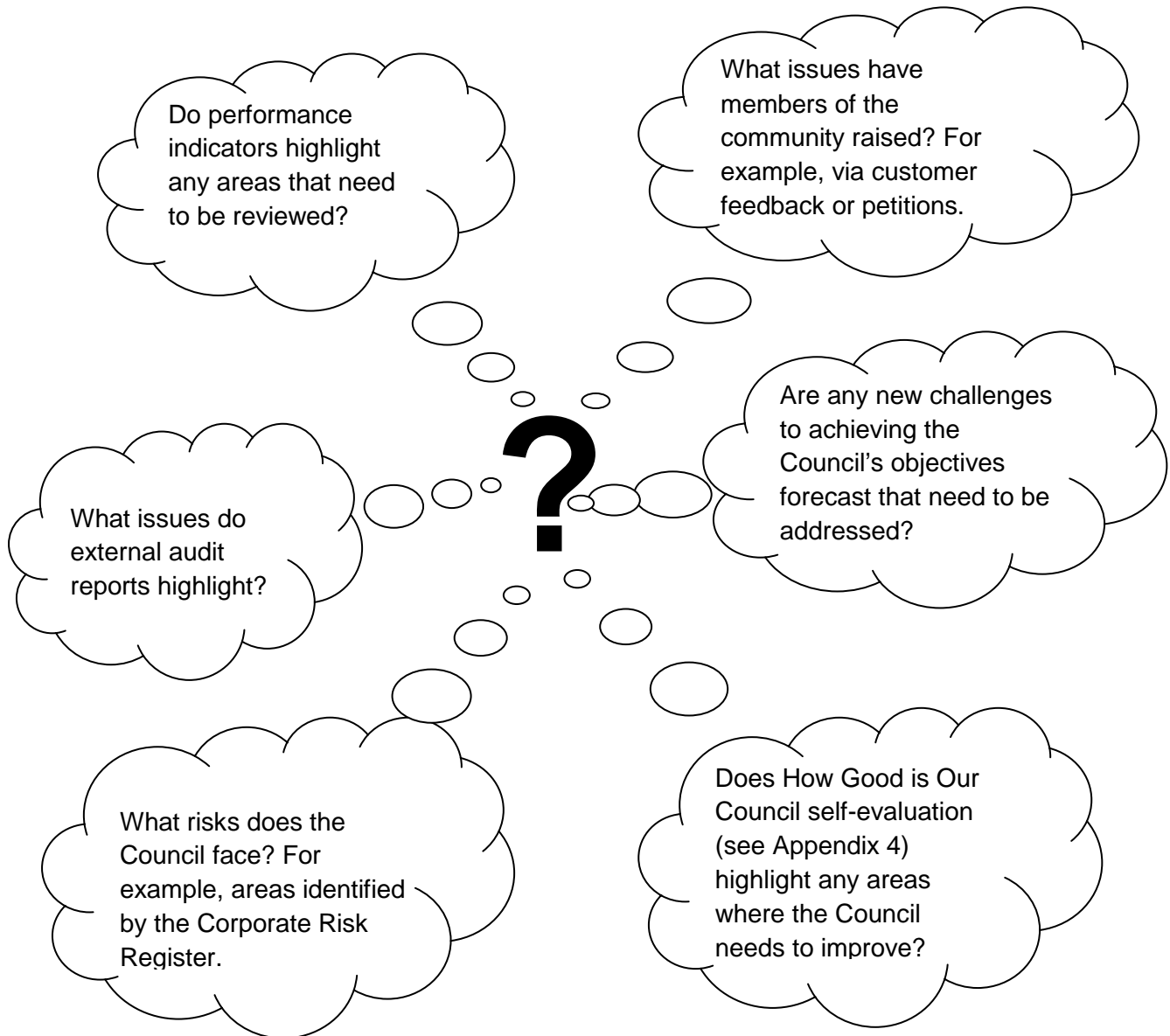
	National Fraud Initiative Performance Indicators 2014/15 Internal Audit Progress Report				
22/03/16	Housing Repairs – Shared Costs Universal Credit Contracts Audit Home to School Transport Internal Audit Follow-up Reports Internal Audit Progress Report Internal Audit Plan 2016/17		Health and Social Care Integration  Changing Models of Health and Social Care		Service Risk Register
17/05/16	Payroll Council Tax Other Income Agency Staff Managing Capital Projects Internal Audit Progress Report Annual Internal Audit Report Controls Assurance Statement 2015/16	Interim Management Report	Overview of Scottish Local Government  Major Capital Investments in Councils – Targeted Follow Up	2016 Corporate Governance Self- evaluation/ Annual Governance Statement	Corporate Risk Register

### Policy and Performance Review Committee Example Work Programme

Date	Performance Monitoring/ Inspection Reports	Other Reports / Reports Requested by Members
21 <sup>st</sup> June 2016	Q4 Performance Indicators	Report on Fly-tipping Report on Literacy Levels (including writing and communications)
14 <sup>th</sup> September 2016	Q1 Performance Indicators Draft Annual Performance Report Social Work Complaints and Feedback Annual Report Customer Feedback Annual Report Adult and Child Protection Annual Monitoring Report	Report on Delayed Discharge
9 November 2016	Q2 Performance Indicators	Customer Service Report on Delivering and Siting of Core Paths and Cycle Ways Impact of Universal Credit on Rent Arrears
11 <sup>th</sup> January 2017	Local Government Benchmarking Framework Customer Feedback – six-month monitoring report	Developing a Young Workforce Update on Transformation Programme
8 <sup>th</sup> March 2017	Q3 Performance Indicators Adult and Child Protection – six-month monitoring report	Draft Legacy Report

### 3. Selecting Topics for Scrutiny and Review

Selecting topics to include in the work plan is an ongoing process. Some topics will be regular items, for example performance reports, while others will deal with a particular issue of particular interest to members. The following questions might help Members to identify potential topics for inclusion on the work plan.



Members may request reports from officers on the subjects chosen for scrutiny using a range of criteria including requiring further information on areas of concern or follow up reports updating members on progress with improvement actions to address poor performance.

Using a structured approach to determine subjects for scrutiny reports or review helps to avoid poor topic selection. Each potential topic for scrutiny should be subject to the same initial selection and rejection criteria.

Selection criteria	Rejection criteria
Improvements to services would be likely	The topic is already being addressed
High public concern shown through consultation	Scrutiny is unlikely to result in service improvements
Poor performing service	Matter is sub-judice or prejudicial to the Council's interests
Enhances the Council's priorities	The issue is more appropriately addressed by a body other than the scrutiny committees
High budgetary commitment	The objective cannot be achieved within given timescales
New guidance or legislation has recently been introduced	The subject is too broad to make a review realistic

The following subjects are examples of topics that have been the subject of reports or reviews carried out East Lothian's and other local authority's scrutiny committees:

- The role of the Council in tourism
- Attainment in 5<sup>th</sup> and 6<sup>th</sup> years
- Early intervention
- Asset management arrangements
- Management of Council house voids
- Carbon management
- The implications of demographic changes
- Delayed discharges
- Child protection services

Members need to be realistic in regard to the number of reports the Committee can consider within its work programme or structured reviews that the Committee will be able to undertake in any given year.

## 4. Conducting a Policy Review

Policy Review is the process of evaluating the effectiveness of a particular area of Council policy or service provision. These reviews are likely to hear evidence from key stakeholders and commission research or reports to understand how well policy is being implemented or how well services are being delivered.

Policy Reviews are generally conducted within a set timescale, often two or three meetings. Conducting a review over the course of more than one meeting allows lines of enquiry to develop and additional information to be provided if required.

Advanced planning is essential to the success of any policy review. Officers will require time to prepare any evidence or reports and stakeholders will need prior notice if Members would like them to attend a meeting. Policy Review exercises need to be well planned and should be included as part of the work programme.

When planning a policy review exercise members might like to consider the following:

### **1. Identifying the objectives and key issues**

What do we want to achieve and what are the main issues that need to be addressed in order to achieve the objective?

### **2. Establishing the timeframe of the review**

The overall timeframe of the review will need to be established and added to the work programme.

### **3. Outlining the stakeholders and evidence required**

What evidence is required to achieve the outcomes, and who needs to be called as a witness?

### **4. Considering the lines of enquiry**

Once the objectives and the key issues have been decided, lines of enquiry should be determined to help focus the review and enable a consistent approach to a topic across meetings. Are you clear about the issue or problem and why it is the subject of the review and what are the terms of reference of the review?

Appendix 5 includes some specific key questions identified by Audit Scotland as part of their 'Overview of Local Government in Scotland'. The questions reflect areas of concern that are common across Local Government in Scotland. Members are encouraged to consider the relevance of these questions to any scrutiny work they undertake.

Scrutiny committees are encouraged to involve relevant stakeholders in policy reviews. Stakeholders can provide useful expertise and knowledge, while hearing directly about the experience of service users can provide a helpful reality check.

The needs of different stakeholders should be considered when planning their involvement in a review. Not all stakeholders will be comfortable, or able, to attend a meeting, therefore consideration should be given to whether their evidence can be provided by other means if necessary.



**Which stakeholders might we involve?**

Group	Examples
Service Users	East Lothian Tenants and Residents Panel (ELTRP) Parent's Councils
Community Groups	Area Partnerships Community Councils Local business associations
Partners	Police Fire & Rescue Service NHS STRIVE Skills Development Scotland Edinburgh College
'Experts'	Academics Improvement Service SOLACE COSLA Professional associations

Before concluding a Policy Review the Committee should invite the relevant Head of Service, portfolio holder and/ or Council Leader to discuss the draft findings and recommendations.

## 5. Scrutiny Techniques

Members might find some of the following techniques and tips useful when conducting policy reviews or scrutinising performance information.

### Questioning styles – good practice

#### Open questions

Open questions encourage respondents to talk and expand upon the issue. Open questions allow respondents to describe a situation in their own words. The key prefixes for an open question are 'What?', 'How?' and 'Why?' Examples include:

- What do you consider the service does well?
- How did you establish x as a priority for the service?

Open Questions can also be formed through phrases such as:

- Tell me about a time when...
- Explain to me how you...

Using open questions can form a basis for asking further probing questions based on the answer to the initial question. For example:

- You say that you did... can you give me an example of how you carried that out?
- I was interested to hear you say... can you tell me more about that?

#### Hypothetical questions

Asking hypothetical questions can help to test out ideas for recommendations and can also be useful in obtaining evidence. For example:

- If x were possible how would this change your strategy?

#### Behavioural questions

Behavioural questions can help to get evidence of how an organisation might carry out a task in future by using examples of past behaviour. For example:

- What process has the organisation used in the past to achieve the outcome?

## Questioning styles – try to avoid

### Closed questions

Closed questions are those that can be answered in a single word. While closed questions can be useful in clearing up points of fact, they are unlikely to yield much further information.

- Does your organisation do x?

### Leading questions

Leading questions make it clear to the respondent what answer is expected and are unlikely to yield genuine answers. For example:

- We know from experience that x works, what is your experience of x?

Asking a question in this format makes it very difficult for the respondent to give an honest answer.

### Double-headed questions

Double-headed questions ask more than one question at a time. Double-headed questions can either confuse the respondent, or ensure that the respondent answers only the part of the question that they are comfortable with. Both questions might be valid lines of enquiry, but it would be more productive to ask them separately:

- If your organisation has the responsibility to do x how is this measured, and how does x fit into the national strategy?

### Multiple choice questions

Multiple choice questions offer a number of possible answers, but do not ask for any real explanation. For example:

- Do you believe that x, y, or z is the best way forward?



## 6. Making Sense of Performance Data

A key role of the Policy and Performance Review and the Police, Fire and Community Safety Scrutiny Committees is to monitor, comment on and make recommendations based on quarterly and annual reports of performance.

East Lothian Council’s performance reports contain the following features (Police and Fire and Rescue services performance reports will be presented in different ways):

### Trend arrows

Trend arrows show whether performance has improved, worsened, or stayed the same in comparison to the previous period (i.e. the previous quarter, month or year depending on how frequently the indicator is reported).

### Key to symbols

no change	↔ Little or no change (less than 4% variation)
red down	↓ Worsening performance (Indicator aim: HIGH)
red up	↑ Worsening performance (Indicator aim: LOW)
green down	↓ Improving performance (Indicator aim: LOW)
green up	↑ Improving performance (Indicator aim: HIGH)

### RAG (Red, Amber or Green) status

The RAG status is designed to show whether an indicator is exceeding its target, in which case it would be green ■, slightly below target (amber) ■, or significantly below target (red) ■.

### Graphs

Bar chart



Line chart



Graphs are used to show the long-term trend for an indicator. While the trend arrows show whether an indicator has improved or worsened since the last period, graphs can provide further context to help understand performance. Graphs show whether any changes in performance are a short-term blip, or are the result of a long-term trend.

**Comments**

Each indicator includes explanatory comments that are provided by the officer responsible for collating the measure. The comments section should explain the reasons why the indicator has improved, worsened or stayed the same.

**What to look for in a performance report**



The indicator has improved since the previous quarter, in which performance dropped below the long-term average.

Period	Actual	Target	RAG	Comment
Q4 09/10	80.00	85.00	↑	The winter weather conditions through January/February and the rainfall/storms and flooding during March and the resultant increase in the deterioration of the road network meant that additional resources had to be deployed to achieve the 80% level.

The comment explains that the reason for the dip in performance was exceptionally bad weather.

**Questions to ask when considering performance data:**

These are some questions you should think of asking when considering performance data:

- What information could I do without?
- Is the information easy to understand?
- Can I interpret what the key messages are?
- Would a different method or presenting help me interpret the information?
- Do I challenge officers to explain the information?
- Do I challenge officers to provide missing information?

### **Using the performance indicators**

Performance indicators should be used to identify areas for further investigation and review. For example, the indicator outlined above shows that performance dipped because of severe weather. In this instance Members might like to consider what the impact is upon the Service of deploying the additional resources necessary to improve performance. Members could also seek to understand the likelihood of this situation occurring again and how the Service might prepare for that eventuality.

Individual performance indicators should be considered in conjunction with contextual information. Rarely will an individual indicator adequately describe performance on its own. Other sources of information that could be used in conjunction with an indicator might include other performance indicators, previous committee reports and customer feedback.

## Appendix 1: Best Value Toolkit – Governance and Accountability

Audit Scotland has outlined what constitutes good practice in scrutiny as part of their Best Value Toolkit on Governance and Accountability. The Toolkit forms one part of a set of documents that clarify the criteria against which Councils will be judged as part of Best Value Audits.

### BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY

	Basic practice	Better practice	Advanced practice
<b>5. How well do challenge, scrutiny and review processes ensure a range of informed views are sought and actively considered to aid decision making and improvement?</b>			
<b>5.1 How effective, objective and transparent is the scrutiny and challenge of decisions and policies?</b>	<p>There is sufficient opportunity for objective challenge and questioning of decisions by members before they are taken or confirmed, built into policy development and decision making processes. There is a process to challenge and rethink decisions in exceptional circumstances.</p> <p>Some member challenge to policy or decisions takes place. It incorporates a dispassionate exploration of issues, alongside any challenge to decisions on grounds of politics or principle.</p> <p>The nature and extent of the scrutiny and challenge that has taken place is transparent.</p>	<p>The organisation regularly reviews how effectively it scrutinises decisions, making continuing improvements to processes and support for members.</p> <p>Independent members actively challenge key decisions before they are taken or confirmed in an, objective and constructive manner. This scrutiny is treated seriously by decision makers, with time taken to explore the issues raised.</p> <p>Scrutiny processes are structured and well managed as part of a systematic approach. Challenge is focussed on significant issues and does not unduly delay decisions.</p>	<p>Effective, objective and transparent scrutiny and challenge of policy development and decision making is embedded in the organisation's culture and ways of working.</p> <p>Members and senior officials that are responsible for decision making actively seek informed and constructive challenge, value and respond positively to this.</p> <p>Members and senior officials routinely challenge each other in an objective, effective and open manner – achieving an appropriate balance between challenge and timeliness of decision making.</p>

**BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY**

	<b>Basic practice</b>	<b>Better practice</b>	<b>Advanced practice</b>
<b>5.2 How effective, objective and transparent is scrutiny of the organisation's performance and the effectiveness of its policies and procedures?</b>	<p>There is sufficient opportunity for members to review and objectively challenge the performance of the organisation and the implementation of policies and decisions through:</p> <ul style="list-style-type: none"> <li>• ongoing monitoring of quality, performance, implementation and management processes</li> <li>• post implementation reviews of policies and improvements.</li> </ul> <p>Time is set aside on agendas for this purpose and members are provided with appropriate and objective reports.</p> <p>Some challenge takes place, including questioning of responsible senior officials about important aspects of performance and management effectiveness.</p> <p>The nature and extent of the scrutiny and challenge that has taken place is transparent.</p>	<p>The organisation regularly reviews how effectively it scrutinises performance, making continuing improvements to processes and support for members.</p> <p>Scrutiny is led by independent members who take a constructive and objective approach. Senior officials are held to account in a meaningful way, and are open and helpful in their response to questioning.</p> <p>Challenge is based on objective sources of evidence and effort is targeted at significant issues related to the priorities and the overall objectives of the organisation.</p> <p>Scrutiny leads to the identification of areas for improvement. Members responsible for scrutiny follow-through to make sure appropriate action is being taken and whether it has been effective. They report their activity and significant exceptions to all members.</p>	<p>Effective, objective and transparent scrutiny of performance is embedded in the organisation's culture and ways of working.</p> <p>Members and committees that lead and undertake performance scrutiny functions are well supported and respected. They have a clear understanding of the issues and aspects of performance that are important to the success of the organisation, and robustly challenge and hold to account in these areas.</p>

**BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY**

	<b>Basic practice</b>	<b>Better practice</b>	<b>Advanced practice</b>
<b>5.3 How effective is the Audit committee?</b>	<p>An audit committee has been established and meets regularly. Its remit and operation meets the minimum applicable standards for the organisation. It has the right to report to and be heard by all members.</p> <p>An appropriate focus is given to the risk management, internal control and financial management &amp; reporting.</p> <p>Internal and external auditors attend meetings and submit reports summarising their plans and the results of their work.</p>	<p>The audit committee regularly reviews its own performance against best practice and takes action to continuously improve its effectiveness. It reports annually to all members and can demonstrate good performance.</p> <p>The committee specialises in scrutiny of risk management, including the effectiveness of financial management and reporting. Wider scrutiny of performance is dealt with elsewhere.</p> <p>At least one member of the committee has recent financial experience.</p>	<p>The audit committee's role is well understood and valued across the organisation. It is seen as apolitical and authoritative.</p> <p>Members of the committee are well informed, and skilled in effective challenge and open discussion. They are able to confirm to other members that the right processes are in place to give confidence that financial stewardship and overall governance arrangements can be relied upon.</p>
<b>5.4 How well does the Internal audit function provide assurance to management on the integrity of the organisation's corporate governance framework and identify areas for improvement?</b>	<p>The organisation has established an internal audit function with sufficient status and resources to review and report on key aspects of the system of internal control.</p> <p>The Internal Audit function complies with relevant minimum standards and the head of internal audit has unfettered rights of access to members and senior officials.</p>	<p>The Internal Audit function maintains a recognised quality accreditation, actively reviews its own effectiveness, and continuously improves.</p> <p>The Head of Internal Audit respected and authoritative, and is consulted on governance and internal control arrangements for new and existing business initiatives during the development phase.</p>	<p>The internal audit function can demonstrate the highest standards of performance. The value and impact of its work is recognised by all members and senior officials.</p>

**BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY**

	<b>Basic practice</b>	<b>Better practice</b>	<b>Advanced practice</b>
<b>5.5 How effective is the organisation's annual review of its overall corporate governance arrangements?</b>	<p>The organisation completes an annual review of its corporate governance arrangements that meets the relevant minimum standard. It publishes details of this review in line with requirements placed on it.</p> <p>The review is informed by the work of internal audit, the audit committee and reports from external auditors and the conclusions are consistent with this.</p> <p>The review is effective in identifying significant concerns and action is taken to address these.</p>	<p>An annual governance statement is published, summarising the extent of and conclusions from a review of the effectiveness of the system of internal control.</p> <p>It is underpinned by a robust approach to review and is signed by the most senior member and most senior official on behalf of the organisation.</p> <p>No significant control weakness exist. The review process is itself reviewed regularly.</p>	<p>The overall review of governance is underpinned by ongoing review of control frameworks operated across the organisation and any subsidiaries.</p> <p>Senior officials are committed to an effective review of internal control in their own areas of responsibility. They show an understanding of the nature and value of the control framework and act promptly to address any areas of concern.</p>
<b>5.6 How well does the organisation respond to external review and scrutiny?</b>	<p>Relevant staff engage constructively and professionally with external auditors and other scrutiny bodies, making genuine attempts to answer questions and provide evidence that is requested.</p> <p>Reports by external auditors and other scrutiny bodies are considered by relevant members and senior officials, and action is taken to address any significant issues that are raised.</p> <p>Where external scrutiny identifies any significant areas of concern or weakness, members and senior officials engage with the relevant scrutiny body to better understand how to address the issues raised.</p>	<p>The organisation engages meaningfully with external audit and other relevant scrutiny bodies about their plans, providing views on where external reviews would add most value alongside internal review and improvement activity.</p> <p>The views and support of external auditors and inspectors are sought in relevant circumstances, and members and senior officials display a real understanding of their role and remit.</p> <p>The organisation systematically considers the wider implications of significant issues raised in external reports (for example whether similar concerns exist in other areas of the organisation).</p>	<p>The organisation systematically reviews the findings and conclusions of reports about other organisations and any national or cross-cutting reports, to considering potential implications for it and opportunities to apply best practice.</p> <p>Members and senior officials value the independent challenge and assurance provided by proportionate and risk based scrutiny activity. They respond to this in a manner that strengthens the organisation's own review and improvement activity.</p>

## Appendix 2: What do the scrutiny committees do?

### Audit and Governance Committee

#### *Audit responsibilities*

##### *1. Risk and Internal Controls*

- (a) Promote Council policy on risk management by reviewing the delivery of the Risk Management Strategy, reviewing the business and strategic risk assessment arrangements and procedures and the Corporate risk Register;
- (b) Promote, review and monitor internal controls, financial and otherwise, within the Council in order to provide reasonable assurance of the effectiveness and efficiency of operations and compliance with relevant statutes, directions, guidelines and policies;
- (c) Develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability;
- (d) Approve the annual Internal Audit assurance report and the statement of internal controls for inclusion in the annual accounts.

##### *2. Review of Audit Functions*

- (a) Determine the scope of the annual audit plan and ensure it is directed in accordance with the approved business risk assessment;
- (b) Examine and review the External Audit Planning Memorandum and review the overall performance with regard to quality, productivity and the fees charged;
- (c) Review the activities of the Internal Audit function and monitor overall performance in terms of quality, productivity and effectiveness;
- (d) Ensure that the Internal Audit function is sufficiently resourced to provide a systematic review of internal controls and a full assessment of significant investigations;
- (e) Examine Internal and External Audit reports, and ensure weaknesses identified are adequately addressed by management and recommendations are actioned;
- (f) Ensure that there are effective relationships between Internal and External Audit and inspection agencies, and that the value of the audit process is actively promoted.

##### *3. Financial Matters*

- (a) Review the Council's financial performance as contained in the annual statement of accounts;
- (b) Review the audit certificate/wording of any matters reported;
- (c) Review the annual report to Members from the External Auditor;
- (d) Review the implementation of audit recommendations;
- (e) Ensure that issues raised in previous financial years have been addressed.
- (f) Review and monitor treasury management arrangements



### ***Governance responsibilities***

4. *All matters relating to the performance of the Departments and Council as a whole, including, but not limited to:*

#### *Community*

- Strategic vision and direction setting by Members
- Integration of strategic vision, direction and Community Planning priorities and actions into internal planning mechanisms
- Public performance reporting and public accountability
- Transparency of decision-making processes
- Consultation and communication with communities

#### *Service Delivery Arrangements*

- Corporate planning approach and performance against corporate actions and targets, including financial position and performance and asset management
- Performance management system and corporate performance information monitoring
- External scrutiny/assessment recommendations and resulting action planning
- Management of joint working
- Best Value reviews and option appraisal
- Contracting issues

#### *Structures and Processes*

- Monitoring of decision-making structures and mechanisms
- Monitoring of policy development and implementation
- Clarity of key roles and responsibilities

#### *Governance*

- Corporate Governance
- Annual Governance Statement

## **Policy and Performance Review Committee**

### **Remit and Powers**

All matters relating to the performance of all the Council's services including, but not limited to:

- Vision and direction setting by members
- Integration of vision, direction and Community Planning priorities and actions into internal planning mechanisms (including Service Plans)
- Mechanisms and Initiatives for Improvement (e.g. Benchmarking)
- Public Performance Reporting and public accountability
- Consultation and communication with communities
- Planning and performance against actions and targets including financial position and performance, priority/risk based resource management and asset management
- Mainstreaming of equality issues and sustainable development
- External scrutiny/assessment recommendations and resulting action planning
- Management of joint working
- Best Value reviews and option appraisal
- Contracting issues
- Scrutiny of policies identified through an annual work plan or other aspect of its work

## **Police, Fire and Community Safety Scrutiny Committee**

### **Remit and Powers**

The following business and functions are delegated by the Council to the Community Safety Committee:

- To carry out scrutiny of the performance of the Police and Fire & Rescue services in East Lothian with specific reference to each organisations' Local Plan.
- To receive and comment on local quarterly performance reports from Police Scotland and the Scottish Fire & Rescue Service.
- To engage in the development of Police Scotland and the Scottish Fire & Rescue Service Local Plans.
- To consider and respond to national level strategy and policy discussions of Police Scotland and the Scottish Fire & Rescue Service.
- To scrutinise and monitor the Service Level Agreement between the Council and Police Scotland
- To receive and comment on reports on the performance of any other services performing a community safety function in East Lothian.

## Appendix 3: Roles and responsibilities

### Conveners of Scrutiny Committees

- Chairing the Committee, co-ordinating its activities and taking a lead role in its work
- Providing leadership in relation to monitoring the Council's strategies, performance and service delivery and contribute to the effective governance of the Council
- Giving direction to senior officers of the Council in respect of matters within the remit and powers of the Committee
- Contributing effectively to the Council's scrutiny, policy and performance review processes by ensuring the questioning of relevant officers on the strategies, policies and performance of the Council and its service
- Encouraging and supporting participation and debate by all other committee members and ensuring that they contribute effectively to the work of the Committee
- Ensuring adequate scrutiny of reports from the Council's auditors and Audit Scotland on Council performance
- Identifying cross-cutting issues and ensuring a corporate approach to scrutiny in these areas
- Ensuring that effective working relationships with all councillors, officers and relevant partner organisations are developed and maintained
- Leading on the selection of witnesses to policy and performance reviews and determining whether evidence is to be given orally or in writing
- Leading on determining a timetable for the Committee's work

### Members of the Committees

- Selecting topics for scrutiny and policy review
- Participating constructively in the activities of the Committee
- Determining which stakeholders they would like to attend the meetings
- Examining the basis on which major decisions are taken and ensure that they are consistent with Council policy
- Monitoring the effect of national legislation on the Council
- Holding councillors and officers to account in respect of their implementation of Council policy
- Investigating the quality and performance of services provided by the Council
- Engaging with members of the public and key stakeholders to inform areas of scrutiny work
- Making recommendations for improvement to Council / Cabinet

### Committees Section

- Preparing and arranging meeting rooms and facilitate meetings
- Determining dates and deadlines for meetings

- Producing minutes and notes of meetings and meeting agendas

### **Corporate Policy & Improvement unit**

- Preparing performance reports
- Providing reports and advice on corporate planning
- Reporting upon the Council Improvement Plan

### **Services**

- Providing reports as requested by the Committees
- Attending Committees to assist with their enquiries when requested
- Accounting for relevant performance indicators

### **Stakeholders**

- Members of the public, including service users, and representatives of partner organisations can be invited to attend the scrutiny committees to assist members in their work by giving evidence and taking part in the discussion and consideration of topics

## Appendix 4: How Good is Our Council?

'How Good is Our Council?' is a means of evaluating five essential elements that should characterise the quality improvement systems of the Council. Self-evaluations are conducted by a cross-section of staff drawn from the service being evaluated. Services are asked to evaluate themselves against a series of questions that relate to the elements outlined below:

Key Questions				
What key outcomes have we achieved?	How well do we meet the needs of stakeholders?	How good is our delivery of key processes?	How good is our management?	How good is our leadership?
<p>1. Key Performance Outcomes</p> <p><i>1.1 Improvement in Performance</i></p> <p><i>1.2 Adherence to statutory principles and fulfilment of statutory duties</i></p>	<p>2. Impact on service users</p> <p><i>2.1 Impact on service users</i></p> <p>3. Impact on staff</p> <p><i>3.1 Impact on staff</i></p> <p>4. Impact on the community</p> <p><i>4.1 Impact on the local community</i></p>	<p>5. Delivery of key processes</p> <p><i>5.1 Delivering services</i></p> <p><i>5.2 Developing, managing and improving partnerships and relationships with service users and other stakeholders</i></p> <p><i>5.3 Inclusion, equality and fairness</i></p> <p><i>5.4 Improving the quality of services to stakeholders</i></p>	<p>6. Policy Development and planning</p> <p><i>6.1 Policy review and development</i></p> <p><i>6.2 Participation of service users and other stakeholders</i></p> <p><i>6.3 Planning</i></p> <p>7. Management and support of staff</p> <p><i>7.1 Sufficiency, recruitment and retention</i></p> <p><i>7.2 Deployment and teamwork</i></p> <p><i>7.3 Development and training</i></p> <p>8. Resources</p> <p><i>8.1 Partnership working</i></p> <p><i>8.2 Financial management</i></p> <p><i>8.3 Resource management</i></p> <p><i>8.4 Information systems</i></p>	<p>9. Leadership</p> <p><i>9.1 Vision, values and aims</i></p> <p><i>9.2 Leadership and direction</i></p> <p><i>9.3 Leading people and developing partnerships</i></p> <p><i>9.4 Leadership of innovation, change and improvement</i></p>

The key questions are used in conjunction with an evaluation scale of six levels. The levels are:

Level 6: Excellent	Outstanding, sector leader
Level 5: Very Good	Major strengths
Level 4: Good	Important strengths with areas for improvement
Level 3: Adequate	Strengths just outweigh weaknesses
Level 2: Weak	Important weaknesses
Level 1: Unsatisfactory	Major weaknesses

The assessment of which level the Service has achieved is mainly based upon qualitative judgements. However, guidelines are provided to ensure some degree of consistency, for example:

“An evaluation of excellent applies to provision which is a model of its type. The experiences of, and outcomes achieved by, service users are of very high quality. An evaluation of excellent represents an outstanding standard of provision which exemplifies very best practice and is worth disseminating beyond the Council. It implies these very high levels of performance are sustainable and will be maintained.”

High performing services will:

- Articulate clearly the desired outcomes for people who use our services
- Set challenging targets and improvement objectives for achieving successful outcomes for everyone who uses our services
- Have, within and across services, effective arrangements for evaluating systematically and rigorously whether successful outcomes are being achieved
- Ask demanding questions about the performance of Services and the Council itself
- Use the information from evaluation to make continuous and sustained improvements to achieve successful outcomes; and
- Clarify leadership and accountability roles for achieving improved outcomes

Departmental management teams provide external challenge to, and validation of, the self-evaluation results for each service. This approach also complements the proposed national shift to ‘Assisted Self-Evaluation’ that has resulted from the Crerar Review. Using Assisted Self-Evaluation staff will lead the process, although inspectors assist and, crucially, challenge performance and practices.

## Appendix 5: Key questions for elected members (An Overview of Local Government in Scotland 2009)

<p>Longer-term planning</p>	<ul style="list-style-type: none"> <li>• To what extent are we planning for beyond the current year taking into account financial projections and other intelligence?</li> <li>• How robust are plans to achieve the savings required to meet our priorities?</li> <li>• To what extent do we have a clear plan for achieving the most appropriate size of workforce and skills needed to deliver our goals?</li> <li>• To what extent do we have a clear plan for ensuring that expenditure and investment in our asset base achieves value for money and most appropriately supports the delivery of our goals</li> </ul>
<p>Decision-making and prioritisation</p>	<ul style="list-style-type: none"> <li>• How clear are we about the priorities of local people?</li> <li>• How good is our information on performance and the costs of providing different levels and quality of services to assist us in setting priorities and taking decisions?</li> <li>• What action are we taking to prioritise spending?</li> <li>• How aware are we of the relative risks and rewards associated with our decisions, and how well placed are we to manage identified risks?</li> </ul>
<p>Outcomes</p>	<ul style="list-style-type: none"> <li>• To what extent are we considering the impact of the recession on our service outcomes and our commitments in our Single Outcome Agreement?</li> <li>• How are we comparing our service outcomes with others, for example by benchmarking?</li> <li>• What evidence do we have that our service outcomes represent best value?</li> </ul>
<p>Keeping informed</p>	<ul style="list-style-type: none"> <li>• How well are we kept informed of the impact of the recession on our finances and service performance?</li> <li>• How effectively are we monitoring and planning for changes in demand for services?</li> <li>• Are our training and development needs fully addressed?</li> </ul>
<p>Working with others</p>	<ul style="list-style-type: none"> <li>• How well are we working with our partners and/or neighbours to deal with pressures caused by the recession?</li> <li>• Are we exploring all possible options for the delivery of local services?</li> <li>• What quantifiable efficiencies or improvements are resulting from working with others?</li> </ul>





# East Lothian Council

Interim Audit Report 2016/17

3



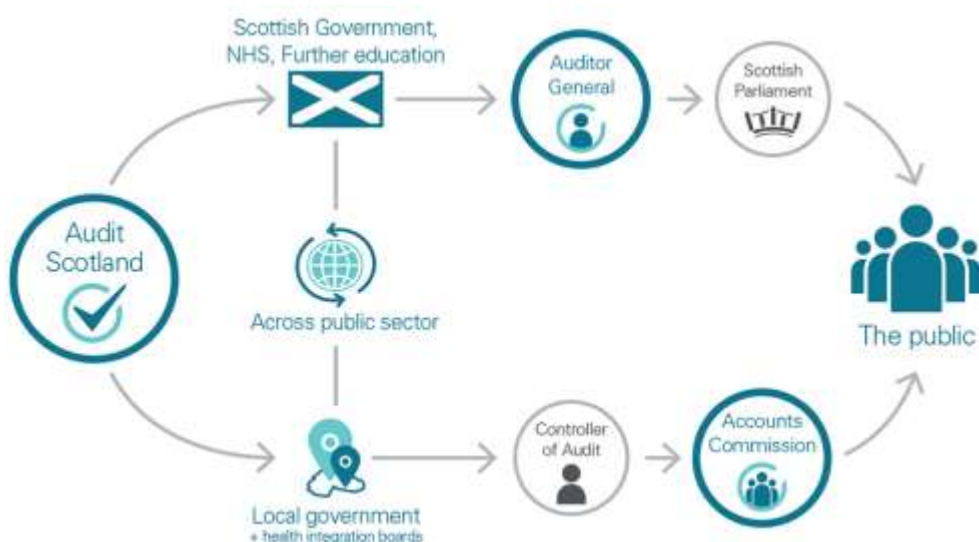
 AUDIT SCOTLAND

Prepared for East Lothian Council  
June 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at East Lothian Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our audit approach during the 2016/17 financial statements audit.
2. Our responsibilities under the Code of Audit Practice (2016) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
  - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
  - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
  - complies with established policies, procedures, laws and regulations.
3. Also, under the Code of Audit Practice, we have carried out work on the wider dimension audit. This focussed on financial management and governance and transparency.

## Conclusion

4. We identified several control weaknesses as summarised in [Exhibit 1](#) overleaf where we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.
5. The matters raised in this report should be considered as part of the Accountable Officer's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.
6. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

## Work summary

7. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.

8. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

## Internal Audit areas of reliance

9. Our 2016/17 Annual Audit Plan set out our planned areas of reliance on internal audit. To support our audit opinion on the financial statements we intended to place formal reliance on the following planned internal audit reviews.

- Housing Rents
- Housing Benefit and Council Tax Reduction

10. The reports are due to be presented to the June 2017 Audit and Governance Committee. Once available we will review both reports and determine if we can place reliance on the work performed to reduce our testing during 2016/17 final accounts. The work performed will also be used to inform our 2017/18 programme of work.

## Risks identified

11. The key control risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

12. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to East Lothian Council.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer / target date
<b>Audit findings</b>		
<p><b>Employee validation (ref. 4053)</b></p> <p>Although there is a process in place to remove leavers from the payroll, there are currently no arrangements in place to periodically confirm the existence of employees on the payroll.</p> <p><b>There is an increased risk of fraudulent payments to non-existent employees.</b></p>	<p>Payroll reports are downloaded onto a finance payroll database and are monitored as part of on-going monthly financial monitoring. This will include details of any leavers and forms the basis of financial monthly monitoring discussions with budget holders.</p> <p>In addition monthly reports are produced and circulated to managers around leavers and starters. This is used alongside the payroll database to inform financial monitoring.</p>	<p>Service Manager (HR &amp; Payroll)</p> <p>Service Manager (Business Finance)</p>
<p><b>Changes to suppliers' details (ref. 3883)</b></p> <p>From observation of the checks performed</p>	<p>There has been an on-going issue being able to access historic files on our scanning system and we are</p>	<p>Service Manager (Corporate Finance)</p>

Issue identified	Management response	Responsible officer / target date
<p>to verify a request to change supplier bank details, we were satisfied with the process in place. However when we tested a sample of changes made during 2016/17, no documentary evidence of the checks performed could be provided.</p> <p><b>There is a risk that sufficient checks may not have been performed resulting in fraudulent payments.</b></p>	<p>actively working with our scanning provider to resolve this issue.</p> <p>Evidence has now been provided to support the sample testing and controls</p>	<p>On-going discussions with provider</p>
<p><b>Sample checking of NDR discounts (ref. 3747)</b></p> <p>There are currently no arrangements in place for sample checking by senior officers of Non Domestic Rates (NDR) discounts and reliefs awarded.</p> <p><b>The sample checking mitigates the risk of fraudulent claims being awarded for NDR relief.</b></p>	<p>Weekly sample checks are now in place carried out by the Business Rates Team Leader</p>	<p>In place</p> <p>Service Manager (Revenues)</p>
<p><b>Quality checking of Council Tax Reduction (ref. 3748)</b></p> <p>Although an effective system of quality checking for council tax reduction awards is currently in place, officers confirmed that this system has only been in place since December 2016, therefore not in place for the full financial year.</p> <p><b>The quality checking process mitigates the risk of fraudulent applications for council tax reduction.</b></p>	<p>The Quality Assurance process which is now in place also includes a sample of checks on cases which have already been processed.</p> <p>A Quality Assurance Strategy is in the process of being developed which will include the enhanced QA monitoring and review.</p>	<p>In place</p> <p>Service Manager (Benefits)</p>
<p><b>Spot checking of Council Tax relief (ref. 3811)</b></p> <p>A 10% sample check is performed on council tax refunds by the team leader. Additional spot checks are performed on other council tax areas including reward of discounts and reliefs, however the level of checks performed during 2016/17 was insufficient as the last checks were done in May 2016.</p> <p><b>The absence of a regular spot checks on council tax reliefs increases the risk of misstatements due to fraud or error not being detected and corrected.</b></p>	<p>Weekly spot checks are now in place.</p>	<p>In place</p> <p>Service Manager (Revenues)</p>
<p><b>Access to Revenues systems (ref. 3934)</b></p> <p>We reviewed User Access request forms covering access to Revenues systems (including Council Tax, Benefits, NDR and Income Management) for a sample of 15 staff. Forms were not available for 3 staff who had access set up before the current arrangements came into place. Of the completed forms reviewed, 4 had not been</p>	<p>The service regularly re-issues user forms to review access and remind users of their responsibilities.</p> <p>The Information Security Form is currently being reviewed and will be reissued to all system user, reminding users of their access and responsibilities.</p>	<p>Service Manager (Revenues)</p>

Issue identified	Management response	Responsible officer / target date
<p>authorised by the employee's line manager.</p> <p><b>There is a risk that employees could have incorrect access to functions within the Revenues system.</b></p>		
<p>Source: Audit Scotland</p>		

**13.** All our outputs and any matters of public interest will be published on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# East Lothian Council

## Interim Audit Report 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Resources and People Services)

**SUBJECT:** Annual Treasury Management Review 2016/17

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**4**

**1 PURPOSE**

- 1.1 To update the committee on Treasury Management Activity during 2016/17.

**2 RECOMMENDATIONS**

- 2.1 Members are asked to note the report.

**3 BACKGROUND**

- 3.1 The Council is required by regulations issued under the Local Government Scotland Act 2003 to produce an Annual Treasury Management Review.
- 3.2 The attached review updates Members on the Treasury Management Activity during 2016/17.

**4 POLICY IMPLICATIONS**

- 4.1 There are no direct policy implications associated with this report; however the council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy.

**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 – There are no direct financial implications associated with this report however the Council's Treasury Management activity clearly has a significant impact on the management of the Council's financial resources.
- 6.2 Personnel - none
- 6.3 Other - none

## **7 BACKGROUND PAPERS**

- 7.1 Treasury Management Strategy 2016/17 to 2018/19 – East Lothian Council 23rd February 2016.

<b>AUTHOR'S NAME</b>	Liz Shaw
<b>DESIGNATION</b>	Corporate Finance Manager
<b>CONTACT INFO</b>	lshaw@eastlothian.gov.uk
<b>DATE</b>	6 June 2017

# **Annual Treasury Management Review**

## **2016/17**

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East Lothian Council  
June 2017

# Annual Treasury Management Review 2016/17

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## 1. Introduction

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23/02/2016)
- a mid-year (minimum) treasury update report (Council 29/11/2016)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee.

## 2. The Economy and Interest Rates

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

### 3. Overall Treasury Position as at 31 March 2017

At the beginning and the end of 2016/17 the Council's treasury position was as follows:

TABLE 1	31 March 2016 Principal	Rate/ Return	Average Life yrs		31 March 2017 Principal	Rate/ Return	Average Life yrs
<b>Total debt</b>	<b>£337m</b>	<b>4%</b>	<b>23</b>		<b>£344m</b>	<b>4%</b>	<b>24.4</b>
<b>CFR</b>	<b>£385m</b>				<b>£387m</b>		
<b>Over / (under) borrowing</b>	<b>£(47)m</b>				<b>£(43)m</b>		
<b>Total investments</b>	<b>£10m</b>				<b>£10m</b>		
<b>Net debt</b>	<b>£337m</b>	<b>4%</b>			<b>£344m</b>	<b>4%</b>	

The Gross Capital Financing Requirement includes PPP and finance leases but as there are no capital borrowing requirements associated with these elements they are not included within the Treasury CFR. The Council Gross CFR at the 31 March 2017 is £428m.

### 4. The Strategy for 2016/17

The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 4 of 2016) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

## 5. The Borrowing Requirement and Debt

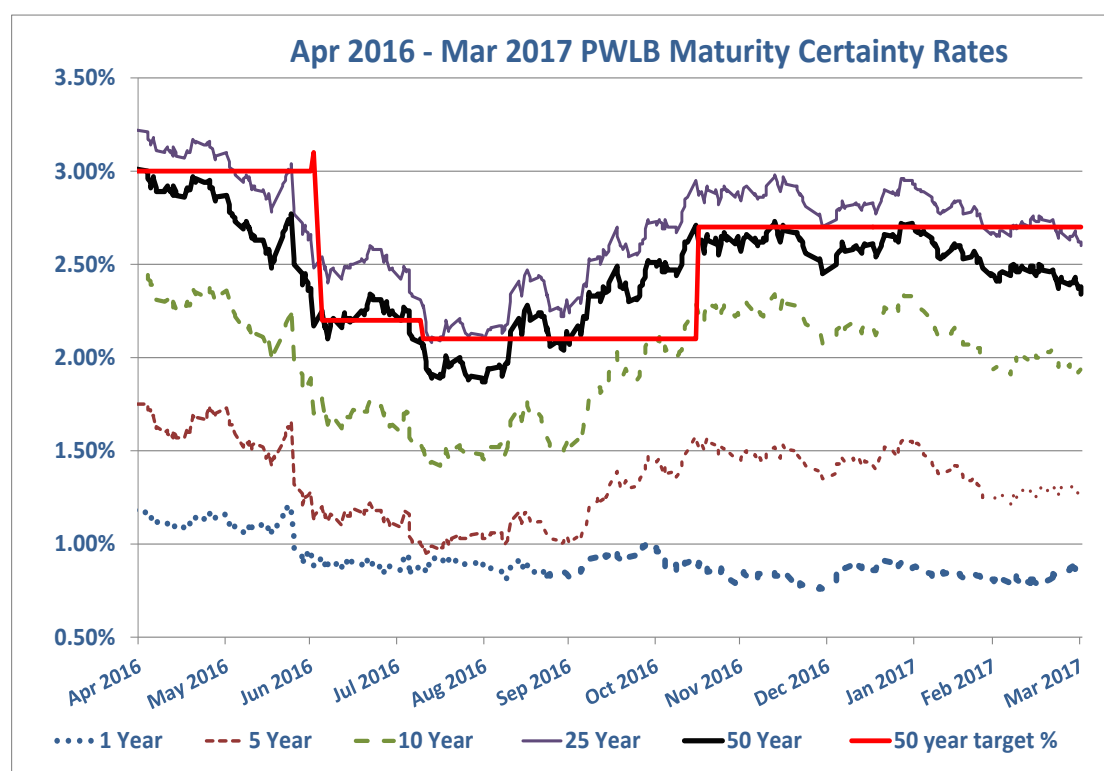
The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
CFR General Fund (£m)	224	218	218
CFR HRA (£m) (if applicable)	161	180	169
Total CFR	385	398	387

The movement in the HRA CFR is due in part from the budget being set for 2016/17 prior to the final year end position being known for 15/16. The 2016/17 HRA CFR was budgeted with an opening CFR of £166m and this was finalised at £161m. As explained in the 15/16 Annual Report as 'The HRA CFR has reduced by £6m and is attributable to an increase in income of over £2.4m as well as a reduction in capital spend of £3.5m'. There were additional asset sales of £6.5m during the 2016/17 financial year.

## 6. Borrowing Rates in 2016/17

**PWLB certainty maturity borrowing rates** - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



## 7. Borrowing Outturn for 2016/17

**Borrowing** – the following loans were taken during the year: -

Lender	Principal	Type	Interest Rate	Maturity	Date
PWLB	£5m	Fixed interest rate	2.49%	46 years	28/06/16
PWLB	£5m	Fixed interest rate	1.91%	49 years	18/08/16
PWLB	£5m	Fixed interest rate	1.91%	43 years	18/08/16
PWLB	£5m	Fixed interest rate	1.88%	49 years	30/08/16

**Repayment** – the following loans were repaid during the year: -

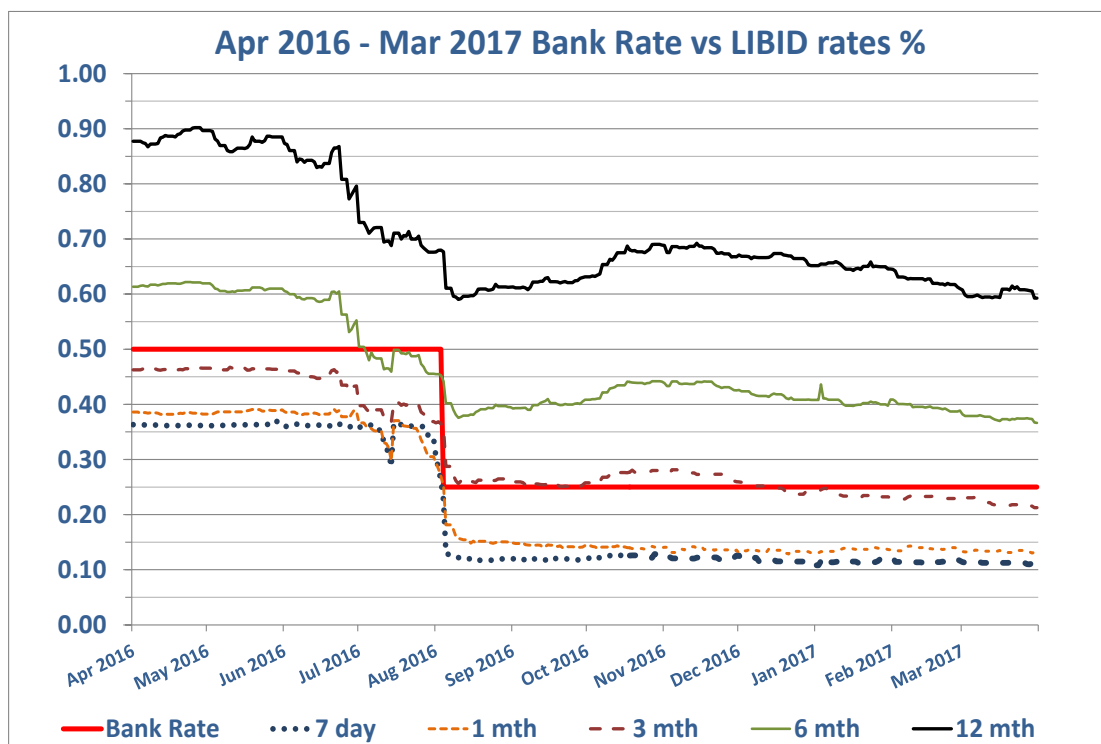
Lender	Principal	Type	Interest Rate	Maturity	Date
PWLB	£5m	Fixed interest rate	3.48%	7 years	24/09/16
PWLB	£0.662m	Fixed interest rate	8.625%	22 years	03/12/16
Kensington & Chelsea	£5m	Fixed interest Rate	0.6%	6 months	29/09/16

### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 8. Investment Rates in 2016/17

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



## 9. Investment Outturn for 2016/17

**Investment Policy** – the Council’s investment policy is governed by Scottish Government investment regulations which have been implemented in the annual investment strategy approved by the Council on 23/02/16. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

### Investments held by the Council

The Council had minimal investment balances during the year as it sought to minimise its debt costs i.e. the Council temporarily used its reserves instead of external borrowing during 2016/17. It did, however, have the following loans to third parties which fall within the scope of the Councils Approved Investment Strategy:

Loan	Balance at 31/3/17
East Lothian Housing Association	£9.651m
Dunbar Fisherman’s Association	£0.020m



**Investments held by fund managers** – the Council uses Investec external fund managers to invest part cash balances on behalf of the four Common Good funds and ELC Charitable Trusts. The performance of the managers against the benchmark return was:

Fund Manager	Investments Held 31 March 16	Investments Held 31 March 17	Return	Benchmark*
Common Good	£2.849m	£3.363m	22.2%	20.2 %
Charitable Trust	£2.807m	£3.289m	21.3%	20.2 %
<b>Total</b>	<b>£5.656m</b>	<b>£6.652m</b>	<b>£0.996m</b>	

## Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2015/16	2016/17	2016/17
<b>Extract from budget and rent setting report</b>	<b>actual</b>	<b>original</b>	<b>actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b>			
Non - HRA	£31,268	£23,555	£23,343
HRA (applies only to housing authorities)	£22,020	£22,509	£18,559
<b>TOTAL</b>	<b>£53,288</b>	<b>£46,064</b>	<b>£41,902</b>
<b>Ratio of financing costs to net revenue stream</b>			
Non - HRA	8.11%	8.09%	8.53%
HRA (applies only to housing authorities)	33.21%	33.46%	33.77%
<b>Borrowing requirement General Fund</b>			
brought forward 1 April	£219,841	£223,694	£223,694
carried forward 31 March	£223,694	£218,162	£217,559
in year borrowing requirement	£3,853	£(4,712)	£(6,135)
<b>Borrowing requirement HRA</b>			
brought forward 1 April	£148,354	£161,364	£161,364
carried forward 31 March	£161,364	£180,346	£169,092
in year borrowing requirement	£13,010	£14,263	£7,728
<b>Total Borrowing Requirement</b>			
Non – HRA	£223,694	£218,162	£217,559
HRA	£161,364	£180,346	£169,092
<b>TOTAL</b>	<b>£385,058</b>	<b>£398,506</b>	<b>£386,651</b>
<b>Annual change in Cap. Financing Requirement</b>			
Non – HRA	£3,853	£(4,712)	£(6,135)
HRA	£13,010	£14,263	£7,728
<b>TOTAL</b>	<b>£16,863</b>	<b>£9,551</b>	<b>£1,593</b>
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (band D) per annum *	£(3.59)	£15.69	£12.21
Increase in average housing rent per week	£2.33	£2.51	£1.46

<b>2. TREASURY MANAGEMENT INDICATORS</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2016/17</b>
	<b>actual</b>	<b>original</b>	<b>actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt -</b>			
borrowing	£409,000	£419,000	£419,000
other long term liabilities	£52,000	£51,000	£51,000
TOTAL	£461,000	£470,000	£470,000
<b>Operational Boundary for external debt -</b>			
borrowing	£388,957	£398,508	£398,508
other long term liabilities	£42,490	£41,306	£41,306
TOTAL	£431,447	£439,814	£439,814
<b>Actual external debt (excludes PPP)</b>	£337,160	£379,297	£344,247
<b>Gross debt (includes PPP and Finance leases)</b>	£387,976	£439,814	£385,565
<b>Upper limit for fixed interest rate exposure</b>			
Net principal re fixed rate borrowing / investments	100 %	100 %	100%
<b>Upper limit for variable rate exposure</b>			
Net principal re variable rate borrowing / investments	30 %	30%	30 %
<b>Upper limit for total principal sums invested for over 364 days</b>	£30,000	£30,000	£30,000

The maturity structure of the debt portfolio was as follows:

	31 March 2016 actual	31 March 2017 actual
Under 12 months	£20.35m	£16,11m
12 months and within 24 months	£8.18m	£17.57m
24 months and within 5 years	£52.41m	£55,64m
5 years and within 10 years	£52,41m	£44.35m
10 years and within 15 years	£31.86m	£31.56m
15 years and within 20 years	£30.81m	£20.53m
20 years and within 25 years	£5.00m	£5.00m
25 years and within 30 years	£0m	£5.90m
30 years and within 35 years	£5.90m	£0m
35 years and within 40 years	£58.00m	£73.00m
40 years and within 45 years	£23.50m	£18.50m
45 years and over	£53.90m	£63.90m

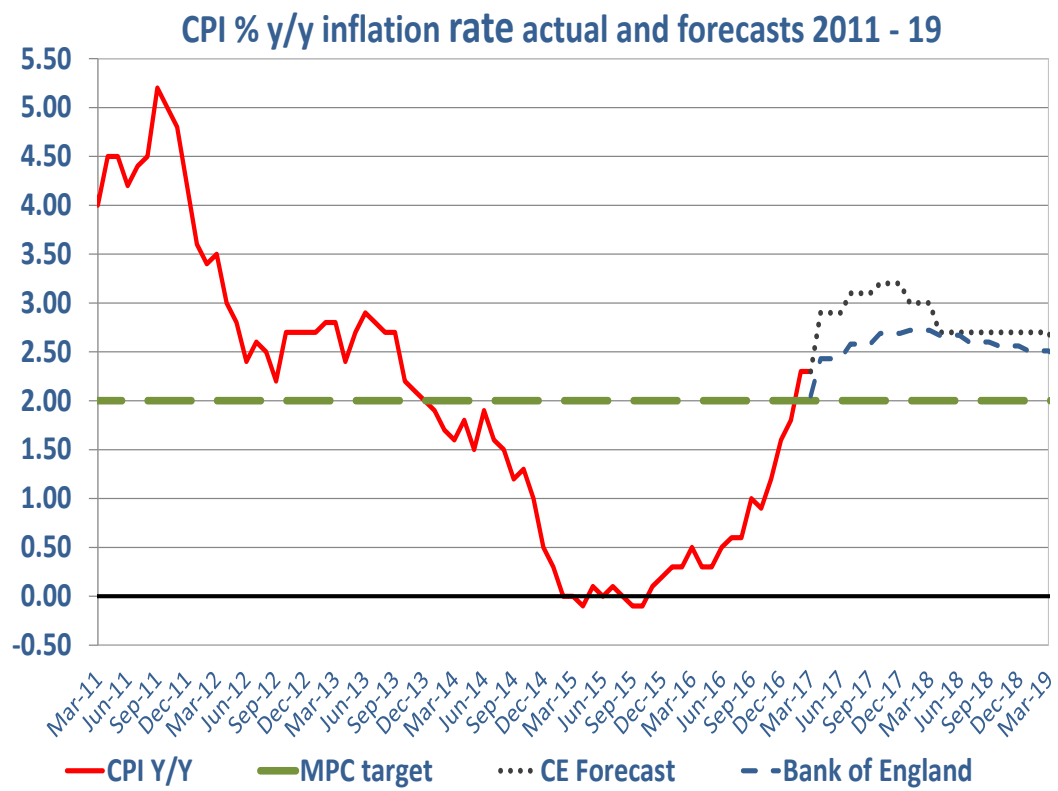
Maturity structure of fixed rate borrowing during 2016/17	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and over	75%	0%

Loans Fund (£m)	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Opening balance	£368	£389	£385
Add advances	£29	£24	£16
Less repayments	£13	£14	£14
Closing balance	£384	£399	<b>£387</b>

Loans Fund Non-HRA (£m)	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Opening balance	£220	£223	£224
Add advances	£13	£7	£5
Less repayments	£10	£11	£11
Closing balance	£223	£219	<b>£218</b>

Loans Fund (£m)	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Opening balance	£148	£166	£161
Add advances	£16	£17	£11
Less repayments	£3	£3	£3
Closing balance	£161	£180	<b>£169</b>

## Appendix 2: Graphs



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/16	1.130%	1.160%	1.330%	1.470%	1.620%	2.310%	3.140%	2.950%	1.310%
31/3/17	0.830%	0.860%	0.990%	1.110%	1.240%	1.600%	1.800%	2.070%	1.010%
High	1.200%	1.250%	1.460%	1.630%	1.800%	2.510%	3.280%	3.080%	1.350%
Low	0.760%	0.800%	0.840%	0.880%	0.950%	1.420%	2.080%	1.870%	1.040%
Average	0.928%	0.961%	1.104%	1.226%	1.361%	2.007%	2.724%	2.494%	1.150%
Spread	0.440%	0.450%	0.620%	0.750%	0.850%	1.090%	1.200%	1.210%	0.310%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	20/05/2016
Low date	20/12/2016	15/03/2017	10/08/2016	10/08/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016	30/11/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%

### Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16





**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Chief Executive

**SUBJECT:** 2017 Corporate Governance Self-evaluation and Annual Governance Statement

**5**

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## **1 PURPOSE**

- 1.1 To advise Audit and Governance Committee of the outcome of the 2017 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement.

## **2 RECOMMENDATIONS**

The Committee is asked to:

- 2.1 note that the Council has been confirmed as an 'Established Investor in People organisation, and has been awarded a Committed to Excellence award by Quality Scotland and to extend its congratulations and thanks to all Council staff for achieving these awards
- 2.2 approve the Corporate Governance self-evaluation (Appendix 1)
- 2.3 approve the Annual Governance Statement (paragraph 3.10) inclusion in the Council's 2016/17 Annual Accounts.

## **3 BACKGROUND**

- 3.1 The Annual Governance Statement, which needs to be included in the Council's Annual Accounts, takes account of the results of the annual Corporate Governance Self-evaluation, and recommendations from external assessments, audits or inspections.
- 3.2 Cabinet (11<sup>th</sup> May 2010) approved the adoption of a Code of Corporate Good Governance based on the six principles of good governance and the self-evaluation model outlined in the CIPFA/ SOLACE *Guidance on Delivering Good Governance in Local Government*.

- 3.3 The self evaluation framework identifies the code requirements against each of the six principles and then allows for documentary evidence to be shown alongside the previous year's update and improvement points. The final column provides an update and proposed improvement points for the latest year.
- 3.4 The Council Management Team has reviewed and updated the evidence provided against each requirement and provided an update and relevant improvement actions in the final column (see Appendix 1).
- 3.5 One point to note is that the Council has a new duty under the Scottish Regulator's Strategic Code of Practice to publish an annual statement on compliance with the Code (arising section 5 of the Regulatory Reform (Scotland) Act 2014). In order to avoid creating yet another reporting mechanism it is proposed that the Council fulfils the new requirement by incorporating a statement of compliance within the Corporate Governance Self-evaluation. This is dealt with under Supporting Principle 4.4: *Using the authority's legal powers to the full benefit of the citizens and communities in their areas.*
- 3.6 The Council has recently undergone an Investor in People assessment (March 2017) which confirmed the Council as an 'Established Investor in People organisation'. This means that the Council has achieved the Silver level award (the previous assessment resulted in a Bronze award) demonstrating that good practice is not only developed but is established as a normal way of working in the Council.
- 3.7 The Council also submitted itself to a Quality Scotland assessment process which resulted in being awarded a Committed to Excellence award (April 2017). This is the second level of recognition offered by the European Foundation for Quality Management (EFQM). The award assesses how the Council evaluates its performance and makes improvements in a structured and continuous basis.
- 3.8 Both IIP and Quality Scotland have provided detailed reports of the assessments which include recommended improvement actions in the following areas:
- Reviewing and promoting the Council Values
  - Developing a workforce plan and workforce development plan including issues such as succession planning, rewards and recognition, management development and leadership development
  - Reviewing then Council's key performance indicators and targets
  - Developing staff communications and engagement, building on positive programmes such as the One Council Workshops

These improvement actions have been reflected in the Corporate Governance Self-evaluation and the Annual Governance Statement.

3.9 The latest external auditors' Interim Management Report to members (Audit & Governance Committee, March 2017) did not make any recommendations relating to the Council's governance processes. The Local Area Network's Local Scrutiny Plan 2017/2018 does not identify any specific issues or risks that need to be taken into account in the annual governance statement. It should be noted that the Council will be subject to an Audit Scotland Best Value Assessment Report which will be undertaken in 2017/18, with publication in 2018/19.

3.10 Taking into account the findings of the Corporate Governance Self-evaluation, the recommendations from the IIP assessment and Quality Scotland, Committed to Excellence assessment and the auditors' reports the following is proposed as the Annual Governance Statement for inclusion in the Council's Annual Accounts.

*"The 2017 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six corporate good practice principles.*

*It should be noted that the Council was confirmed as an 'Established Investor in People organisation in March 2017 and in April 2017 undertook an assessment which resulted in being awarded a Committed to Excellence Award by Quality Scotland.*

*The Council's governance self-evaluation and external assessments of governance, performance by Audit Scotland, Investors in People and Quality Scotland have identified several areas for further development and improvement. These actions build on existing good practice and improvement action already being implemented in order to ensure the Council's progress from continuous improvement through to excellence. These improvement actions are:*

- *Adopt a 2017-2022 Council Plan*
- *Support the East Lothian Partnership to prepare and adopt a new East Lothian Plan (meeting its statutory duty to prepare a Local Outcome Improvement Plan) and review the East Lothian Partnership governance structure*
- *Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements relating to 'Participation Requests'*
- *Prepare and adopt a Workforce Plan, incorporating a Workforce Development Plan*
- *Develop a regulatory services charter covering all services that provide regulatory services to business*
- *Review elected members' development needs and provide an ongoing training and development programme*

- *Review the Council's key performance indicators and targets*
- *Further develop staff communications and engagement, building on positive programmes such as the One Council Workshops."*

3.11 These actions will be incorporated into the 2017/18 Council Improvement Plan.

#### **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 2017

<b>AUTHOR'S NAME</b>	Paolo Vestri
<b>DESIGNATION</b>	Service Manager: Corporate Policy and Improvement
<b>CONTACT INFO</b>	pvestri@eastlothian.gov.uk 01620 827320
<b>DATE</b>	2 June 2017

## APPENDIX 1: CORPORATE GOVERNANCE SELF-EVALUATION: May 2017

**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	2016 Update and Improvement Points	Update and 2017 Improvement Points
<b>1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose, vision and its intended outcome for citizens and service users</b>			
1.1.1 Develop and promote the authority's purpose and vision	<ul style="list-style-type: none"> <li>• 2020 Vision</li> <li>• Council Plan 2012-2017</li> <li>• Council Improvement Plan</li> <li>• Single Outcome Agreement (SOA)</li> <li>• HGIOC Self Evaluations</li> <li>• Communications of corporate objectives across services</li> <li>• Incorporation of objectives and outcomes in Service Planning guidance</li> <li>• Corporate Induction Pack and training course</li> <li>• Three-year Financial Strategy</li> <li>• One Council Workshops</li> <li>• The 2017 Employee Engagement Survey showed 91% of staff agreed "I know how my job / individual objectives contribute to the Council's objectives"</li> <li>• Council vision and objectives of each service linked to Council Plan objectives are a key element of staff PRDs</li> </ul>	<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>Completion of the refresh of the Council's intranet has been delayed but should be completed in June</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>One Council Workshops which were run in autumn 2016 and continued to be well received by staff</p> <p>The Council Intranet was refreshed and a staff e-zine – Inform – was launched in early 2017.</p> <p>The 2016 Employee survey showed high level of support for using the East Lothian Way as basis or the Council values. These values have been communicated through Inform.</p> <p>It is recognised that further work is required to promote the Council's vision to, and engage positively with, staff</p> <p>Action Further develop staff communications and engagement, building on positive programmes such as the One Council Workshops</p>

<p>1.1.2 Review on a regular basis the authority's vision for East Lothian and its implications for the authority's governance arrangements</p>	<ul style="list-style-type: none"> <li>• Corporate Governance Code and self-evaluation framework adopted in May 2010</li> <li>• Report on Council's vision, priorities and policies (Council, 22<sup>nd</sup> Feb 2011)</li> <li>• Council Plan 2012-2017</li> <li>• Council Plan reviewed in October 2014 and October 2015</li> <li>• Chief Officers/ Council Management Team re-structured March 2012 and in July 2013</li> <li>• Senior Management level restructured in Nov 2013</li> <li>• Draft Council Plan 2017-2022</li> <li>• Strategic Assessment to inform new context of new Council Plan and new East Lothian Plan</li> <li>• Establishment of East Lothian Partnership Leadership group</li> </ul>	<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 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 fully takes account of development such as the establishment of the Integrated Joint Board and the Children's Strategic Partnership</p> <p>Action</p> <p>The Council will begin the process of developing a new Council Plan for 2017 – 2022. 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>	<p>The Draft Council Plan 2017-2022, which was approved by Council in Feb 2017, is based on the Council vision and existing strategic priorities.</p> <p>Work has commenced on finalising the 2017-2022 Council Plan</p> <p>2017 Residents Survey (March 2017) showed overwhelming approval ratings for the Council objectives and priorities</p> <p>Action</p> <p>Adopt a 2017-2022 Council 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"> <li>• SOA 2013</li> <li>• East Lothian Partnership structure and remit and roles of partnerships</li> <li>• East Lothian Partnership self-evaluation carried out in Dec 2014</li> <li>• New Children's Strategic Partnership established in 2014</li> <li>• Agreements between East Lothian Council and partners</li> <li>• Shared Services agreement with Midlothian Council continuing through Joint Liaison Group</li> <li>• Local Policing Plan</li> <li>• Local Fire and Rescue Plan</li> <li>• Children and young People's Services Plan 2016-2019</li> <li>• Integration Joint Board Strategic Plan</li> <li>• Six Area Partnerships Area Plans</li> <li>• Joint Asset Management Planning Group</li> <li>• Edinburgh and South East Scotland City Region Deal</li> <li>• Strategic Assessment to inform new context of new Council Plan and new East Lothian Plan</li> <li>• Establishment of East Lothian Partnership Leadership group</li> </ul>	<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 &amp; 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>	<p>Review of East Lothian Plan (Single Outcome Agreement) has commenced with view to agreement on a small number of key strategic objectives for the East Lothian Partnership. Agreement on new governance for the Partnership will follow</p> <p>Community Justice Outcome Improvement Plan approved and new Community Justice Partnership to be established by the East Lothian Partnership to ensure effective governance on Community Justice matters</p> <p>Continued progress has been made in developing the City Region Deal – final agreement on funding from UK and Scottish Governments has been delayed partly due to elections</p> <p>Action</p> <p>Support the East Lothian Partnership to prepare and adopt a new East Lothian Plan (meeting its statutory duty to prepare a Local Outcome Improvement Plan) and review the East Lothian Partnership governance structure</p>
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<p>1.1.4 Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance</p>	<ul style="list-style-type: none"> <li>• Annual Accounts</li> <li>• Annual Performance Reports</li> <li>• SOA Annual Report</li> <li>• Local Government Benchmarking Framework report to PPR Co.</li> <li>• Unaudited Annual Accounts reported to Audit &amp; Governance Co in June and to Council in August</li> </ul>	<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>2015/16 Annual Performance report was published in October 2016</p> <p>2016/17 report will be published in June 2017</p> <p>Unaudited accounts will be presented in June 2017</p> <p>No further action required</p>
<p><b>1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</b></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"> <li>• HGIOC, Business Plans and Improvement Plans</li> <li>• SOA Annual Report</li> <li>• Key Performance Indicators including local Government Benchmarking Framework indicators</li> <li>• PPR Co reporting and members' performance briefings</li> <li>• Complaints and compliments feedback</li> <li>• Independent inspection reports</li> <li>• Chief Social Work Officer's Annual Report</li> <li>• Service users' surveys</li> <li>• Citizens' Panel</li> <li>• Tenants' scrutiny activity including estate inspections, mystery shopping, surveys and focus groups</li> <li>• East Lothian and Profiles</li> <li>• Young People's Viewpoint and Education surveys</li> <li>• 2017 Residents Survey</li> </ul>	<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>Two further Residents' Reviews will be held in 2016/17</p> <p>Budget and tenants/ rent consultation took place prior to setting the 2016/17 budget</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>The Citizens' Panel has been refreshed and continues to be surveyed at least twice a year</p> <p>One Residents Review was carried out in 2016. Further Reviews planned for 2017</p> <p>A Residents Survey with over 1,500 respondents carried out in March 2017</p> <p>The Council's Consultation and Engagement strategy is being reviewed in line with new duties under the Community Empowerment Act</p> <p>Action</p> <p>Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements relating to 'Participation Requests'</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"> <li>• PPR Co reporting on key Performance Indicators, the Local Government Benchmarking Framework and customer feedback</li> <li>• HGIOC and service improvement plans incorporated into Service Plans</li> <li>• Significant case reviews in Social Work</li> <li>• Social Work Appeals Sub-Co</li> <li>• Social Work Complaints Review Co</li> <li>• Reporting of customer complaints and feedback</li> <li>• Whistleblowing Policy</li> <li>• External audits and inspection reports</li> <li>• Responding to issues raised by elected members</li> </ul>	<p>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 Undertake benchmarking exercises on three areas of relatively poor performance</p>	<p>Council continues to monitor the Local Government Benchmarking Framework and participates in Improvement Service sponsored benchmarking activity</p> <p>Council Management Team reviews quarterly Performance Indicator report to identify any areas of poor performance that may require intervention/ action</p> <p>Council Management Team is carrying out 'peer review' sessions with every Service</p> <p>Action Review the Council's key performance indicators and targets</p>
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**1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money**

<p>1.3.1 Decide how value for money (VFM) is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions</p>	<ul style="list-style-type: none"> <li>• Procurement Strategy</li> <li>• Performance Management framework</li> <li>• PPR Co reporting</li> <li>• Audit &amp; Governance Co reporting</li> <li>• Citizens' Panel</li> <li>• Customer feedback / surveys</li> <li>• Consultation and Engagement Strategy</li> <li>• Procurement Improvement Plan and Procurement Capability Assessment</li> <li>• Integrated Impact Assessment includes environmental impact</li> </ul>	<p>The Best Value Review of Asset and Capital Plan Management</p> <p>Action A Best Value review will be undertaken of at least one other service during 2016/17</p>	<p>No specific Best Value Review was carried out in 2016/17. However, the Transformation programme team is to undertake a series of reviews or services</p> <p>The Council is preparing for an Audit Scotland Best Value Assessment in 2018/19 including self assessment against 18 Best Value Toolkits</p> <p>The Council's auditors will report on value for money as part of the annual audit</p> <p>No further action required</p>
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**PRINCIPLE 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

Supporting Principle & Code Requirements	Documentary Evidence	2016 Update and Improvement Points	Update and 2017 Improvement Points
<b>2.1 Ensuring effective leadership throughout the authority and being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function</b>			
2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of Senior Officers	<ul style="list-style-type: none"> <li>• Scheme of Delegation</li> <li>• Member/ officer protocol</li> <li>• CPD pilot for elected members</li> <li>• Review of Impact of Multi-Member Wards and Officer Member Relations carried out in 2011</li> <li>• Induction programme for new elected members</li> <li>• Improvement Service Notebooks for new elected members</li> <li>• Guide to Scrutiny for elected members</li> <li>• Roles and Responsibilities for Elected members</li> </ul>	<p>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 prior to the May 2017 council election</p>	<p>A comprehensive induction programme was organised for new and returning elected members following the May 2017 council election. Elements of the programme were mandatory for new members and some for all members. The programme included advice on the roles and responsibilities of members and senior officers</p> <p>No further action required</p>
<b>2.2 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard</b>			
2.2.1 Determine a Scheme of Delegation and reserve powers within constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required	<ul style="list-style-type: none"> <li>• Scheme of Delegation</li> <li>• Policies such as HR policies include delegation of powers to officers</li> </ul>	<p>Action</p> <p>Review Standing Orders including Scheme of Administration and Scheme of Delegation</p>	<p>Standing Orders and the Schemes of Administration and Delegation have been reviewed and revised</p> <p>No further action required</p>

<p>2.2.2 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management within the Scheme of Delegation</p>	<ul style="list-style-type: none"> <li>• Chief Executive’s job description</li> <li>• Appraisal of Chief Executive</li> <li>• Peer review by Executive Directors</li> <li>• Scheme of Delegation</li> <li>• Members Library reports record decisions taken under delegated powers</li> </ul>	<p>As above</p>	<p>No further action required</p>
<p>2.2.3 Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained</p>	<ul style="list-style-type: none"> <li>• Member/ officer protocol within Council Standing Orders</li> <li>• Regular meetings between Chief Executive and Council Leader</li> <li>• Annual appraisal for Chief Executive with Leader and Depute Leader</li> <li>• New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council</li> <li>• Chief Executive and Council Leader jointly represent the Council at various forums</li> </ul>	<p>As above</p>	<p>No further action required</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"> <li>• Section 95 Officer</li> <li>• Annual Accounts and Statement of Internal Financial Control</li> <li>• Internal and external audit reports</li> <li>• Three year Financial Strategy approved by Council</li> <li>• Treasury Management Strategy approved by Council</li> </ul>	<p>As above</p>	<p>No further action required</p>

<p>2.2.5 Make a senior officer (the Monitoring Officer; and for social work services the Chief Social Work Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</p>	<ul style="list-style-type: none"> <li>• Monitoring Officer</li> <li>• Chief Social Work Officer</li> <li>• Internal audit reports</li> <li>• CSWO Annual Report</li> <li>• Scottish Government guidance on the role of CSWO and registered social workers</li> </ul>	<p>As above</p>	<p>No further action required</p>
<p><b>2.3 Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of each other</b></p>			
<p>2.3.1 Develop protocols to ensure effective communication between Members and Officers in their respective roles</p>	<ul style="list-style-type: none"> <li>• Member/ officer protocol within Council Standing orders</li> <li>• New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council</li> <li>• Regular Joint Senior Officers and Members group meetings</li> </ul>	<p>No further action required</p>	<p>See 2.1.1 No further action required</p>
<p>2.3.2 Ensure that an established scheme for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place</p>	<ul style="list-style-type: none"> <li>• The Council follows the recommendations made by the Scottish Local Authorities Remuneration Committee</li> <li>• Chief Executives' scheme of remuneration</li> <li>• Registers of Interest for Members and Chief Officials</li> <li>• Auditors reviewed the outcome of the review of senior officers</li> </ul>	<p>No further action required</p>	<p>No further action required</p>

<p>2.3.3 Ensure that effective mechanisms exist to monitor service delivery</p>	<ul style="list-style-type: none"> <li>• Performance Management / Improvement framework</li> <li>• Performance website includes details of key performance indicators</li> <li>• Members' quarterly briefings and reports to PPR Committee</li> <li>• HGIOC</li> <li>• Service Plans and Corporate Improvement Plan</li> <li>• Independent inspections</li> <li>• Assurance and Improvement Plan agreed with Local Area Network</li> </ul>	<p>See 1.2 and 1.3 No further action required</p>	<p>See1.3.1</p>
<p>2.3.4 Ensure that the authority's vision, corporate plans, priorities and targets are developed, through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</p>	<ul style="list-style-type: none"> <li>• New Council Plan based on draft approved in Jan 2012 and administration party manifestos</li> <li>• Single Outcome Agreement</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• Council's vision, Plan and priorities are communicated to the Senior Management Team, including Head Teachers</li> <li>• Consultation around Main Issues Report and Local Development Plan</li> <li>• 2017 Residents Survey</li> </ul>	<p>No further action required</p>	<p>See 1.1.2 and 1.2.1</p>

<p>2.3.5 When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority</p>	<ul style="list-style-type: none"> <li>• Scheme of Administration, including Scheme of Delegation and Councillors' Code of Conduct</li> <li>• Memorandums and Articles of arms length companies</li> <li>• Induction programme for new elected members</li> <li>• Improvement Service Notebooks for new elected members</li> <li>• Advice provided to members on partnerships and outside bodies (e.g. Enjoy Leisure and Musselburgh Joint Racecourse Committee)</li> <li>• 2017 members' induction programme</li> </ul>	<p>See 2.1.</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>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 prior to the May 2017 council election</p>	<p>The members' Induction Programme has included sessions which highlight their roles in partnerships and arms lengths organisations and an introductory session with key partners</p> <p>No further action required</p>
<p>2.3.6 When working in partnership, ensure that there is clarity about the legal status of the partnership; ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisations to partner decisions</p>	<ul style="list-style-type: none"> <li>• As above</li> <li>• Partnership Funding Strategy</li> <li>• East Lothian Partnership Improvement Plan</li> <li>• Service Level Agreements increasingly used when funding outside organisations</li> <li>• Procurement Improvement Plan</li> <li>• Adult and Children's Services Commissioning strategies</li> <li>• Health and Social Care Integration scheme approved by Council</li> </ul>	<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	2016 Update and Improvement Points	Update and 2017 Improvement Points
<b>3.1 Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</b>			
<p>3.1.1 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect</p>	<ul style="list-style-type: none"> <li>• Scheme of Administration, including Councillors' Code of Conduct</li> <li>• Various mechanisms used to inform council staff and the public of council decisions and policies</li> <li>• Customer Excellence</li> <li>• East Lothian Way</li> <li>• Service based Joint Consultative Committees have been established</li> <li>• Annual Employee Engagement Survey and feedback to staff</li> <li>• All FOI responses are published on the Council's website</li> <li>• Whistleblowing Policy</li> <li>• Workforce Development Plan</li> <li>• 2017 employee engagement survey results</li> </ul>	<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>See 1.1.1</p> <p>The members' induction programme has highlighted the members the Code of Practice principles which are aligned to the Council's values which are being promoted to all staff</p> <p>Action</p> <p>Further develop staff communications and engagement, building on positive programmes such as the One Council Workshops</p>

<p>3.1.2 Ensure that standards of conduct and personal behaviour expected of all Members and staff, and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols</p>	<ul style="list-style-type: none"> <li>• Scheme of Administration, including Councillors' Code of Conduct</li> <li>• East Lothian Partnership, three supporting Partnerships and six Area Partnerships</li> <li>• Disciplinary Code of Conduct for Employees</li> <li>• The East Lothian Way</li> <li>• Performance Review and Development Scheme for employees</li> <li>• Transformational Leadership Programme for senior officers and managers</li> <li>• Review of Impact of Multi-Member Wards and Officer Member Relations</li> <li>• Scottish Social Services Council Code of Conduct</li> <li>• Social Media Policy</li> </ul>	<p>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>As above</p> <p>No further action required</p>
<p>3.1.3 Put in place arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice</p>	<ul style="list-style-type: none"> <li>• Members' and Officers Codes of Conduct and Registers of Interests</li> <li>• Standing Orders</li> <li>• Single Equality Scheme and Equality Plan</li> <li>• Standing Orders including Scheme of Delegation and</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality policy</li> <li>• Induction programme for new elected members</li> </ul>	<p>See 2.1.1</p> <p>Action</p> <p>The Council will promote greater awareness of Council policies such as the Gifts and Hospitality policy and Register of Interests</p>	<p>No further action required</p>



<b>3.2 Ensuring that organisational values are put into practice and are effective</b>			
3.2.1 Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicating these with Members, staff, the community and partners	<ul style="list-style-type: none"> <li>• East Lothian Way</li> <li>• Council Plan 2012-2017</li> <li>• SOA and Community Plan</li> <li>• Customer Excellence</li> <li>• Transformational Leadership Programme</li> <li>• Performance Review &amp; Development Scheme for employees</li> <li>• Corporate Induction Pack and Course for Managers</li> <li>• Code of Conduct and Disciplinary Procedures for all employees</li> <li>• Workforce Development Strategy and Plan</li> <li>• Staff e-zine</li> </ul>	<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>	See 1.1.1
3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	<ul style="list-style-type: none"> <li>• Standing Orders including Councillors' Code of Conduct</li> <li>• Gifts and Hospitality policy</li> </ul>	No further action required	No further action required
3.2.3 Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority	<ul style="list-style-type: none"> <li>• Standing Orders</li> <li>• East Lothian Way</li> <li>• Roll out of PRD for all employees</li> <li>• Annual Employee Engagement Survey</li> <li>• Draft Council Plan 2017-2022</li> </ul>	<p>See 3.1.2</p> <p>No further action required</p>	<p>See 1.1.1</p> <p>An Ideas Bank has been launched as means of generating ideas and providing feedback to staff on these ideas</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	2016 Update and Improvement Points	Update and 2017 Improvement Points
<b>4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</b>			
4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible	<ul style="list-style-type: none"> <li>• Scheme of Administration</li> <li>• Audit &amp; Governance Committee</li> <li>• PPR Committee</li> <li>• Reviews of the use of Scrutiny Guide by Audit &amp; Governance and PPR Committees</li> <li>• Local Area Network and external auditors review the Council's scrutiny activity</li> <li>• Police, Fire &amp; Rescue and Community Scrutiny Committee</li> <li>• Accounts Commission reports are considered by the Audit &amp; Governance Committee</li> </ul>	<p>Police, Fire &amp; 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 &amp; Governance and PPR Committees along with the scrutiny arrangements associated with the IJB will be reviewed</p>	<p>The Guide to Scrutiny for elected members has been reviewed and will be considered by the members of the scrutiny committees</p> <p>The Council's Key Performance Indicators are being reviewed and will be considered by the PPR Committee</p> <p>The Council will be subject of a Best Value Assessment by Audit Scotland in 2018/19.</p> <p>No further action required</p>
4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	<ul style="list-style-type: none"> <li>• Scheme of Administration including Scheme of Delegation</li> <li>• Members Library Service and Bulletin to report delegated decisions</li> <li>• E-gov provides access to all reports and minutes</li> </ul>	No further action required	No further action required

<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"> <li>• Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Registers and Declarations of Interest</li> <li>• Monitoring Officer</li> <li>• Recruitment and Selection procedures and training</li> <li>• Discipline and Grievance Procedures</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality policy</li> <li>• Procurement Strategy</li> </ul>	<p>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 prior to the May 2017 council election</p>	<p>See 2.1.1 No further action required</p>
<p>4.1.4 Develop and maintain an effective Audit Committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee</p>	<ul style="list-style-type: none"> <li>• Standing Orders and Scheme of Administration</li> <li>• Audit &amp; Governance Committee, chaired by member of the Opposition and with no Cabinet members</li> <li>• Elected members Scrutiny Guide</li> <li>• Assurance and Improvement Plan agreed with Local Area Network</li> <li>• Quarterly briefing on performance indicators</li> </ul>	<p>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"> <li>• Complaints / Feedback policy</li> <li>• Publicity about complaints procedures</li> <li>• Six-monthly report on complaints and feedback made to PPR Committee</li> </ul>	<p>No further action required</p>	<p>No further action required</p>

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

<p>4.2.1 Ensure that those making decisions are provided with information that is fit for purpose - relevant, timely and gives clear explanations of technical issues and their implications</p>	<ul style="list-style-type: none"> <li>• Format of Council, Cabinet, Audit &amp; Governance Co, PPR Co and East Lothian Partnership reports</li> <li>• Calendar of meetings and timely preparation of agendas and papers</li> <li>• Three-year Financial Strategy</li> <li>• Advice in preparing annual budget</li> <li>• Performance website and quarterly briefing for elected members</li> </ul>	<p>See 2.1.1</p> <p>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>The East Lothian Profile has been updated. Analysis of new challenges and opportunities informed the development of the Draft Council Plan</p> <p>No further action required</p>
<p>4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately</p>	<ul style="list-style-type: none"> <li>• Agendas and papers for Council, Cabinet, Audit &amp; Governance Co, PPR Co and Community Planning Board</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work Officer provide advice on legal or financial implications as required</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
<p><b>4.3 Ensuring that an effective risk management system is in place</b></p>			
<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"> <li>• Risk Management Strategy</li> <li>• Risk Management Groups</li> <li>• Role of Audit &amp; Governance Co</li> <li>• Corporate and Service Risk Registers approved by Cabinet or Audit &amp; Governance Committee</li> <li>• Service Plans reflect corporate and service risks</li> <li>• Full suite of Health &amp; Safety policies and management arrangements</li> </ul>	<p>Council Management Team (CMT) has reviewed Corporate and Service Risk Registers</p> <p>CMT has a programme of reviewing and approving Health &amp; Safety policies and management arrangements</p> <p>No further action required</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"> <li>• Standing Orders including Codes of Conduct</li> <li>• Whistleblowing Policy</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
<p><b>4.4 Using the authority's legal powers to the full benefit of the citizens and communities in their areas.</b></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> <p>The Council will comply with the Scottish Regulators' Strategic Code of Practice</p>	<ul style="list-style-type: none"> <li>• Senior officers and elected members have a good understanding of statutory powers</li> <li>• Standing Orders detail statutory powers under which senior officers operate</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice</li> <li>• Internal and external Audit reports</li> <li>• Environmental Health Service Charter and Service Plan</li> </ul>	<p>No further action required</p>	<p>The Environmental Health Service Charter and Service Plan includes the objective to comply with the Scottish Regulators' Strategic Code of Practice</p> <p>Action</p> <p>Develop a regulatory services charter covering all services that provide regulatory services to business</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"> <li>• Scheme of Administration including Scheme of Delegation</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice</li> <li>• Internal and external Audit reports</li> </ul>	<p>See 2.1.1</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"> <li>• Standing Orders</li> <li>• Quasi judicial committees and sub-committees</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work Officer provide appropriate advice</li> <li>• Legal advice provided to elected members to support decision-making</li> </ul>	<p>No further action required</p>	<p>No further action required</p>

**PRINCIPLE 5: Developing the capacity and capabilities of members and officers to be effective**

Supporting Principle & Code Requirements	Documentary Evidence	2016 Update and Improvement Points	Update and 2017 Improvement Points
<b>5.1 Make sure that Members and Officers have the skills, knowledge, experience and resources they need to perform their roles well.</b>			
5.1.1 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis	<ul style="list-style-type: none"> <li>• Induction programme for officers, CPD and training opportunities for staff</li> <li>• Piloted CPD for members</li> <li>• Performance Review and Development for all employees</li> <li>• Corporate Learning</li> <li>• E-Learning / LearnNet on ELnet</li> <li>• Induction programme for new elected members</li> <li>• Induction Notebooks on Elnet</li> <li>• Programme of briefing sessions for elected members</li> </ul>	<p>See 2.1.1 Action</p> <p>Elected members to be offered opportunity of undertaking a CPD programme</p>	<p>See 2.1.1</p> <p>The new employees' induction programme has been reviewed and revised</p> <p>No further action required</p>
5.1.2 Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority	<ul style="list-style-type: none"> <li>• Job descriptions for statutory officers</li> <li>• Networking and development opportunities for statutory officers through professional associations</li> <li>• Role of statutory officers recognised in Scheme of Administration</li> <li>• People Strategy</li> <li>• Workforce Development Strategy and Plan</li> </ul>	<p>The review of Council Standing Orders and Scheme of Delegation (see 2.2) will include review of roles of statutory officers</p> <p>No further action required</p>	<p>See 2.2.1</p> <p>Members' induction programme included information about the role of the Statutory Officers</p> <p>No further action required</p>

<b>5.2 Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group</b>			
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	<ul style="list-style-type: none"> <li>• Performance Review and Development all employees</li> <li>• Guide to Scrutiny and Review published and scrutiny training provided for elected members</li> <li>• Elected members' Performance Briefings to encourage scrutiny of performance information</li> </ul>	See 2.1.1 and 5.1.1	<p>A Council Workforce Plan, incorporating the Workforce Development Plan is being prepared</p> <p>Elected members' development needs will be reviewed following the completion of the induction programme</p> <p>Actions</p> <p>Prepare and adopt a Workforce Development Plan, incorporating a Workforce Development Plan</p> <p>Review elected members' development needs and provide an ongoing training and development programme</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	As above	As above	As above
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	<ul style="list-style-type: none"> <li>• CPD pilot for elected members</li> <li>• Elected Members' Code of Conduct &amp; complaints about performance</li> </ul>	As above	As above

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

<p>5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority</p>	<ul style="list-style-type: none"> <li>• Six Area Partnerships</li> <li>• Community Planning Community Engagement Strategy</li> <li>• Tenants and Residents Panel</li> <li>• Support for Voluntary Action East Lothian to participate in the Community Planning structures</li> <li>• Community Councils</li> <li>• Petitions Committee, including new online features</li> <li>• Council Consultation and Engagement Strategy</li> <li>• Champions Board for Looked After Children</li> </ul>	<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>See 1.2.1</p>
<p>5.3.2 Ensure that career structures are in place for members and officers to encourage participation and development</p>	<ul style="list-style-type: none"> <li>• CPDs for officers</li> <li>• People Strategy</li> <li>• Transformational Leadership Programme</li> <li>• Performance Review and Development for all employees</li> <li>• Customer Service Professional Qualification</li> <li>• CMI 3 and CMI 5 courses</li> <li>• Workforce Development Strategy and Plan</li> </ul>	<p>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>	<p>See 5.2.1</p>



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

Supporting Principle & Code Requirements	Documentary Evidence	2016 Update and Improvement Points	Update and 2017 Improvement Points
<b>6.1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</b>			
6.1.1 Make clear to all staff and the community to whom the authority's leadership are accountable and for what	<ul style="list-style-type: none"> <li>• Draft Council Plan 2017- 2022, SOA, Corporate Improvement Plan, Service and Business Plans</li> <li>• Information on Council structure available on Council website</li> <li>• Annual Performance Reports</li> <li>• Living newspaper</li> </ul>	No further action required	No further action required
6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required	<ul style="list-style-type: none"> <li>• Various forums for engaging with stakeholders including the East Lothian Partnership, Area Partnerships, East Lothian Tenants and Residents Panel, Community Councils and Parents Councils, STRIVE (the Third Sector Interface)</li> <li>• Consultation and Engagement Strategy</li> <li>• New governance arrangements for the East Lothian Partnership</li> </ul>	<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>The outcomes of the STRIVE review are being implemented with new appointment arrangements being agree with East Lothian Partnership</p> <p>The governance arrangements for the East Lothian Partnership are being reviewed alongside the development of the new East Lothian Plan</p> <p>No further action required</p>
6.1.3 Produce an annual report on the activity of the scrutiny function	<ul style="list-style-type: none"> <li>• Annual Performance Reports</li> <li>• Internal and external Audit Plans reviewed</li> <li>• Quarterly performance information published on-line</li> <li>• Internal controls assurance statement</li> </ul>	<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>	<p>The 2016/17 Annual Performance Report is being presented to the PPR Committee in June 2017</p> <p>An annual report on the activity of the scrutiny function will be incorporated into the Annual Public Performance report</p> <p>No further action required</p>

<b>6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership or by commissioning</b>			
6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively	<ul style="list-style-type: none"> <li>• Communications Strategy</li> <li>• Community Planning Community Engagement Strategy</li> <li>• People's Voice, the Community Planning Engagement Strategy includes monitoring framework</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• Complaints procedures and monitoring reports</li> </ul>	No further action required	See 1.2.1 Action Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements relating to 'Participation Requests'
6.2.2 Hold meetings in public unless there are good reasons for confidentiality	<ul style="list-style-type: none"> <li>• Council meetings are held in public</li> <li>• Agendas, papers and minutes are published on the Council's website</li> </ul>	No further action required	No further action required
6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	<ul style="list-style-type: none"> <li>• Equality and Diversity Network</li> <li>• Community Planning Community Engagement Strategy</li> <li>• Community Councils</li> <li>• Local Area Forums</li> <li>• ELTRP</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• 2017 Residents' Survey</li> </ul>	See 1.2.1 No further action required	See 1.2.1 The Health & Social Care Partnership has engaged with service users and carers in developing a service model and specification for commissioning £20m care at home services for adults and older people No further action required

<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"> <li>• Community Planning Community Engagement Strategy</li> <li>• ELTRP</li> <li>• Community Councils consulted on planning matters</li> <li>• Consultation and Engagement Strategy</li> </ul>	<p>As above</p>	<p>See 1.2.1 and 6.2.1</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"> <li>• Annual Performance Reports</li> <li>• Annual Accounts</li> <li>• Performance Management Framework – Improvement to Excellence</li> </ul>	<p>No further action required</p>	<p>See 6.1.3</p>
<p>6.2.6 Ensure that the authority as a whole is open and accessible to the community, service users and its staff, and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</p>	<ul style="list-style-type: none"> <li>• Compliance with the Freedom of Information Act and Data Protection Act</li> <li>• Council meetings held in public</li> <li>• Agendas for meetings, minutes and reports published on the Council website</li> <li>• Living newspaper</li> <li>• Star Awards Public Nominations</li> <li>• Petitions Committee</li> <li>• Performance website</li> </ul>	<p>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"> <li>• People Strategy</li> <li>• JCC and JC Groups</li> <li>• Employee and JTU Consultations</li> <li>• Annual Budget Review and Development Discussions for JTU</li> <li>• Employee Engagement Survey</li> <li>• Annual Working Together Forum</li> <li>• Staff involved in HGIOC</li> </ul>	<p>No further action required</p>	<p>No further action required</p>
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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Partnerships and Community Services)

**SUBJECT:** Local Government in Scotland: Performance and Challenges 2017 (Accounts Commission, March 2017)

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**6**

## **1 PURPOSE**

- 1.1 To review East Lothian Council's position in relation to the findings of the Accounts Commission report, *'Local Government in Scotland: Performance and Challenges 2017'*.

## **2 RECOMMENDATIONS**

- 2.1 The Committee should:

- Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, Local Government in Scotland: Performance and Challenges 2017;
- use the recommendations in the Accounts Commission report and the self-assessment tool that accompanies the report (Appendix 2) 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 report, 'Performance and Challenges 2017' was published in March 2017 (Appendix 1). The report 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 covers three areas:
- The current and future challenges facing councils
  - Councils' progress in meeting these challenges, including performance in key service areas, public satisfaction and unit costs
  - What more councils can do to ensure they are best placed to successfully manage the changes and challenges they face.
- 3.3 The report presents three key messages and nine recommendations for how Council's should respond to the challenges they face. These are presented below with a commentary on the position in East Lothian Council.
- 3.4 **Key message 1:** *"Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work."*
- 3.5 The key challenges identified by Audit Scotland form the background and context to the Draft Council Plan 2017-2022 that was approved by Council in February 2017.
- The funding challenge highlighted by Audit Scotland, including the real terms cut in Scottish Government funding to local government has been taken into account in the Council's three-year financial strategy.
  - The Council is acutely aware of the challenges posed by a growing and ageing population. East Lothian is one of a small number of authorities that is facing substantial growth in its young population as well as its older population; the age groups that make the largest demand on resources.
  - The legislative and policy changes being driven by the Scottish Government, including the new duties and responsibilities arising from the Community Empowerment (Scotland) Act 2015, are reflected in the forward planning of council services and in the Draft Council Plan.
- 3.6 **Key message 2:** *"Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved."*

- 3.7 The Council has made good progress in managing services and delivering savings (it has met its savings targets each year) and its performance, as measured by the Local Government Benchmarking Framework and public satisfaction levels (as reported to PPR Committee, March 2017) has been maintained. However, the Council recognises that the scale of the financial and policy driven challenges it faces means that it has to increase both the scale and pace of change and reform.
- 3.8 A Transformational Change Programme has been established, supported by the appointment of a Transformation Programme and Project Managers, to drive forward progress with a suite of projects that will result in new approaches to delivering service with the aim of generating the required greater efficiency and effectiveness.
- 3.9 **Key message 3:** *“With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor’s role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.”*
- 3.10 The Council’s People Strategy and Workforce Development Plan run until 2017 and are currently being reviewed and updated. The new Workforce Plan, incorporating a new Workforce Development Plan will take account of the need to ensure that the Council has the management capacity and the workforce and skills required to deliver services in the future.
- 3.11 The Council places a high priority in ensuring that its elected members have the skills, knowledge, capacity and support required to meet the increasingly complex demands being made of them. The post-2017 council election members’ induction programme was designed to give new members key information about the Council and their various roles. The induction will be backed up with an on-going programme of briefings and, if required, training and development to ensure that elected members have the skills, knowledge and capacity to set Council policies and scrutinise the Council’s performance and progress in meeting these policies.
- 3.12 ‘Performance and Challenges 2017’ makes nine specific recommendations to Councils. These are set out below with a short commentary on what the Council is currently doing or is planning to do to meet each recommendation.
- 3.12.1 *Set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These*

*plans should inform all council decision-making, service redesign, savings and investment decisions*

The Draft Council Plan 2017-2022 sets out the five-year strategy with a set of clear priorities for the Council to achieve its vision and meet the challenges it faces. The Council has a three-year financial strategy and budget and five-year capital programme. 'Improvement to Excellence' is the Council's continuous improvement framework which sets out how the Council uses self-evaluation, performance monitoring and reporting, service planning and external accreditation to drive performance improvement and best value.

- 3.12.2 Ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year*

The Council's three-year budget (2017/18 – 2019/20) was set within the context of the Financial Strategy and took account of spending levels and patterns. The Council has a five-year Capital Programme and a five-year Housing Revenue Account budget. The Council's financial management arrangements have been reviewed by the external auditors. Cabinet receives quarterly reports on the Council's finances including forecasts of under or over spends.

- 3.12.3 Have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future*

- 3.12.4 Ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes*

The Council's People Strategy and Workforce Development Plan are being revised and updated and will take account of workforce data and changes in the workforce.

- 3.12.5 Thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes*

The priorities and outcomes in the Draft Council Plan take account of the challenges and opportunities faced by the Council. The Council's Transformational Programme includes service redesign, digital projects, new ways of working and income generation projects that involve detailed options appraisal. For example, a thorough options appraisal was carried out to inform decisions relating to the future use of the former Court Building in Haddington resulting in agreement to re-locate police into this building and a new collaborative hub in John Muir House.

- 3.12.6 Support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources*



The Council supports community participation in setting community priorities in a number of ways, including:

- establishing six Area Partnerships which have a total of just under £2m in devolved funding
- supporting the East Lothian Tenants and Residents Panel, which plays an important role in determining the priorities for Community Housing
- supporting Community Councils which cover all towns and villages across the county
- the Health & Social Care Partnership has engaged with service users and carers in developing a service model and specification for commissioning £20m care at home services for adults and older people
- fully engaging with and consulting communities on the Main Issues Report and the draft Local Development Plan.

The Council is reviewing its Consultation and Engagement Strategy to ensure that it complies with the new duties and responsibilities as set out in the Community Empowerment (Scotland) Act 2015. A report on how the Council will meet its new duties under the Act will be considered by Council in September 2017.

*3.12.7 Ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles*

The Council will build on the solid foundation set by the elected members' induction programme with an ongoing programme of briefings, and if required, training and development, to ensure councillors have the skills, knowledge, capacity and skills to fulfil their roles.

*3.12.8 Ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas*

The performance pages on the Council's website provide information on the key performance indicators which are reported on a quarterly or annual basis to councillors through the Policy and Performance Review Committee. The Annual Public Performance Report provides elected members and the public with a clear report on performance around the council priorities.

*3.12.9 Continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice*

The Council uses the Local Government Benchmarking Framework to identify variations in costs and performance against the Scottish average and our comparator authorities. The Council is working with the Improvement Service and benchmarking groups to identify potential

reasons for ‘under-performance’ and good practice which can assist in driving improvement.

- 3.13 The Accounts Commission report is accompanied by a self-assessment checklist (Appendix 2) 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. ‘Local Government in Scotland: Performance and Challenges 2017’ 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 ‘Local Government in Scotland: Performance and Challenges 2017’, Accounts Commission, March 2017  
7.2 ‘Local Government in Scotland: Performance and Challenges 2017; Self-assessment tool for councillors’, Accounts Commission, March 2017

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<b>DATE</b>	29 May 2017

# Local government in Scotland

# Performance and challenges 2017



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
March 2017

# 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-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission) 

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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## Links

-  PDF download
  -  Web link
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## Exhibit data

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

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

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# Chair's introduction



Scotland's councils are operating in an increasingly demanding environment. New and returning councillors face major challenges from continued reductions in their funding from the Scottish Government, and greater demands for services from an ageing population and, in parts of the country, a growing school population. The scale of these challenges mean it is more important than ever that councillors provide effective leadership in setting a clear strategy and make the difficult decisions that will be needed. We have repeatedly stressed the importance of councils having established clear priorities and effective long-term plans. As reported in our 2015/16 financial overview, only 14 councils have long-term financial strategies in place to support delivery of their wider strategic priorities. We acknowledge that annual funding settlements from the Scottish Government make this more challenging but we remain firmly of the view that the absence of indicative funding should not prevent councils from projecting future income and expenditure, and planning accordingly.

Any council tax increases in 2017 may increase public expectations of local government. Paying more for potentially fewer or reduced services will be a difficult argument to sustain, and even more so if compounded by possible increases in other charges. In our report [Charging for services – are you getting it right?](#) (2013), we said 'charges should not be set in isolation. Any decision to vary or introduce charges should take account of the council's priorities and financial objectives; they should not be seen solely as a means of generating income'.

Councils are increasingly relying on the use of reserves to bridge projected funding gaps. Moreover, recent Best Value audits have highlighted a dependency on incremental changes to services, increasing charges and reducing employee numbers in order to make savings. These are neither sufficient nor sustainable solutions for the scale of the challenge facing councils. We stress the need for a greater openness to alternative forms of service delivery and the consequences of 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, and councils may not be able to demonstrate that they are achieving best value. The extent to which councils are evaluating their performance and appraising all available options for service delivery will be an important feature of our revised approach to auditing Best Value.

We recognise that councils are generally maintaining or improving performance in many services. But benchmarking data shows a wide variation in the cost of delivering services throughout the country, suggesting there are potential opportunities for councils to make further savings.

These are not the only challenges that councils face. They will need to respond effectively to national policy priorities in the Scottish Government's Programme for Government and, along with their partners, will need to demonstrate progress in integrating health and social care and in meeting the requirements of the Community Empowerment Act.

Local government elections in 2017 could see a significant change in elected members. Any change in leadership and administrations may delay the process of change as new priorities are established and new working relationships develop. In our recently published report, [\*Roles and working relationships in councils – Are you still getting it right?\*](#)  (2016), the Commission highlighted how local government has become much more complex and fragmented and that this additional complexity demands a broader set of skills for councillors, not only in option appraisal but also in scrutiny, audit and risk management all of which are becoming increasingly important. Councillors elected in May must have the necessary training and tools to do an increasingly complex job. We asked councils to ensure comprehensive training is in place for these key roles.

The Commission hopes that this overview report will be a helpful tool to enable councillors and officers to stand back and assess their council's progress. Indeed one of the most important documents in the next iteration of best value will be a council's self evaluation. The more effectively a council can demonstrate a high degree of self awareness of the challenges and improvements it needs to make, the better placed will be that council in becoming one that can demonstrate continuous improvement.

As always, the Commission welcomes feedback on its overview report.

**Douglas Sinclair**  
Chair of the Accounts Commission

# Summary



## Key messages

- 1 Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work.
- 2 Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved.
- 3 With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.

## Recommendations

### Councils should:



- set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions. [Exhibit 14 \(page 34\)](#) sets out the main elements of a councils' financial planning processes and how these link with other council plans
- ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good



financial management and real-time information to ensure spending is accurately forecast and monitored within the year

- have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future
- ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes
- thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes
- support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources
- ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles
- ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas
- continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.



## About this report


**1.** This report provides a high-level, independent view of the challenges facing councils, how well they are addressing these and what more they can do. It draws on findings from [Local government in Scotland: Financial overview 2015/16](#) , local government audit work in 2016 (including annual audit reports, Best Value audit reports and national performance audits) and published performance data. All audit reports are available on our [website](#) .

**2.** This 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 covers three areas:

- The current and future challenges facing councils.
- Councils' progress in meeting these challenges, including performance in key service areas, public satisfaction and unit costs.
- What more councils can do to ensure they are best placed to successfully manage the changes and challenges they face.

**3.** The 2017 local government elections could result in new councillors and changes to the political make-up of councils. To help councillors who are new to the role, those who are re-elected, and council officers, we have produced the following supplements to accompany this report:

- [\*\*\*A self-assessment checklist for councillors\*\*\*](#)  – this has questions that councillors could ask to help them understand their council’s position, scrutinise performance and make difficult decisions. Councillors should feel they fully understand, and are satisfied with, the answers to the questions most relevant to them in their role within the council.
- [\*\*\*Good practice supplement\*\*\*](#)  – a summary of the good practice we identified during the audit. It is not an exhaustive list of all good practice across Scotland but provides examples of councils improving performance and processes or using innovative techniques. This may be a useful source of reference for councillors or senior officers when appraising options for changes.

**4.** Councillors may also find it helpful to refer to our recently published report, [\*\*\*How councils work: Roles and working relationships in councils – are you still getting it right?\*\*\*](#) . This highlights the increasingly complex nature of local government and includes a series of questions designed to help councillors and officers review current practice and make sure governance arrangements are fit for purpose.

**5.** We refer to real-terms changes in the report, meaning that figures are adjusted for inflation, when we are showing financial information from past and future years. Our analysis of local government funding adjusts figures into 2016/17 prices to reflect the current financial year. Where the report focuses on council performance in 2015/16, figures have been adjusted to 2015/16 prices.

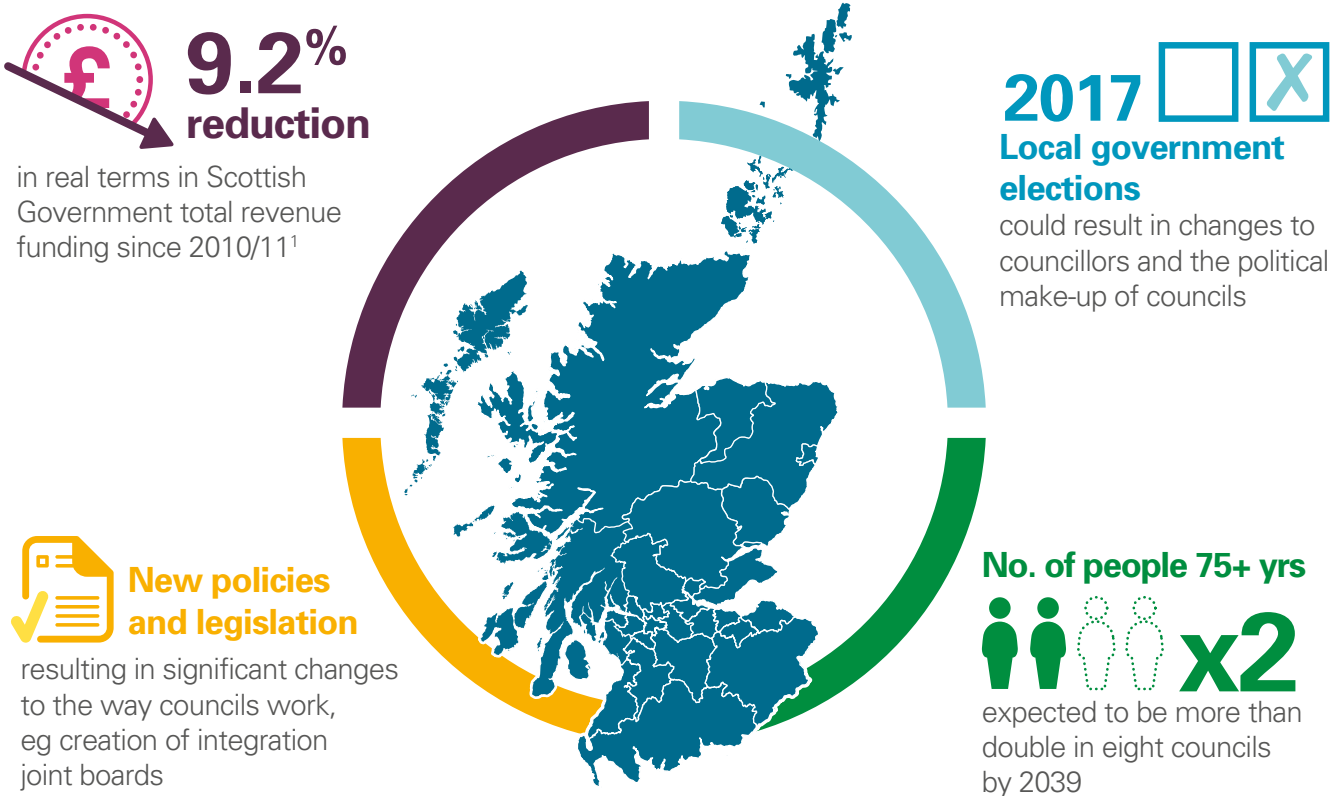
# Part 1

## The challenge for councils



6. Councils continue to face significant financial and demographic challenges, and the scale of these continues to grow. Council budgets are under increasing pressure from a long-term decline in revenue funding (in real terms) from the Scottish Government, and council services are under pressure from an ageing and growing population. Policy and legislative requirements are also changing how councils work and the services they must deliver ([Exhibit 1](#)).

### Exhibit 1 The environment in which Scotland's councils are operating Councils are facing a number of different challenges.



Note: 1. Scottish Government funding for 2017/18 is subject to Parliamentary approval.  
Source: Audit Scotland

## The funding challenge for councils continues to deepen

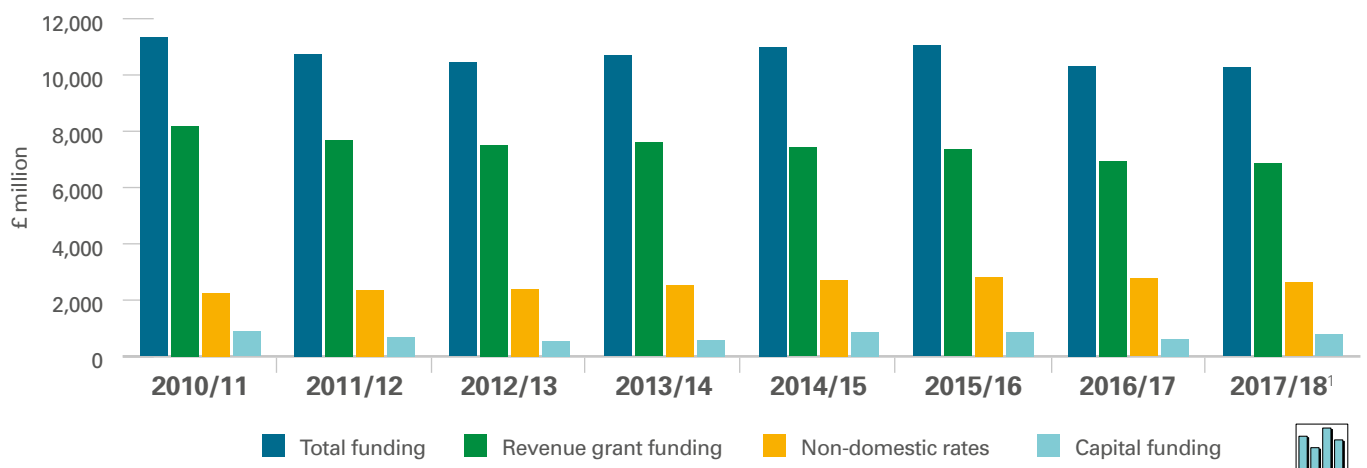
7. Councils receive most of their income (about 60 per cent) from the Scottish Government.<sup>1</sup> We previously reported that there has been a long-term reduction in total Scottish Government revenue funding, for day-to-day spending, to local government; and that further reductions were expected.<sup>2</sup> Since then, the Scottish Government has published its 2017/18 budget and a single year local government funding settlement for 2017/18. This is subject to Parliamentary approval.

8. Based on Scottish Government proposals, between 2016/17 and 2017/18, total revenue funding from the Scottish Government will reduce by about £216 million in real terms (2.2 per cent). Both non-domestic rates and revenue grant funding will reduce, by 5.1 per cent and 1.1 per cent respectively ([Exhibit 2](#)).

### Exhibit 2

#### Scottish Government funding to councils from 2010/11 to that proposed in 2017/18 (at 2016/17 prices)

The most recent local government funding settlement continues the trend of a long-term reduction in revenue funding.



Notes:

- Figures for 2017/18 are subject to Parliamentary approval.
- 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. We have also adjusted figures for specific elements of funding related to adjustments for police and fire pensions.
- Since 2013/14, Scottish Government revenue funding has included payments of about £350 million per year to fund council tax reductions, replacing council tax benefit which previously came from the UK Government.
- The 2016/17 figures do not include £250 million the Scottish Government allocated to health and social care integration authorities specifically for social care. This is an allocation from the Scottish Government health budget to NHS boards rather than councils, and NHS boards allocate funding to the integration authorities. Integration funding, including the uplifted integration funding for 2017/18 and additional £107 million primarily to support implementation of the living wage for social care staff, is also excluded from 2017/18 figures.

Source: *Local Government Finance Circulars 2011-16*, Scottish Government

9. If approved, the 2017/18 settlement means that total revenue funding will decrease by 9.2 per cent from £10.5 billion in 2010/11 to £9.5 billion in 2017/18. A 16.3 per cent decrease in revenue grant funding has been partially offset by a 16.5 per cent increase in non-domestic rate income.<sup>3</sup> The Fraser of Allander Institute predicts a total reduction of £1 billion to local government revenue funding between 2016/17 and 2020/21.<sup>4</sup>

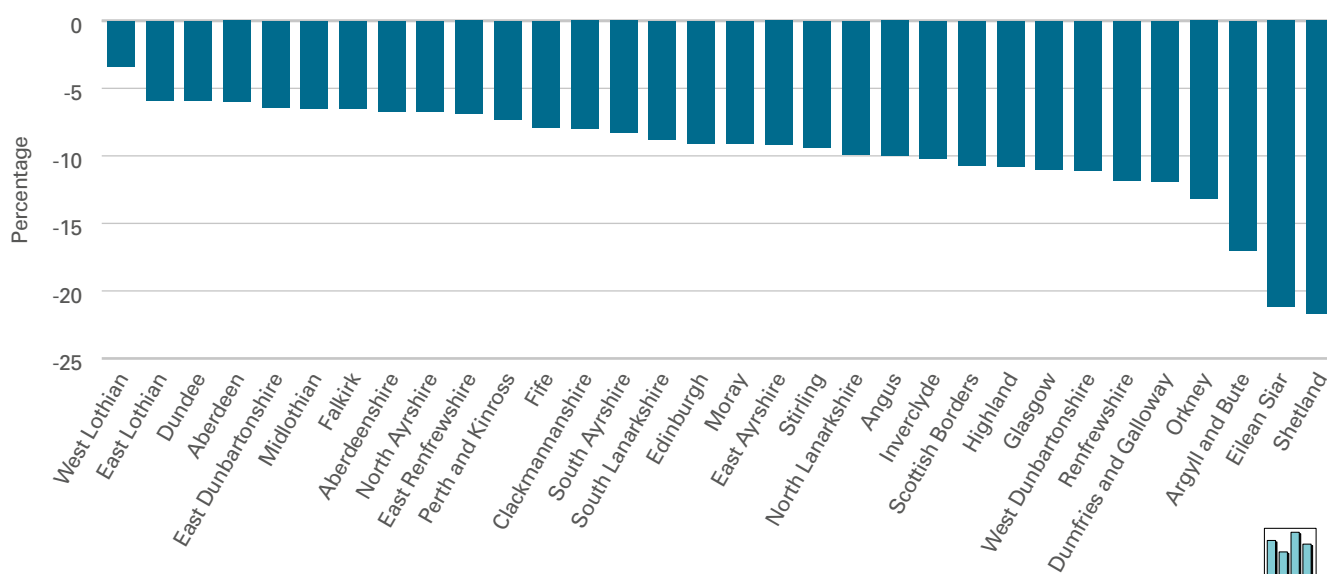
**10.** Although some elements of total revenue funding are allocated separately, such as funding for probationary teachers or elements of the council tax reduction scheme, the majority of revenue funding is distributed to individual councils. This funding is made up of non-domestic rate income, a small number of specific grants and general revenue grant funding. The Scottish Government distributes this funding to councils using a formula based on factors such as population, deprivation and rurality.

**11.** This means that not all councils have experienced the same level of reductions in funding. For example, Scottish Government funding for Comhairle nan Eilean Siar and Shetland Islands Council will reduce by over 20 per cent between 2010/11 and funding proposed in 2017/18, whereas 21 councils saw a reduction of less than ten per cent ([Exhibit 3](#)).

### Exhibit 3

#### Changes in Scottish Government revenue funding by council, 2010/11 to that proposed in 2017/18 (at 2016/17 prices)

There is wide variation in changes in revenue funding allocated to councils.



#### Notes:

1. Figures for 2017/18 are subject to Parliamentary approval.
2. Figures are based on the distributable elements of initial funding allocations and include grant revenue funding, non-domestic rate income and a small number of specific grants.
3. 2010/11 funding has been adjusted to remove funding for police and fire. We have removed the specific police grant and the police grant element of the general revenue grant and estimated the share of distributable funding specifically for fire based upon councils' share of the total Grant Aided Expenditure and Scottish Government budget documentation.
4. There are elements of distributable funding that may not feature in all years across the period.

Source: *Local Government Finance Circulars 2011-16*, Scottish Government


### Councils' ability to increase council tax in 2017 will have a limited impact on their financial position

**12.** The Scottish Government and councils agreed to freeze council tax levels in 2007. Although the Scottish Government provided funding of £70 million each year to compensate councils financially, the freeze did limit councils' flexibility to respond to changes in demand and grant funding by varying their tax rate accordingly. The council tax freeze will be lifted from April 2017. This gives councils the opportunity to increase their council tax charges by up to three per cent a year.

**13.** Not including direct funding for the council tax relief scheme, councils raised £2.1 billion from council tax in 2015/16 (10.9 per cent of total income). If councils had the ability to increase council tax rates by three per cent in 2015/16, and all had done so, this would have marginally increased the share of total income raised from council tax by 0.3 per cent to 11.2 per cent.<sup>5</sup>

**14.** In 2017/18, any additional income raised from increasing the general rate of council tax will be supplemented by income generated because of Scottish Government reforms to higher council tax bands. As part of the 2017/18 local government funding settlement, the Scottish Government has estimated these reforms will generate £110.5 million. Due to the make-up of council funding, however, the ability to increase council tax by up to three per cent per year will continue to have a relatively limited impact on the total income available to councils.

### Education and social work make up an increasing proportion of council spending

**15.** In 2015/16, councils' net spending on services, that is spend minus service income, was £12.4 billion. Our [Local government in Scotland: Financial overview 2015/16](#)  report shows that £8.8 billion (71 per cent) of this was spent on providing education and social work services. Between 2011/12 and 2015/16, the proportion of relevant council spending on these two services increased from 69 per cent to 71 per cent. This increase is likely the result of a number of factors including:

- growing service demands, particularly on social care from an ageing population
- commitments to deliver national policy priorities, such as maintaining pupil to teacher ratios.

**16.** The proportion of spending on education and social work varies across councils, from about 60 per cent in Orkney Islands, Shetland Islands and Aberdeen City councils to about 80 per cent in Clackmannanshire Council. This could have implications for where councils can make future savings, particularly once charges associated with privately financed assets (via the Public Finance Initiative, Public Private Partnership and Non-profit distributing models) and debt repayment costs are factored in.

**17.** Analysis by Inverclyde Council in April 2016 shows that, of its £190 million spending in 2016/17, £145 million is on education and social work or on areas the council considers protected. This leaves £45 million to spend on other services such as roads, environmental services and corporate services. The council has estimated that it needs to make savings of £25.8 million between 2017/18 and 2019/20. Even if it makes five per cent of savings in education, social work and other protected budgets, it will potentially need to make savings of over 40 per cent in other service budgets such as roads and environmental services.

**18.** Research on Scotland's 2016 budget analysed the impact on other council services of the Scottish Government's commitment to protect areas such as healthcare and childcare spending. It found that other services could face average reductions of ten to 17 per cent over the next four years.<sup>6</sup>

**19.** Increasing demand for education and social care services from population change and national initiatives may make it harder for councils to control spending in these two services. Indeed, about a third of councils overspent their social

care budgets in 2015/16. However, these services do need to be included in councils' discussions on savings as it is possible to make savings and improve performance. We have previously reported that a group of seven councils decreased spending on education by more than five per cent between 2010/11 and 2012/13, while their percentage of S4 pupils achieving five awards at level five increased by more than the national average.<sup>7</sup>

## Councils face further challenges from a growing and ageing population

**20.** Predictions of population change suggest that, if all other things remain the same, councils will continue to spend an increasing proportion of their budgets on education and, through integration joint boards, on social work. Between 2014 and 2039, the number of children (defined as aged 0-15) is expected to increase by 1.4 per cent to about 924,000; and the number of people aged 75 and over by 85 per cent to over 800,000.

**21.** The challenge of population change is expected to vary across the country. Some councils will see their total populations falling while the number of people aged 75 and over will increase. For example, Comhairle nan Eilean Siar's population is expected to fall by 14 per cent by 2039 with an increase of 64 per cent of residents who are aged 75 and over. In other councils, the whole population is projected to increase. The number of people aged 75 and over is expected to more than double in eight councils by 2039.<sup>8</sup> This is likely to have a significant impact on demand for health and social care services. The number of people aged 15 and under is expected to increase by 25 per cent in Midlothian Council and decrease by 28 per cent in Comhairle nan Eilean Siar over the same period ([Exhibit 4, page 14](#)).

## The environment within which councils operate is changing

**22.** Legislative and policy changes affect the way councils work. Councils will have to implement and manage significant legislative and national policy changes initiated by the Scottish Government, although some of the detail is still not clear ([Exhibit 5, page 15](#)). Some of these changes, such as the creation of integration joint boards (IJBs), have already fundamentally altered the role of councils. Some change the relationship between councils and the Scottish Government, NHS boards and local communities. While these changes provide opportunities for positive change, implementing them will require council capacity in terms of staff time, knowledge and skills. Additional funding may also be required, at least in the short term.

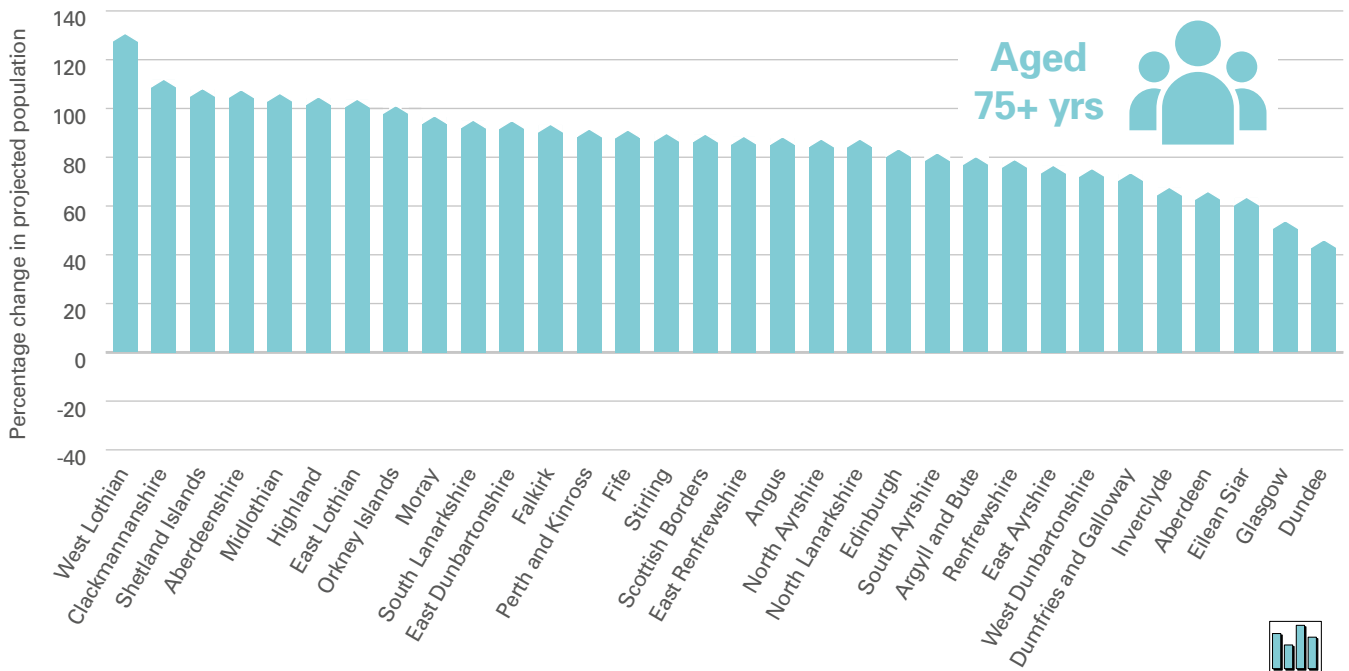
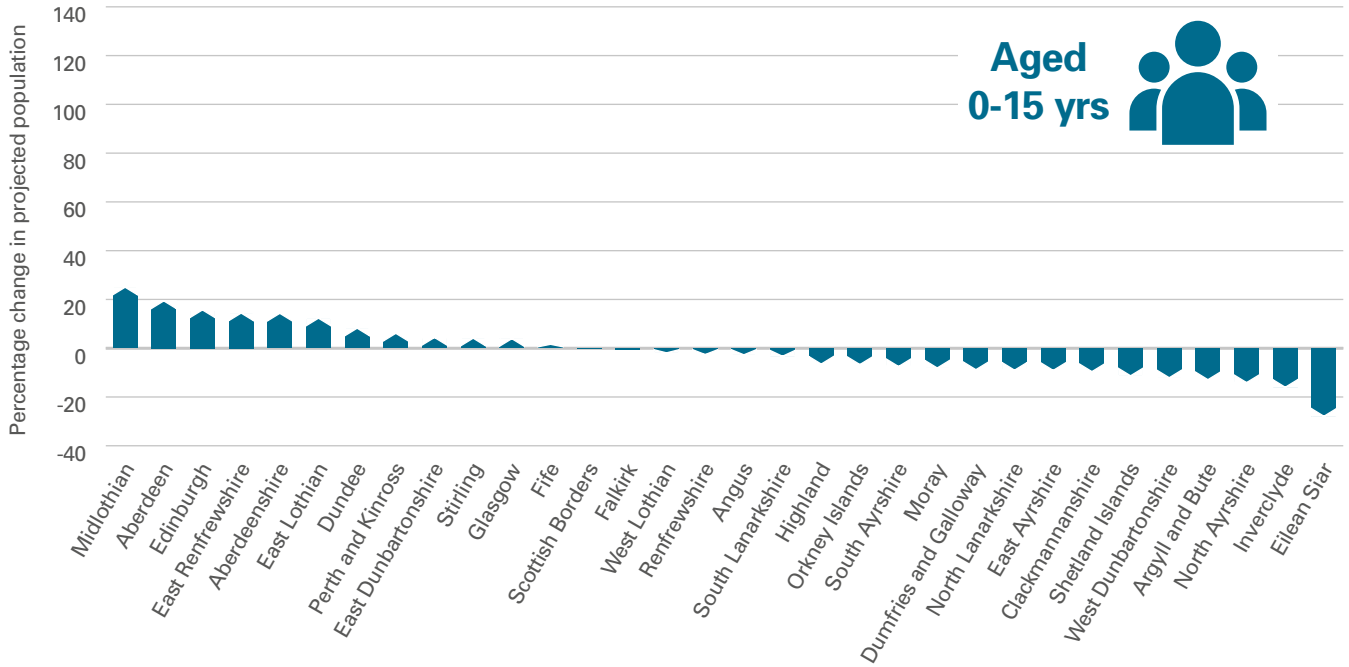
**23.** Councils also face further challenges and uncertainties:

- The United Kingdom's decision to leave the European Union will have an impact on councils' work. It is unclear what impact it will have and where, but some councils are starting to plan for a number of scenarios.
- The Scottish Government is currently considering a local democracy bill. This is still at an early stage so the details and impact on councils are not known.
- Equal pay remains an issue across local government. We are auditing equal pay in councils and will publish a report later in 2017.

### Exhibit 4

#### Projected percentage change in population, 2014 to 2039

The projected change in population varies significantly by council.



Source: National Records Scotland, 2016



## Exhibit 5

### Ongoing and planned legislative and policy changes

Councils will have to change the way they work to successfully implement a wide range of reforms.

#### Legislative and policy changes



##### Public Bodies (Joint Working) (Scotland) Act 2014

Councils and NHS boards must integrate health and social care services. Almost all councils have chosen to do this by creating an integration joint board (IJB) with their NHS partners to commission health and social services through joint budgets.<sup>1</sup> Councils will no longer be wholly responsible for adult social work services.

##### Opportunity

- Fully integrate health and social care services to meet the Scottish Government's 2020 Vision of people living longer at home and more health and social care in local communities.
- To provide services which are better targeted to local communities.

##### Challenge

- Agreeing and managing budgets for the IJBs at a time of reduced funding and an ageing population.
- Agreeing how governance in IJBs will work in practice, including lines of accountability, systems and process for decision-making and managing performance.
- Ensuring continuity of progress after the 2017 local government election.
- Promoting public understanding and managing expectations.
- Localities and locality planning are defined differently in the Public Bodies Act and the Community Empowerment Act. This could lead to confusion.



##### Living Wage

Scottish Government commitment to replace the minimum wage (£7.20 an hour) with a living wage (£8.25 an hour) from 1 October 2016.

##### Opportunity

- Reduce inequalities.
- Provide financial benefits for low-paid workers.
- Improve recruitment and retention.

##### Challenge

- Significant increases in employee costs and the costs of some contracts, notably for social care. Costs could become unaffordable. The potential cost for councils of the Living Wage for social care workers is £199 million a year by 2019/20.<sup>2</sup>
- Impact on existing pay structures means new pay models may need to be developed.



##### Community Empowerment (Scotland) Act 2015

To help empower community bodies and ensure communities are involved in planning and decision-making.

##### Opportunity

- Improve outcomes for communities by improving the process of community planning and ensuring local service providers work more closely with communities to meet the needs of the people who use services.

##### Challenge

- Requires new ways of working – councils and other public bodies need to promote and involve communities in local decisions and activities. This includes decisions about how a council's money should be used, including a target of one per cent of all council spending being decided by communities.<sup>3</sup>
- Engaging with harder-to-reach groups could be challenging and expensive, particularly for rural councils.
- Duty to tackle inequalities at a time of budgetary pressures.
- Councils must focus on local community planning and contribute to developing Local Outcome Improvement Plans. This has resource issues.
- Localities and locality planning are defined differently in the Public Bodies Act and the Community Empowerment Act. This could lead to confusion.

## Exhibit 5 (continued)

### Legislative and policy changes



#### Education reform

Additional funding from Scottish Government will be targeted at specific schools to help close the attainment gap (ie, differences in pupil performance in richer and poorer areas). Attainment challenge funding will also go to councils.

#### Opportunity

- Additional money for education and potential increased flexibility for using money.

#### Challenge

- The additional money is to go to head teachers in some schools, removing some decisions about resources from councils.
- Proposed changes to education funding model are causing uncertainty and have an impact on longer-term planning.



#### City Deals

UK and Scottish Government funding initiative which provides significant funding to city regions to develop infrastructure and economy in line with agreed plans.

#### Opportunity

- Economic growth and improved outcomes for communities.
- Councils could benefit from investment in infrastructure such as roads, technology, housing and transport.

#### Challenge

- Requires partnership working with a wide range of public and private partners.
- Governance arrangements, such as roles, responsibilities, accountability and performance reporting, will need to be determined.
- Ensuring continuity of progress after the 2017 local government elections.
- May take longer for some, particularly rural, councils to see benefits.



#### Community Justice (Scotland) Act 2016

Changes arrangements for managing community justice services and creates a new national body, Community Justice Scotland, to be formally established on 1 April 2017.

#### Opportunity

- Integrating community justice planning with wider community planning.
- Improved outcomes for communities and people at risk of offending.

#### Challenge

- Replace eight Community Justice Authorities with community justice governance structures within each Community Planning Partnership.
- Councils are expected to consult with other community justice partners when developing community justice outcome improvement plans to ensure consistency.



#### Named Person provisions

The Scottish Government plans to implement a Named Person service for every child or young person in Scotland. This means that every child will have someone who is responsible for helping them get the support they need. This is expected to start in August 2017.

#### Opportunity

- To promote, support or safeguard the wellbeing of children and young people.

#### Challenge

- Head teachers, deputy head teachers or guidance teachers could be the Named Person for a large number of school-aged children but it is unclear if a limit applies to the number of children assigned to each Named Person.
- Detailed arrangements for how the Named Person will function during school holidays will be left to councils to organise, with the intention being that they build on current practice.
- There may be an impact on teachers' workloads and councils must ensure that people have the skills to deliver the Named Person service.

## Exhibit 5 (continued)

### Legislative and policy changes



#### Early learning and childcare (ELC)

Scottish Government commitment to increase access to funded hours of high-quality and flexible early learning and childcare. Includes plans to increase the entitlement to 1,140 hours per year by August 2020.

#### Opportunity

- To improve outcomes for children, especially those who are most vulnerable.
- To support parents to work, train or study, especially those who need routes into sustainable employment and out of poverty.

#### Challenge

- Councils will need to assess demand, and commission and provide flexible services.
- Councils, private and third sector ELC providers may face challenges in expanding workforces and extending buildings and facilities.



#### Council tax reform

Removal of council tax freeze and increases to the ratios for higher-banded properties.

#### Opportunity

- Removing the council tax freeze will give councils greater control over their income.
- Increased ratios for higher-banded properties will provide additional council tax income.


#### Challenge

- The changes to ratios will lead to increased charges of over 20 per cent for properties within the highest band. However, residents could be paying more for the same level of services which could be a difficult message for councils to manage.



We are carrying out performance audits in these areas later in 2017/18.

#### Notes:

1. Some have also included children's services and community justice services in their IJBs. NHS Highland and Highland Council are the only partners to not create an IJB. They are continuing with lead agency arrangements whereby NHS Highland leads on adult health and care services, with Highland Council leading on children's community health and social care services. These arrangements have been in place since 2012.
2. [Social work in Scotland](#) , Audit Scotland, September 2016.
3. *A Plan For Scotland: the Scottish Government's Programme for Scotland 2016-17*, Scottish Government, September 2016.

Source: Audit Scotland


# Part 2

## Councils' responses to the challenges



### Councils have reduced staff numbers to save money but many do not have workforce plans

#### Councils' workforce has fallen by seven per cent in the last five years

**24.** Councils spend a significant amount on staff and staff-related costs. Most councils have reduced their workforces as a way to reduce costs. Our [Local government in Scotland: Financial overview 2015/16](#)  highlighted that, between 2011/12 and 2015/16, 13,029 individuals left councils through exit packages costing a total of £518.5 million (at 2015/16 prices). Councils' decisions to reduce their workforce numbers through exit packages should be supported by business cases that outline:

- associated costs
- potential savings
- the impact that this will have on the level of skills and experience within the council.

**25.** At March 2016, approximately 198,000 full-time equivalent (FTE) employees worked in Scotland's councils. Between 2011 and 2016, 27 councils reduced their number of FTE employees and councils' total workforce fell by 15,100 FTE (seven per cent).<sup>9</sup> In the last year, 14 councils reduced their number of FTEs, with councils' total workforce reduced by 2,700 (one per cent) ([Exhibit 6, page 19](#)). From the data that is collected centrally by the Scottish Government, it is not clear how many of these moved to arm's-length external organisations (ALEOs).<sup>10</sup>

#### Only half of councils have organisation-wide workforce plans, risking their ability to deliver services and manage change

**26.** Reducing council workforces, if not planned and managed appropriately, can affect the skills mix and capacity of the organisation to deliver, manage and scrutinise services effectively. Councils should have effective systems in place for managing their workforce and monitoring staffing levels. Councils should hold accurate information on staff numbers by grade and department to help them prepare and implement organisation-wide workforce plans. These should be aligned with other long-term plans such as financial plans.



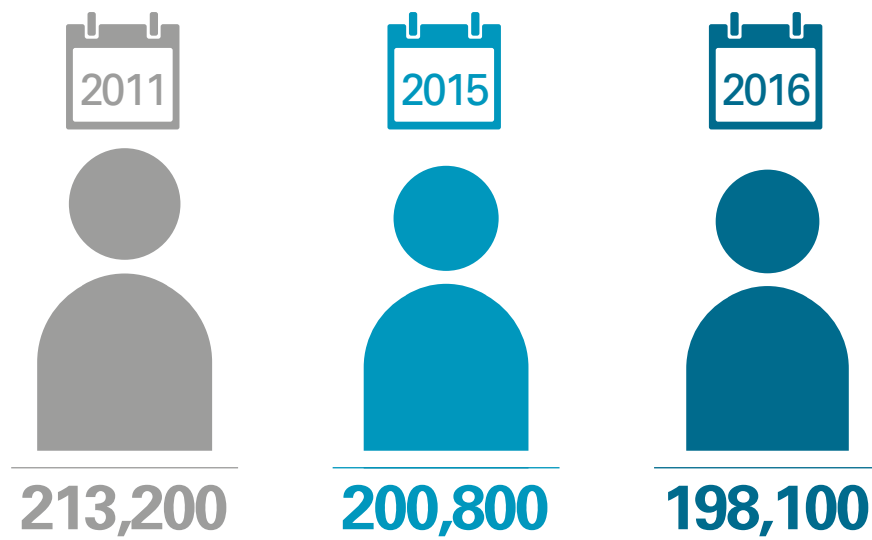
**What do you need the workforce to look like in terms of numbers, skills and knowledge?**

**Does your workforce data allow accurate analysis of changes to the workforce at an organisation and department level?**

## Exhibit 6

### Number of full-time equivalent employees in councils in 2011, 2015 and 2016

Councils reduced their workforce by seven per cent between 2011 and 2016.




Source: *Public Sector Employment in Scotland*, Scottish Government, 2016

**27.** Half of Scotland's councils do not have organisation-wide workforce plans in place. For those that do, the quality of these varies and they do not all include information on:

- the numbers and skills of the current workforce
- the numbers, costs and skills of the desired workforce
- how the move from the current to the desired workforce will be achieved.<sup>11</sup>

**28.** Where comprehensive organisation-wide workforce plans are not in place, councils risk losing capacity in key areas. For example:

- Our report [Maintaining Scotland's roads: a follow-up report](#)  highlighted concerns about a loss of technical and commercial expertise within roads maintenance departments.<sup>12</sup>
- Auditors for East Dunbartonshire Council raised concerns about the capacity within both the finance and the revenue and benefits teams. Within these teams, staff reductions and changes have led to individual officers having sole responsibility for, and knowledge of, certain areas of work.

**29.** National initiatives impact on workforce planning. The Scottish Government's commitment to maintaining teacher to pupil ratios means councils cannot reduce the number of teachers below a certain level. This limits councils' flexibility to reduce staff numbers among a sizeable proportion of staff. The planned expansion of early learning and childcare could mean councils either have to redeploy staff or recruit additional early years workers.



**Do you have an organisation-wide workforce plan with realistic targets and timescales for meeting objectives?**

**Do you think your organisation-wide workforce plan will ensure staff reductions do not have a negative impact on the skills mix and ability of your council to scrutinise, manage and deliver services effectively?**

**30.** The absence of organisation-wide workforce plans means that it is harder for councils to manage workforce changes effectively and ensure that they have the right number of staff with appropriate skills and experience throughout the organisation. This is particularly important given the scale of the challenges and policy and legislative changes councils face. Councils must ensure they have the capacity to manage change and deliver services effectively.

### Councils have the potential to further reduce staff sickness absence

**31.** Reducing staff sickness absence increases a council's capacity. Nationally, the average number of sickness days for all council staff (excluding teachers) reduced between 2010/11 and 2015/16; however, there is variation across councils. In 2015/16, sickness absence per non-teaching employee varied across councils from an average of 8.8 days a year in Aberdeenshire Council to 14.8 days a year in Comhairle nan Eilean Siar. If councils with high absence levels could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of about 650 full-time employees across Scotland. This is a reduction of about ten per cent since 2014/15.

**32.** Sickness absence also varied among teachers in 2015/16, from an average of 4.2 days a year in Midlothian Council to 8.7 days a year in Perth and Kinross Council. If councils with high teacher absences could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of over 160 full-time teachers across Scotland. This is a reduction of about 18 per cent since 2014/15.

## The pace and scale of reform need to increase

### Councils approved savings of over £500 million in 2016/17

**33.** Councils have managed their finances well so far in responding to the pressures they face.<sup>13</sup> In 2016/17, councils approved £524 million of savings and intended to use £79 million of reserves to balance their budgets and meet their funding gaps. Evidence from annual audit reports shows that some councils have made better progress than others. For example, Midlothian Council did not achieve its savings target in 2015/16 and auditors reported that there is a risk that Orkney Islands Council will have to rely heavily on reserves to achieve its target savings. In contrast, auditors highlight the good track record of Inverclyde Council in delivering efficiency savings and note that Renfrewshire Council is expected to make significant savings. East Ayrshire Council has made savings of over £34 million in the five years to 2016/17.

### Councils are adopting a range of approaches to deliver savings

**34.** Councils are adopting a range of approaches to address their forecasted gap in funding ([Exhibit 7, page 21](#)). While there is some evidence of positive change delivering better services for less money, there is limited progress in other areas.

### Some councils are better placed to meet future challenges than others

**35.** Looking forward, councils are predicting significant funding gaps up to 2018/19. Using information available at the time councils were setting their 2016/17 budgets, we estimated that councils would have funding gaps of £358 million in 2017/18 and £544 million in 2018/19.<sup>14</sup> These figures are likely to change as councils approve their 2017/18 budgets and continue to identify and deliver savings. However, they do demonstrate the scale of the challenge facing councils.




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**Do you have the staff and skills necessary to manage change and deliver services?**

**Do you need to invest in any skills, for example, change management?**

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## Exhibit 7

### Councils have been adopting different approaches to make savings






There is little evidence of progress in some areas but there are also examples of positive change.



Key fact



Good practice

Council approach	Progress
 <p><b>Sharing services</b></p>	<p><b>Key fact</b> In 2007, the Scottish Government published guidance relating to shared services. Ten years later, there is limited evidence of councils sharing services. Evidence suggests that most shared services are on a small scale and for back office functions.</p> <p><b>Good practice</b> East Dunbartonshire, Inverclyde, and West Dunbartonshire councils are exploring opportunities to share a range of services, beginning with roads and transportation services. In February 2016, the councils estimated that they may be able to generate recurring savings of about £3.5 million by 2020 (15 per cent of current spending on these services).</p> <p>When councils are considering sharing services, it is important that they have mutually understood and compatible objectives. Differing objectives can be a barrier to sharing services. Councils, together with their citizens, need to agree what their primary aims are, for example reducing costs or improving customer experience, or both.</p>
 <p><b>Using ALEOs</b></p>	<p>Arm's-length external organisations (ALEOs) can provide services more flexibly than councils, generate income and deliver savings.</p> <p><b>Key fact</b> Evidence suggests that the number of council ALEOs has reduced slightly in 2016 from about 140 to 130. ALEOs provide a range of services across Scotland, with around one third providing leisure and culture services.</p> <p>We are planning to undertake an audit of ALEOs later in 2017.</p>
 <p><b>Using digital and online solutions</b></p>	<p><b>Key fact</b> Digital and on-line solutions provide opportunities for councils to significantly reduce costs. The estimated cost of a face-to-face visit is £8.21, a telephone call is £2.59 and an online transaction is £0.09.<sup>1</sup></p> <p><b>Good practice</b> Glasgow City Council has launched a myglasgow app and a new website which allows users to access or request services online (for example, request a bulk uplift). This is expected to deliver savings of £3 million a year and improve the customer experience.</p> <p>In recognition that more could be done, 27 councils have recently appointed a chief digital officer and chief technology officer to drive change across local services. It is too early to judge the success of this initiative.</p>
 <p><b>Increasing fees and charges</b></p>	<p>Increasing fees and charges is one way councils can increase their income. National information is not available on changes to charges and fees although there is some evidence of increases in charges in the last year. For example, research by Citizens Advice Scotland shows that burial charges increased by eight per cent between 2015 and 2016.</p>
 <p><b>Reducing/restricting services</b></p>	<p>There is evidence of councils reducing front-line services.</p> <p><b>Key fact</b> Most councils, through IJBs, now only provide adult social care to people assessed as being of critical and substantial risk. This has reduced the percentage of older people receiving homecare between 2006 and 2015, from just under 70 per 1,000 population to 50 per 1,000. While this has saved councils money in the short term, there is a risk that removing more preventative services will cost more in the longer term.</p> <p>In education, Dundee City Council has closed a high school, saving £756,000. Aberdeen City Council has saved £440,000 a year by removing class size limits for S1 and S2 maths and English classes.</p>

Cont.

## Exhibit 7 (continued)

Council approach	Progress
 <p><b>Improving procurement</b></p>	<p><b>Councils have made significant savings in the cost of homecare and care homes through competitive tendering and the national care home contract.</b></p> <p>Through service redesign, councils are also procuring new models of care. For example, in East Ayrshire Council, changes to its model of care for supported living from 24-hour care per person to more flexible care that promotes independence has saved the council almost £500,000 in 2016/17 (about 40 per cent of costs). The council also reports improved service user satisfaction.</p> <p>All councils have signed up to Scotland Excel, the Centre of Procurement Expertise for the local government sector.</p>

Note: 1. 2012/13 figures for councils published by the Society of Information Technology Management (Soctim)

Source: Audit Scotland

**36.** In response, many councils have established corporate change, or transformation, programmes. These are significant council-wide programmes that look at what services councils provide and how they are delivered to identify how a council can save money and improve services. It is clear that some councils are taking a strategic approach and looking at what services they provide as a whole. Others are not. Rather, they are making individual departments responsible for identifying an equal proportion of desired savings. Evidence from annual audit reports shows that some councils are making faster progress than others. For example, Fife Council is still developing its change programme; progress is slow in Clackmannanshire Council; and behind schedule in East Dunbartonshire Council. In contrast, East Ayrshire Council is now working on its second transformation programme.

**37.** Best Value reports also raise concern over the pace of change and the small-scale nature of savings to date. For example, in Falkirk Council, the pace of change remains slow and the council needs to urgently agree its priorities and identify significant savings over the next two years.<sup>15</sup>

**38.** Some councils have lacked capacity to manage their corporate change and transformation programmes. In response, councils, through the Improvement Service, have established the Change Managers Network to support the exchange of skills, knowledge and practice to build capacity in corporate change. As part of councils' financial and savings plans, councils should actively consider options for investing to save such as investing in change management skills.

### Effective leadership is required to explore all options for change

**39.** Effective leadership is required to set a clear strategy for how the council will achieve its priorities and outcomes, and make the difficult decisions that will be needed. Councillors must set the strategy and officers must work up options to implement the change required. The importance of effective leadership has been



demonstrated in our Best Value audit work. For example, South Ayrshire Council has made considerable progress in delivering improvements and meeting financial challenges as a result of effective political and managerial leadership.<sup>16</sup>

**40.** Comprehensive option appraisals, risk assessments and scrutiny are required to assess options for change and to monitor the impact and progress. Auditors at Stirling Council reported that the council has a project-driven approach where all projects need to be fully backed up by business cases and completed option appraisals before a decision is taken. Options are effectively challenged throughout the process to ensure that they are achievable and that the project provides value for money. Evidence also suggests that South Ayrshire Council has a robust system in place to review and improve services (**Case study 1**). However, it is a mixed picture in other councils. In Falkirk Council, auditors reported a good level of scrutiny and challenge by councillors. But they also noted a lack of detailed reporting on anticipated and achieved outcomes, with no process in place for providing updates on all projects.



**How well do you scrutinise decisions on financial and service performance?**

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

## Case study 1

### South Ayrshire Council



The council has developed a comprehensive review system to help approve and reform services. This follows a nine-step process and includes topic selection, approval, consultations and options appraisal. The reviews and consultation procedures involve staff at all levels, trade unions and service users.

Through this approach, the council has reported that it is starting to achieve positive results. For example, in April 2015, the council carried out a property maintenance service review that concluded that there has been an overall average increase in productivity of staff of 15 per cent from 2014; and an increase in the number of jobs completed on time, from 68 per cent in 2013/14 to 87 per cent in 2015/16.

Source: Audit reports

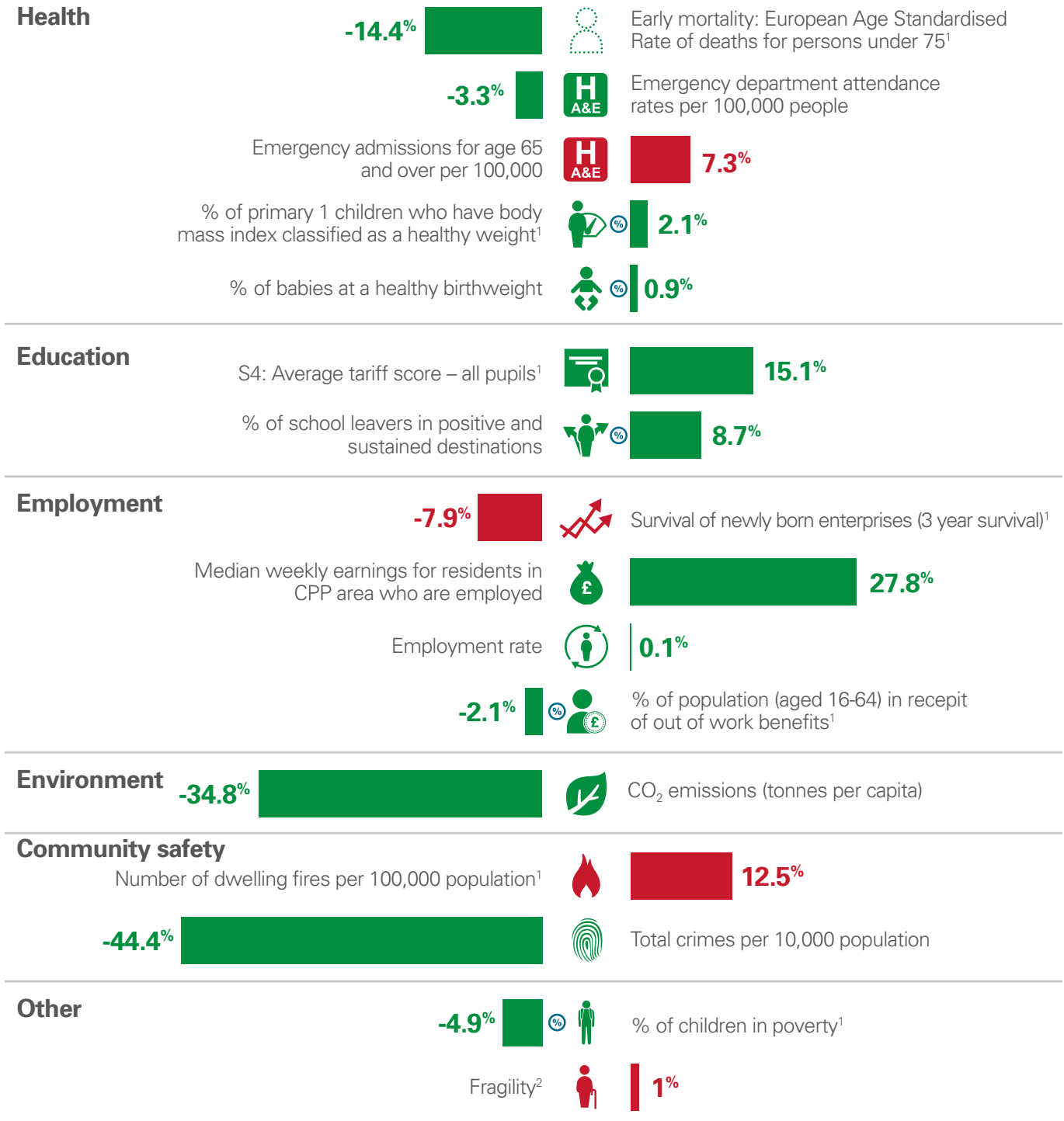
## Despite challenges, performance has been maintained or improved

**41.** The Improvement Service reports on progress against 18 outcomes, supported by 16 performance measures, through the Community Planning Outcomes Profile. This is a new tool which allows outcomes and equalities data to be measured on a consistent basis. Councils need to work with partners and communities through, for example, community planning partnerships (CPPs) and integration joint boards (IJBs) to improve outcomes for communities. Changes in outcomes will be influenced by factors wider than council activity so cannot be solely linked to council activity. The 16 performance measures suggest that outcomes are generally improving across Scotland (**Exhibit 8, page 24**).

## Exhibit 8

### Changes in performance measures for Scotland's outcomes, 2004/05 to 2014/15

Performance measures suggest that outcomes for Scotland's communities are generally improving.



Percentage point change – raw data is not available therefore absolute changes are shown.

Notes:

- 1. Imputed and projected data has been calculated using different methodologies for different measures where raw data is not yet available.
- 2. Fragility is a weighted combination of three indicators: de-population, rural de-population and old age dependency ratio.

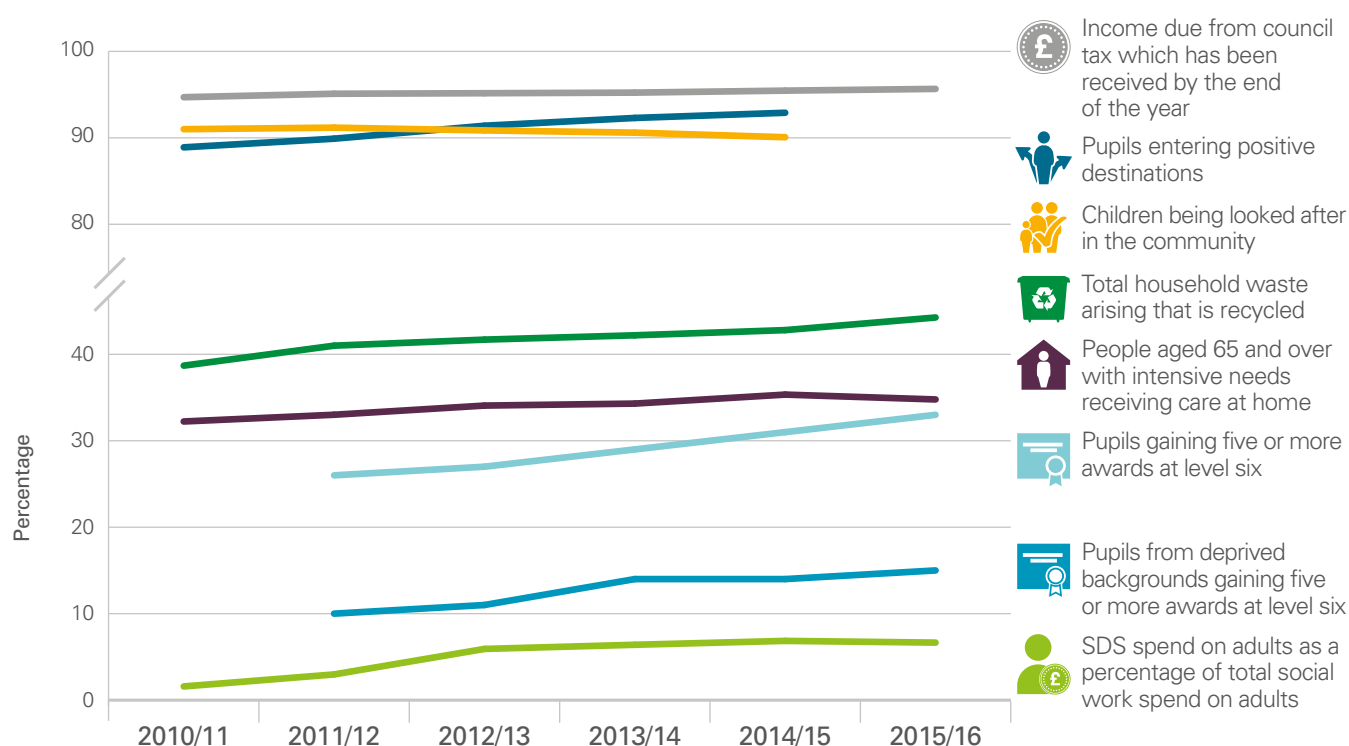
Source: Audit Scotland; and *Community planning outcomes profile*, Improvement Service, 2014/15

42. The Improvement Service, in partnership with councils, collates and reports on the Local Government Benchmarking Framework (LGBF) to provide information for councils to improve performance and costs. The framework covers a range of over 60 performance indicators covering a wide range of areas. We have selected those measures which give an indication of council performance in key service areas for the public.<sup>17</sup> This shows that councils' performance in the last five years has been maintained or improved ([Exhibit 9](#)).

## Exhibit 9

### Performance against selected indicators, 2010/11 to 2015/16

Councils' performance has been maintained or improved over the last five years.



Notes:

1. Data is not available for all indicators for 2010/11 to 2015/16.
2. We have not included measures of public satisfaction or cost indicators in this analysis.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

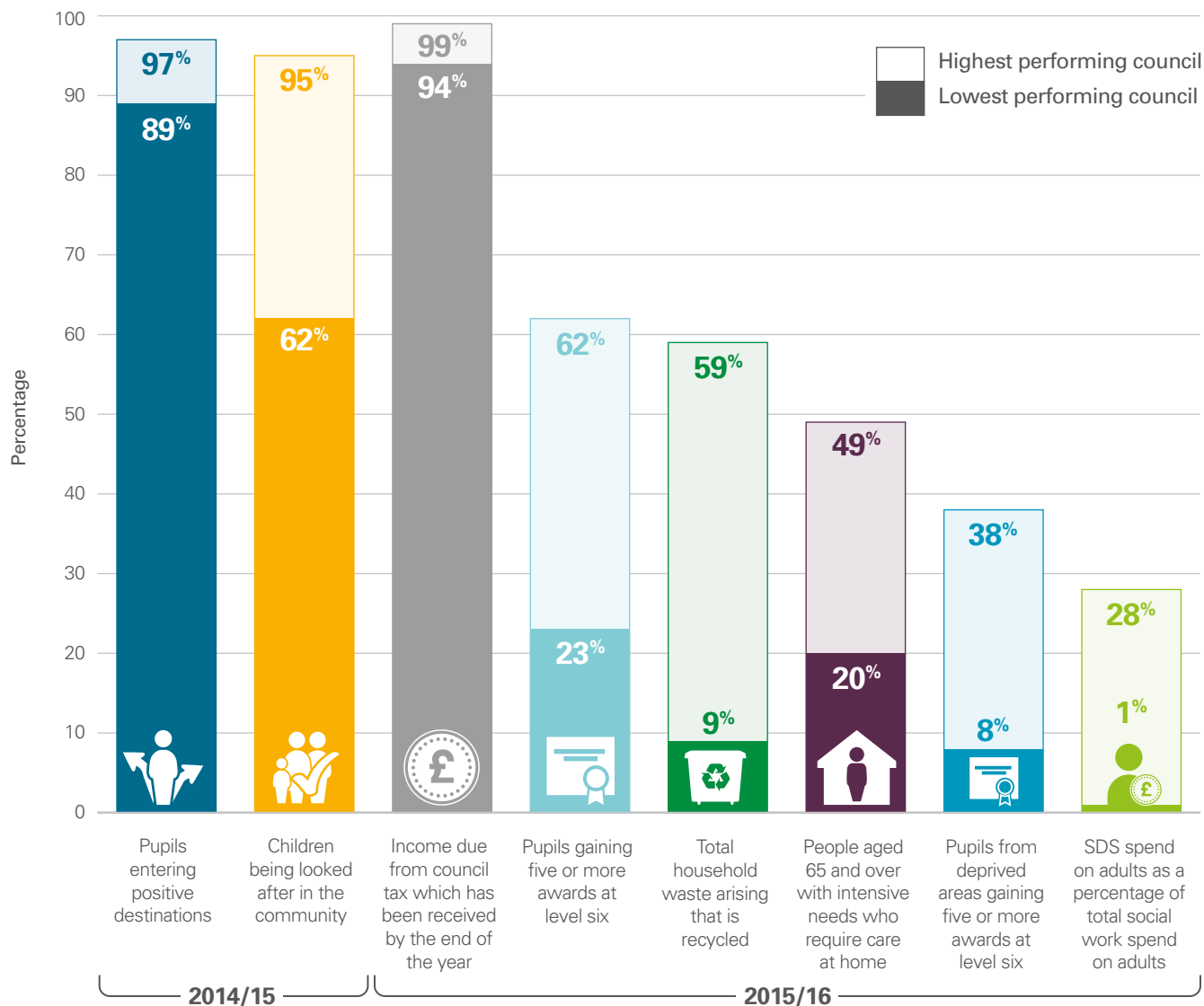


43. Analysis also shows significant variation in performance among councils ([Exhibit 10, page 26](#)). The amount of waste recycled and the percentage of pupils gaining five or more awards at level six show the biggest variation. However, there is also variation in social care indicators. There may be valid reasons for some of this variation; however, councils need to work to understand reasons for any lower performance in these measures, learn what has been successful in other councils and apply these lessons to their own services.

## Exhibit 10

### Variation in highest and lowest performing councils

There is significant variation in council performance in most performance measures.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

### Some unit costs have reduced but there is variation across councils

**44.** We have also analysed selected unit cost indicators over the last five years ([Exhibit 11, page 27](#)). The unit costs of these selected indicators have all reduced over the last five years. Some culture and leisure unit costs reduced by around one-third whilst education unit costs reduced by less than ten per cent.

**45.** The cost of providing similar services varies between councils. In some cases, cost variation will be heavily influenced by geography, population density and deprivation. The Local Government Benchmarking Framework has placed councils with similar profiles into family groups based on factors such as population density and levels of deprivation. This allows similar councils to compare themselves.

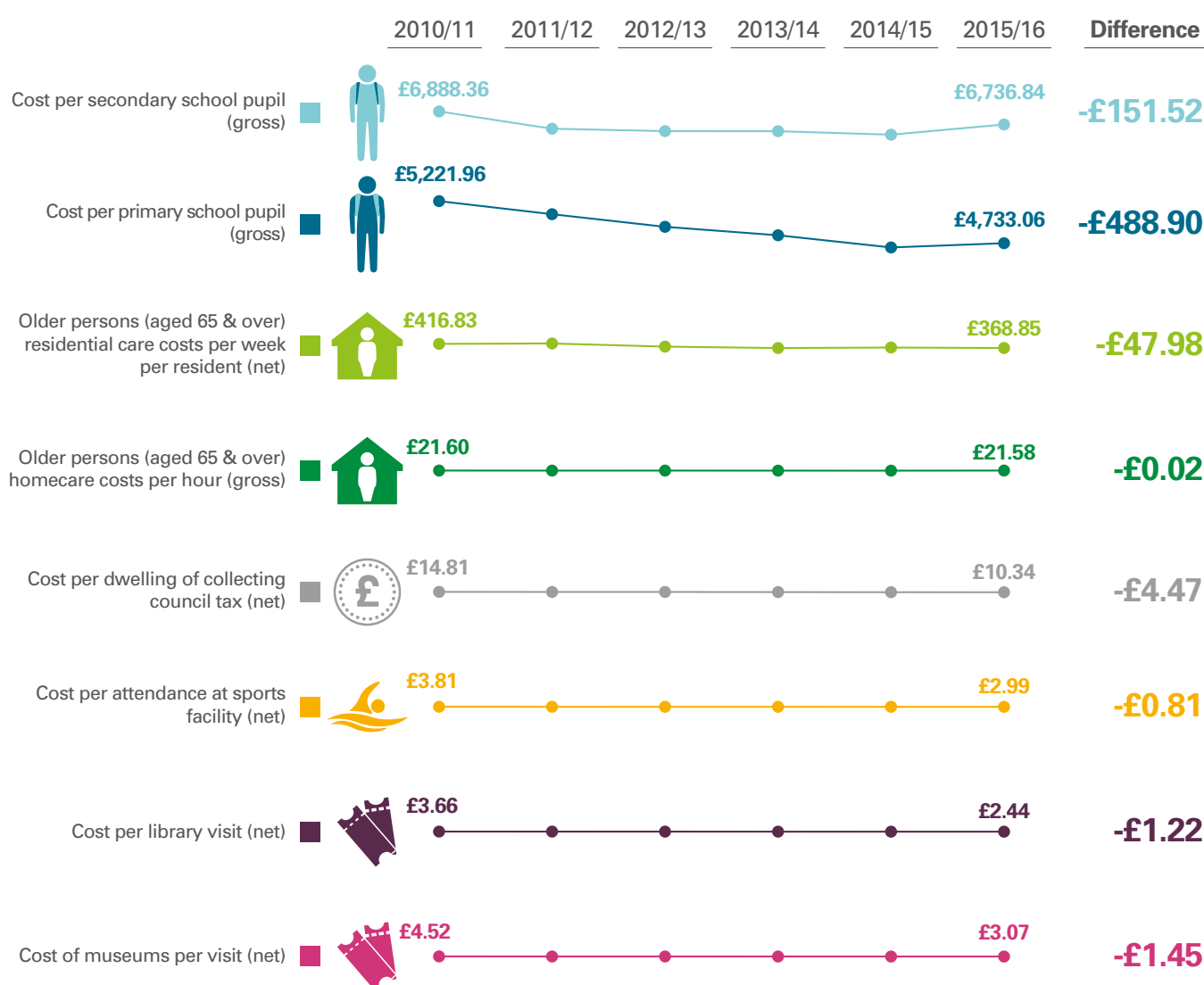
However, some councils in the same family group have significant variation in unit costs. For example, the cost of street cleaning per 1,000 population is almost three times greater in Glasgow City Council (£26,460 in 2015/16) than Aberdeen City Council (£9,312 in 2015/16).

**46.** Analysis of 2015/16 family group data for the cost of collecting council tax shows that, if all councils were able to reduce their cost of council tax collection per dwelling to the lowest in their family group, collectively they could save over £13 million. These figures are only indicative and there will be reasons for some variation, however they do indicate that savings can be made. Councils should continue to work to understand the reasons for their unit costs, learn from each other, identify possible savings that can be made and agree the acceptable impact on performance and policy.

## Exhibit 11

### Change in selected unit costs since 2010/11 to 2015/16

Unit costs have varied over the past five years.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16



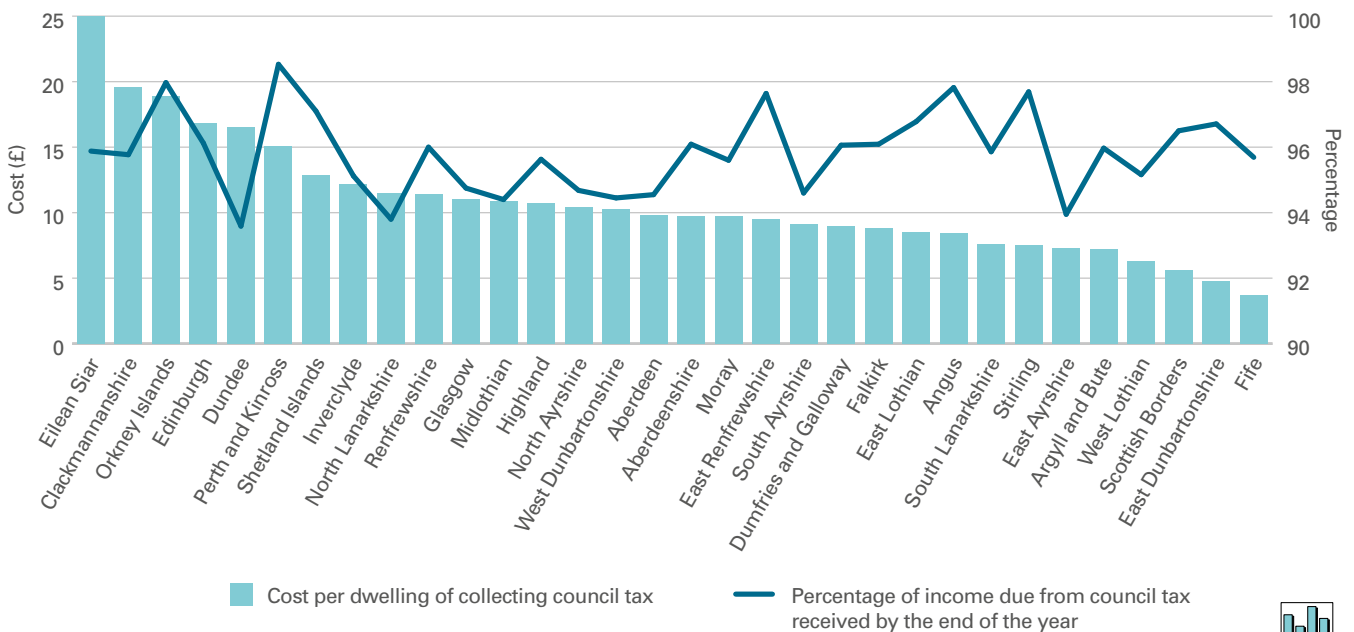
**The link between performance and cost is not always clear**

**47.** Variation in unit costs is not always reflected in performance measures at a local level. For example, there is no link between the cost and collection of council tax in 2015/16 (Exhibit 12). Similarly, changes in unit costs do not always have the expected impact on performance. For example, between 2010/11 and 2015/16, 11 councils improved their cleanliness score, of these; three increased their unit costs while eight reduced their costs (Exhibit 13, page 29).

**Exhibit 12**

**The cost and collection rate of council tax, 2015/16**

There is no link between the cost of collecting council tax and the collection rate.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

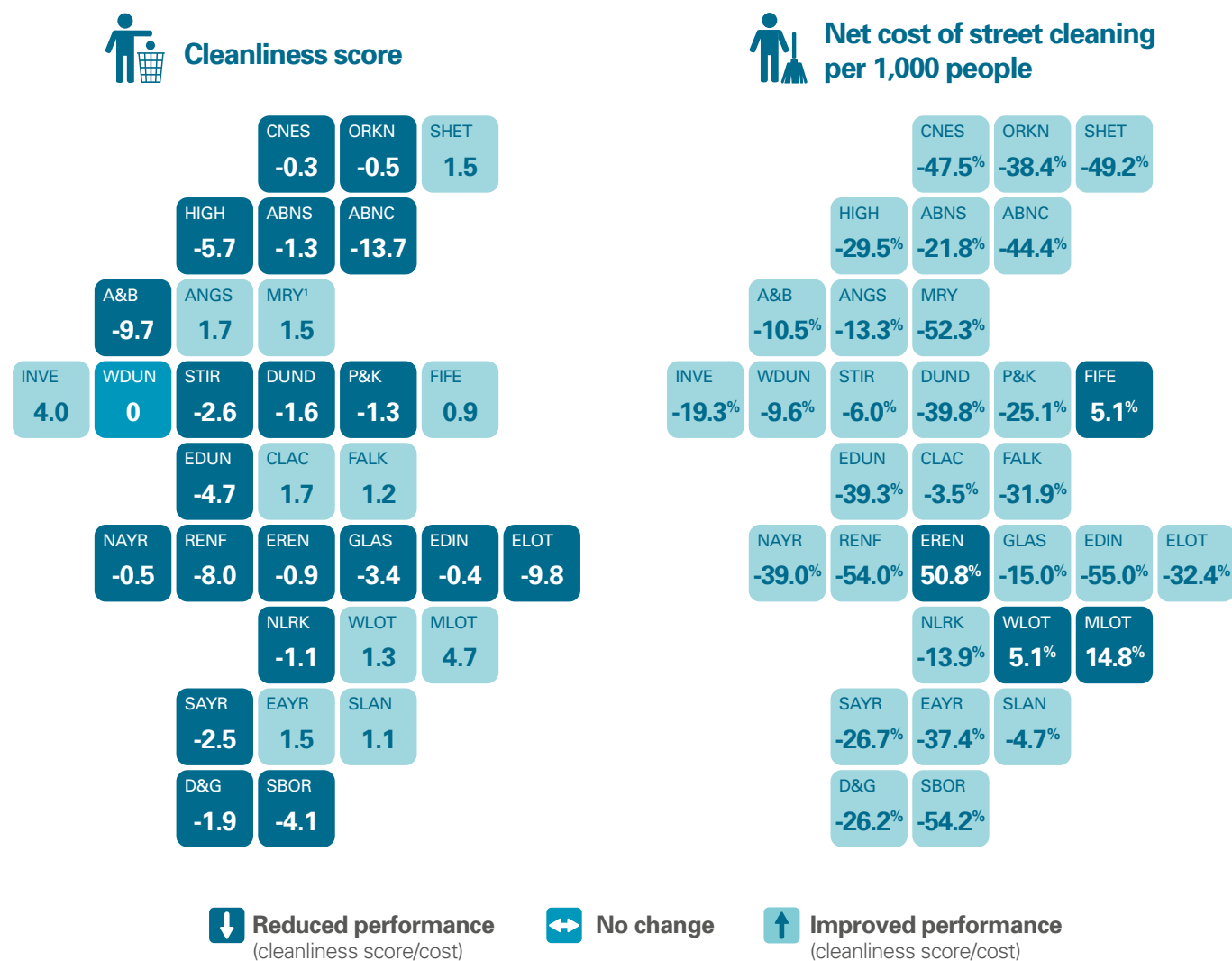
**Councils have reduced some costs with no negative impact on performance**

**48.** There is evidence of councils reducing costs and improving performance. Between 2010/11 and 2015/16, the average cost of collecting council tax reduced from £14.81 in real terms to £10.34 while the rate of collecting council tax improved from 94.7 per cent to 95.7 per cent. At council level, Glasgow City Council reduced the cost of collecting council tax in real terms from £18.48 per dwelling in 2010/11 to £10.98 in 2015/16. It achieved this by redesigning processes, better use of technology and closer working with partner organisations. Over the same period, the collection rate increased from 92.3 per cent to 94.7 per cent. City of Edinburgh Council has reduced the net cost of street cleaning per 1,000 residents by over 50 per cent in real terms, from £37,006 to £16,646, with the council’s cleanliness score only falling by 0.4 percentage points from 90.5 per cent to 90.1 per cent.

### Exhibit 13

#### The cost and cleanliness of streets in Scotland, 2010/11 to 2015/16

The majority of councils have reduced the cost of street cleaning but there has also been a reduction in street cleanliness.



#### Councils


- |                                      |                               |                                  |
|--------------------------------------|-------------------------------|----------------------------------|
| <b>ABNC</b> Aberdeen                 | <b>EDIN</b> Edinburgh         | <b>ORKN</b> Orkney Islands       |
| <b>ABNS</b> Aberdeenshire            | <b>CNES</b> Eilean Siar       | <b>P&amp;K</b> Perth and Kinross |
| <b>ANGS</b> Angus                    | <b>FALK</b> Falkirk           | <b>RENF</b> Renfrewshire         |
| <b>A&amp;B</b> Argyll and Bute       | <b>FIFE</b> Fife              | <b>SBOR</b> Scottish Borders     |
| <b>CLAC</b> Clackmannanshire         | <b>GLAS</b> Glasgow           | <b>SHET</b> Shetland Islands     |
| <b>D&amp;G</b> Dumfries and Galloway | <b>HIGH</b> Highland          | <b>SAYR</b> South Ayrshire       |
| <b>DUND</b> Dundee                   | <b>INVE</b> Inverclyde        | <b>SLAN</b> South Lanarkshire    |
| <b>EAYR</b> East Ayrshire            | <b>MLOT</b> Midlothian        | <b>STIR</b> Stirling             |
| <b>EDUN</b> East Dunbartonshire      | <b>MRY</b> Moray              | <b>WDUN</b> West Dunbartonshire  |
| <b>ELOT</b> East Lothian             | <b>NAYR</b> North Ayrshire    | <b>WLOT</b> West Lothian         |
| <b>EREN</b> East Renfrewshire        | <b>NLRK</b> North Lanarkshire |                                  |

Note: 1. The data presented for The Moray Council is calculated using data for 2010/11 and 2012/13 as no further data is available.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16


**49.** The Accounts Commission has previously stated that given the challenges facing local government, not least the future financial challenges, it does not expect to see performance improving in all measures for all councils. It is up to individual councils and their communities to agree local priorities and identify where improvements are required.

### Public satisfaction is declining and complaints are increasing

**50.** Public satisfaction with services is falling. The latest information from the Scottish Household Survey shows that between 2010 and 2015, satisfaction with schools fell from 83 to 74 per cent.<sup>18</sup> However, around the same period, there was an increase in the percentage of school pupils gaining five or more awards at level six. As reported in [Social work in Scotland](#) , satisfaction with social care and social work fell from 62 per cent in 2010/11 to 51 per cent in 2014/15. We recognise that there are limitations with this data, particularly for some rural councils. Many councils therefore supplement this data with locally collected information.

**51.** In 2015/16, the Scottish Public Service Ombudsman (SPSO) received 1,722 complaints relating to Scottish councils. This is 13 per cent more than in 2011/12. It upheld 55 per cent of complaints in 2015/16 compared to 47 per cent in 2014/15. The health sector experienced a similar level of complaints being upheld in 2015/16. The SPSO records complaints by category. For councils, housing has the largest number of complaints (423 complaints in 2015/16), followed by social work (231 complaints). The number of complaints about environmental health and cleansing more than trebled between 2011/12 and 2015/16 to 126.

### Greater community involvement could improve public satisfaction

**52.** The decline in satisfaction measures may be expected given the financial challenges councils have faced. It may also suggest that councils need to have frank and wide-ranging debates with communities to determine what they can realistically deliver in reduced budgets. Our 2016 report on [Social work in Scotland](#)  highlighted that councillors had a key role in consulting more fully with the public about service priorities. It stated that councillors also needed to manage people's expectations of services that councils can afford to provide in the future.<sup>19</sup> North Ayrshire Council reviewed its library opening hours in consultation with local communities and reduced the service by 475 hours a year, saving £315,000.

**53.** The Community Empowerment (Scotland) Act 2015 should ensure councils work more closely with public bodies and communities to design, develop and deliver better-quality services. Some councils already do this through participatory budgeting ([Case study 2, page 31](#)). One per cent of a council's spending should be decided by communities.<sup>20</sup> This allows communities to be actively involved in decision-making and to influence where public funds should be spent.




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**How are you involving local communities and empowering them to design and deliver services to suit local needs?**

**How can you better engage with local communities to understand why public satisfaction is declining?**

---

**What level of complaints does your council receive? For which departments? How has this changed?**

**Are appropriate systems in place to deal with complaints?**

---

**Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide going forward?**

**What is the your role as councilor in this?**

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## Case study 2

### Participatory budgeting




#### Comhairle nan Eilean Siar

Community members were involved in designing and procuring the Uist and Barra public bus service. The procurement process involved using an 'output performance specification'. In this, participants were asked at various public meetings to define their priorities, rank types of services and vote for their preferred price/quality ratio. The final decisions were made by panels of local people. This participatory budgeting approach has provided a more responsive service for the local community and the council has reported an increase in uptake since it began in March 2016.

#### City of Edinburgh Council

'Leith Decides' is the longest-running participatory budgeting project in Scotland and has been used by Leith Neighbourhood Partnership since 2010/11. The approach involves the local community deciding how 50 per cent of the partnership's community grants fund is spent. In 2014/15, a total of 1,625 people took part in scoring projects (an increase of 66 per cent on the previous year) and £22,092 (in grants of up to £1,000) was allocated to 25 projects. In addition to this, the number of people engaged in local decisions has increased significantly, from 320 in 2010/11 to 1,625 in 2014/15.

#### North Ayrshire Council

In November 2016, the council [launched](#)  one of Scotland's largest online participatory budgeting projects in collaboration with Young Scot. About 5,000 young people aged 11-25 years in North Ayrshire used Young Scot's online voting platform to allocate a share of £60,762 to youth projects in their local area

Source: Audit reports

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# Part 3

## Looking ahead




### Councillors need to provide effective, strategic leadership

**54.** The next council term is likely to bring significant challenges and uncertainties for councils. The role of local government in Scotland is under review and is the subject of planned Scottish Government legislation. The impact of the United Kingdom's decision to leave the European Union is currently unknown but will have to be worked out and managed. The ongoing financial and population pressures are set to increase.

**55.** Our audit work has shown that there are still areas that councils need to strengthen in responding to the challenges they face. We recognise that, with reducing resources, councils will find delivering services and improvements increasingly difficult. It is critical therefore, that they set clear long-term strategies and plans that target effort on improving priority areas. This will require councils to evaluate all possible options to make improvements for their communities in the most efficient ways.

**56.** The 2017 local government elections could result in changes to elected members and the political make-up of councils. Councillors have a critical role in setting their council's strategies and need to have the right knowledge, skills and time to lead and scrutinise how councils are achieving these. Councils will also need to continue to involve citizens in decisions about local services and report their performance in ways that help local citizens gauge improvement. Our audit work has highlighted the importance of effective leadership in developing robust strategies and making difficult decisions.


**57.** Councillors need to provide effective strategic leadership if councils are to successfully change the way they work. Councillors need to make informed decisions on the increasingly difficult and complex choices they face and to scrutinise whether the council is achieving its priorities. Council officers must support new and returning councillors effectively by providing them with clear and understandable information, and access to necessary and essential training to help them fulfil their role. We have recently published a report on [\*Roles and working relationships in councils – Are you still getting it right?\*](#)  (2016) to support councillors in their difficult and challenging role. The Improvement Service's induction materials may be a useful resources here.



**How can you ensure that you have the right skills and knowledge to help carry out increasingly complex and challenging roles efficiently?**

## Councils need comprehensive long-term financial strategies and plans in place

**58.** Our recent financial overview for 2015/16 highlighted the increasing challenges that councils are having in managing their budgets. About a third overspent social work budgets in 2015/16, similarly about a third underspent education budgets. The need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing or low levels of usable reserves to draw on. Councils cannot continue to rely on underspends in certain services offsetting overspending elsewhere. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management to ensure spending is accurately forecast and monitored within the year, including systems that allow budgets to be monitored in real time. The impact of current spending approved by councillors on the financial position can only be accurately assessed if budgets are accurate.

**59.** Councils are developing their financial strategies and plans in an increasingly complex environment. The Accounts Commission recognises that the Scottish Government providing funding settlement figures for a single year presents challenges to councils updating medium-term financial plans and having long-term strategies in place. But the absence of indicative funding should not prevent councils projecting future income, and spending and planning accordingly. A longer-term approach to finances provides a context for current decisions and, along with a clear set of financial strategies and principles, creates an overall framework for financial decision-making and sustainability. It is imperative that long-term financial strategies (covering five to ten years) link spending to councils' strategic priorities and that spending plans are considered in this context. Our [Local government in Scotland: Financial overview 2015/16](#)  highlighted that this is an area where councils can continue to improve.

**60.** Council priorities should be supported by long-term strategies and medium-term plans. Using tools such as scenario planning, councils can consider a range of different scenarios and become more agile in developing their responses. Financial strategies and plans must be aligned to workforce, service and operational plans to ensure that they take account of councils' operating environments. This will ensure the council is financially aware, takes decisions based on financial information and manages the financial risk. [Exhibit 14 \(page 34\)](#) sets out the main elements of the financial planning process and how these interact with key council planning documents.

## Councils need to appraise all possible options for change and involve local communities

**61.** A crucial element of achieving Best Value is using options appraisal effectively to evaluate current and alternative ways to deliver services. There should be rigorous and challenging appraisal of all the options. It is important that councils consider a wide range of alternatives, including fundamentally different approaches, to help each council find the most effective and efficient way to achieve its priorities for its local communities. This includes examining opportunities to work with and give communities powers to deliver services in different ways as well as learning lessons from other councils across the United Kingdom and from wider public service reform. Councillors should get all necessary information and support from officers to help them fully assess the benefits and risks of each option.




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**How fully have you appraised all options for delivering services differently?**

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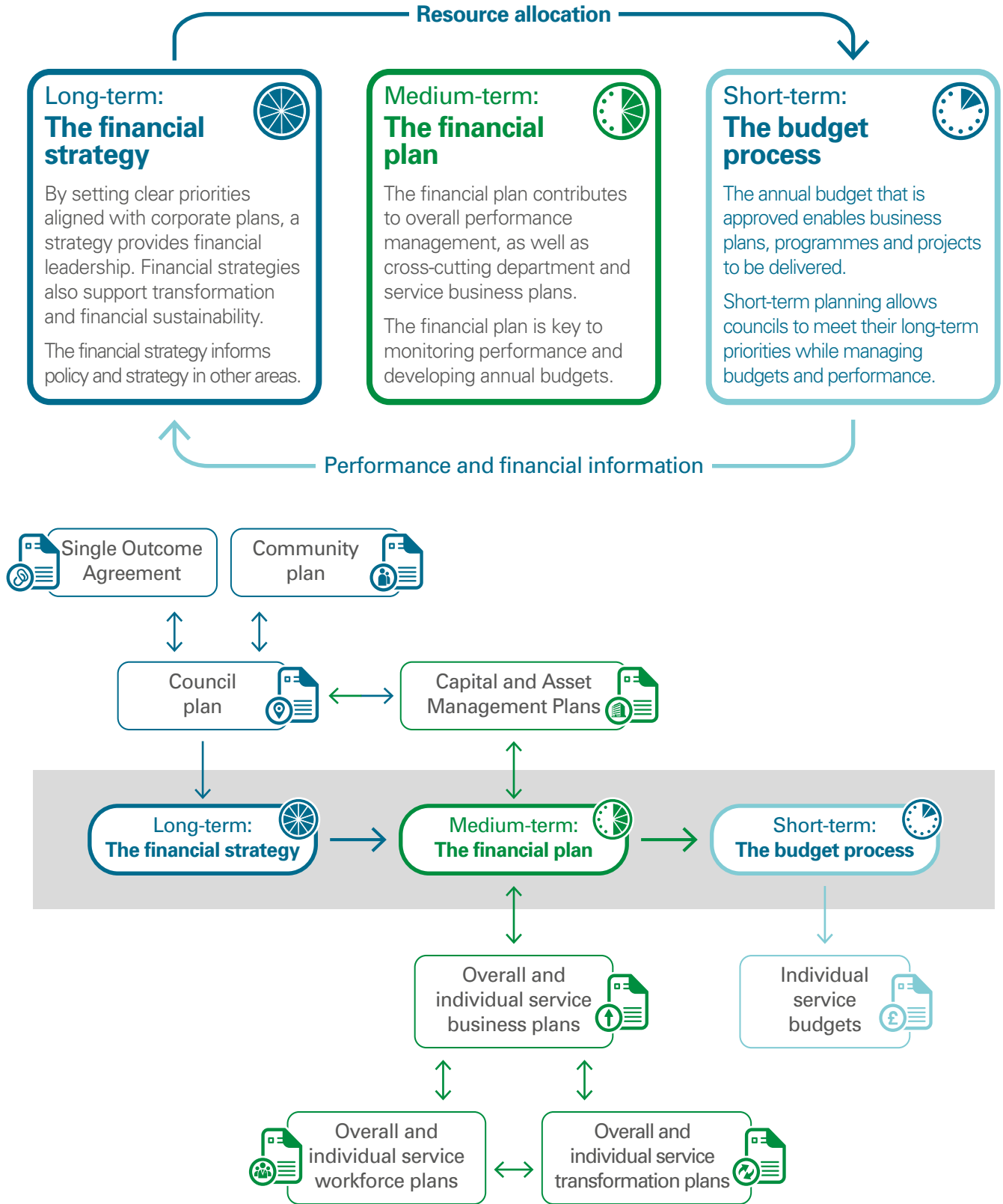
**How can you consider more business in public?**

---

### Exhibit 14

#### Key components of council strategic planning and operational management

Financial planning should be linked to operational delivery plans.



Source: Audit Scotland












**62.** When councils and councillors are identifying and approving savings in any service area, it is important that they consider, assess and monitor the impact of their decisions. Councils should:

- identify expected savings
- consider the potential impact on people using services, communities and staff
- monitor how they are achieving savings
- review the impact of reforms on the outcomes that services are delivering.

**63.** We have seen examples of councils engaging well with their communities on important local issues. The Community Empowerment (Scotland) Act 2015 provides, among other things, a statutory basis for local people to be more involved in decision-making and to take ownership of councils' assets. Councils need to understand local expectations of services and to work closely with their communities and the people who use services to redesign how services are delivered. New guidance issued in December 2016 places a statutory duty on CPPs to improve local outcomes. An increased emphasis on joint working is expected to improve community involvement and address inequalities.<sup>21</sup>

# Endnotes



- ◀ 1 This is gross income. Councils' total income in 2015/16 was £18.9 billion, with £10.9 billion being provided by the Scottish Government.
- ◀ 2 [Local government in Scotland: Financial overview 2015/16](#) , Audit Scotland, November 2016.
- ◀ 3 The Scottish Government guarantees the combined general revenue grant and non-domestic rate income figure approved by the Parliament for each council. This means that any reduction in one component of funding is compensated for by an increase in the other.
- ◀ 4 *Scotland's Budget – 2016*, Fraser of Allander Institute, 2016.
- ◀ 5 This assumes that council tax collection rates (and the households this was collected from) would have remained the same and that total funding, and therefore income, would have been adjusted to exclude £70 million of revenue funding provided annually by the Scottish Government to councils to support the council tax freeze.
- ◀ 6 *Scotland's Budget – 2016*, Fraser of Allander Institute, 2016.
- ◀ 7 [School education](#) , Audit Scotland, June 2014. This report shows that performance improved between 2002/03 and 2012/13 against the ten attainment measures examined.
- ◀ 8 Aberdeenshire, Clackmannanshire, East Lothian, Highland, Midlothian, Orkney Islands, Shetland Islands and West Lothian councils.
- ◀ 9 *Public Sector Employment in Scotland*, Scottish Government, June 2016. These figures will include staff who have transferred to or from ALEOs over the period.
- ◀ 10 We reported in our November 2013 audit, [Scotland's public sector workforce](#) , that councils transferred 9,100 FTE posts to ALEOs between 2009/10 and 2012/13.
- ◀ 11 Information collected by auditors as a follow up to [Scotland's public sector workforce](#) , Audit Scotland, November 2013.
- ◀ 12 [Maintaining Scotland's roads: a follow-up report](#) , Audit Scotland, August 2016.
- ◀ 13 [Local government in Scotland: Financial overview 2015/16](#) , Audit Scotland, November 2016.
- ◀ 14 Auditors provided this information in July 2016. We report more information on funding gaps in [Local government in Scotland: Financial overview 2015/16](#) , Audit Scotland, November 2016.
- ◀ 15 [Falkirk Council: Best Value audit report](#) , Audit Scotland, December 2016.
- ◀ 16 [South Ayrshire Council: Best Value audit report](#) , Audit Scotland, June 2016.
- ◀ 17 The full range of indicators includes unit costs and public satisfaction. These are available on the Improvement Service website – [www.improvementservice.org.uk/benchmarking/](http://www.improvementservice.org.uk/benchmarking/) 
- ◀ 18 *Scotland's People Annual Report: Results from the 2015 Scottish Household Survey*, 2016. There are limitations when using this data as survey questions do not fully distinguish the views of the whole adult population on services from the views of those who are direct users of the services. Sample size may also be an issue in some councils.
- ◀ 19 [Social work in Scotland](#) , Audit Scotland, September 2016.
- ◀ 20 *A Plan For Scotland, the Scottish Government's Programme For Scotland 2016-17*, Scottish Government, September 2016.
- ◀ 21 *Community Empowerment (Scotland) Act – Part 2: Community Planning Guidance*, Scottish Government, December 2016.

# Local government in Scotland Performance and challenges 2017

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# Local government in Scotland: Performance and challenges 2017




ACCOUNTS COMMISSION 

## Key messages


- 1** Councils have faced significant challenges from a long-term decline in revenue funding from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work.
- 2** Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved.
- 3** With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.



## Recommendations


### Councils should:

- set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions. [Exhibit 14 \(page 34\)](#)  sets out the main elements of a councils' financial planning processes and how these link with other council plans
- ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year
- have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future
- ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes
- thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes
- support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources
- ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles
- ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas
- continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.




# Self-assessment tool for councillors

This self-assessment captures a number of potential questions for councillors and relates to our report [Local government in Scotland 2017: Performance and challenges](#) . It is designed to help councillors identify how well informed they are about key issues in their council and to highlight areas where they may wish to ask further questions of officers.

As part of [Local government in Scotland: Financial overview 2015/16](#) , published in November 2016, we produced a [checklist for councillors](#)  related to financial matters. This may be useful to help councillors identify how well informed they are about financial issues in their council.

How well informed am I?		
Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
<b>Workforce planning (paragraphs 24-32)</b> 		
What do you need the workforce to look like in terms of numbers, skills and knowledge?		
Does your workforce data allow accurate analysis of changes to the workforce at an organisation and department level?		
Do you have an organisation-wide workforce plan with realistic targets and timescales for meeting objectives?		
Do you think your organisation-wide workforce plan will ensure staff reductions do not have a negative impact on the skills mix and ability of your council to scrutinise, manage and deliver services effectively?		
Do you have the staff and skills necessary to manage change and deliver services?		

## How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
<b>Scrutiny (paragraphs 39-40)</b> 		
How well do you scrutinise decisions on financial and service performance?		
How do you ensure you have the knowledge and expertise you need to scrutinise effectively?		
<b>Community engagement (paragraphs 52-53 and 61-63)</b> 		
How are you involving local communities and empowering them to design and deliver services to suit local needs?		
Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide going forward?		
What is your role as councillor in this?		
How can you consider more business in public?		
<b>Public satisfaction (paragraphs 50-51)</b> 		
How can you better engage with local communities to understand why public satisfaction is declining?		
What level of complaints does your council receive?		
For which departments?		
How has this changed?		
Are appropriate systems in place to deal with complaints?		

## How well informed am I?

Questions for councillors to consider

What do I know?

Do I need to ask any further questions?

### Councillor skills and training (paragraphs 54-57)

How can you ensure that you have the right skills and knowledge to help carry out increasingly complex and challenging roles efficiently?

### Transformational change and service redesign (paragraph 61-63)

How fully have you appraised all options for delivering services differently?

Do you need to invest in any skills, for example, change management?



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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Partnerships and Community Services)

**SUBJECT:** How Councils Work: Roles and Working Relationships in Councils – Are you still getting it right? (Accounts Commission, November 2016)

---

7

## **1 PURPOSE**

- 1.1 To review East Lothian Council's position in relation to the Accounts Commission report, *'How Councils Work: Roles and working Relationships in Councils – Are you still getting it right?'*

## **2 RECOMMENDATIONS**

### **2.1 The Committee should:**

- note the position of East Lothian Council in regard to the issues raised in Accounts Commission report, *'How Councils Work: Roles and Working Relationships in Councils – Are you still getting it right?'*
- use the Summary Checklist that accompanies the report to identify any areas where further information or guidance is required for elected members
- note that a training needs survey of elected members will be carried out in the autumn to help inform the development of an on-going training and development programme for councillors.

## **3 BACKGROUND**

- 3.1 The Accounts Commission has published a series of reports under the theme: How Councils Work, which address key areas of good governance in councils. It published the *'Roles and Working Relationships: Are you getting it right'* report in 2010 and in November

2016 it published the follow up report, 'Roles and Working Relationships in Councils – Are you still getting it right?' in November 2016.

3.2 In this latest report the Accounts Commission revisits the themes in its 2010 report. It highlights issues that are important to the governance of councils in the current climate. The Commission hopes that the report will support councillors in their difficult and challenging role. Also the report should also help councils to consider their governance arrangements.

3.3 The three messages highlighted in the report centre on the main themes of the original 2010 report:

- clear roles and responsibilities and arrangements for governance that are up to date
- effective working relationships, with councillors and officers demonstrating appropriate behaviours
- councillors having the skills and tools to carry out their complex and evolving roles.

3.4 The Accounts Commission stresses that Councils need to put in place systems for governance that fit their particular ways of working. The broad principles of good governance that all councils must observe were set out in the CIPFA/ SOLACE Delivering Good Governance in Local Government Framework (2007). The six core principles of the framework provide a useful context for the report:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through 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 capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

3.5 The Council adopted the Good Governance principles in 2010 and carries out an annual self-evaluation against the framework which is reported along with the Annual Governance Statement to Audit and Governance Committee.



- 3.6 *How Councils Work: Roles and working Relationships in Councils – Are you still getting it right?* is structured around seven significant issues, which are summarised below along with a short explanation of how East Lothian Council is addressing each of them.

***The changing local government operating environment***

- 3.7 The report highlights the major challenges faced by local government, including continuing resource constraint against a backdrop of increasing demand and rising public expectations, the integration of Health and Social Care, the increasing complexity of service delivery, the re-emphasis on Community Planning and the Community Empowerment Act, the potential impact of the Scottish Government's Programme for Government and the implications of the decision to leave the European Union.
- 3.8 The Accounts Commission has emphasised, in this and other reports, that the scale and pace of change required and expected of councils means that difficult decisions about fundamental changes in services and how they are delivered will need to be taken. This makes it even more important that councils review their governance arrangements to ensure they remain 'fit for purpose' in the ever changing and more complex operating environment.
- 3.9 The draft Council Plan 2017-2022 adopted by the Council in February 2017 addresses the challenges highlight by the Accounts Commission. The draft Plan is explicit in identifying the need for the Council to undergo fundamental changes through the Transformational Change programme and through increasingly becoming:
- An enabling and empowering authority that works with its citizens and communities, the business and third sectors and other public sector partners to deliver the solutions that work best for East Lothian
  - A more entrepreneurial authority, developing new ways of ensuring services are provided in the most effective and efficient way possible
  - A 'digital' authority, fully embracing and exploiting opportunities to use technology to deliver services.
- 3.10 East Lothian Council carries out an annual self-evaluation against its Corporate Governance framework to ensure that it has governance arrangements in place to support effective decision-making and strong and effective leadership. The self-evaluation, which is reported to the Audit and Governance Committee and forms the basis for the Annual Governance Statement, included in the Council's Annual Accounts, identifies areas for improvement.

### ***Councillors and officers must be clear on their roles***

- 3.11 The key point made by the Accounts Commission is that clear governance, particularly officer and member roles and responsibilities, is essential to delivering effective public services. Councillors should actively support and contribute to the effective governance of the council through taking fair and objective decisions and providing constructive scrutiny. Councillors are required to observe the Councillors Code of Conduct but councils can also develop more specific local guidance on roles and responsibilities.
- 3.12 The elected member induction programme has included sessions which deal with the roles and responsibilities of elected members and the Councillors Code of Conduct. The Council has adopted role descriptions for elected members making a clear distinction between 'backbench' elected members, senior members, Council Leader and Provost. The Council Standing Orders and Scheme of Administration and Delegation include the role descriptions for Chief Officers and Statutory Officers as well as the Councillors Code of Conduct, which clearly outline the different role of councillors and officers.

### ***Scrutiny is an essential part of effective decision-making***

- 3.13 Councils must have good systems for decision-making, audit and scrutiny, if they are to operate effectively. Scrutiny and audit are both important, but their distinction is not always clear. The Accounts Commission believes that effective and transparent scrutiny is best achieved where the chair of the scrutiny committee is not a member of the political administration; scrutiny committees must have clear terms of reference; they must have access to independent advice; and their members must have the necessary skills and training to do their job.
- 3.14 The Council has three scrutiny committees – Audit and Governance, Policy and Performance Review and Police, Fire and Rescue and Community Safety Scrutiny Committees. The Committees have clear and distinct terms of reference. The Audit and Governance and Policy and Performance Review Committees are chaired by non-administration members. The scrutiny committees are supported by council officers who provide impartial advice to the members. The Guide to Scrutiny provides members of the committees with guidance about how to conduct their business and provide effective scrutiny.

### ***The governance of partnerships and arm's length bodies needs to be considered from the outset***

- 3.15 Councils and their partners must give careful consideration to the governance arrangements for partnerships, joint boards and arms-length organisations. The integration of health and social care is an example of the complexities involved in achieving effective partnership working. The report also makes specific reference to arms-length organisations (ALEOs) which have grown in scale and importance in recent years. The Councillors Code of Conduct usefully sets out the principles that

councillors must follow when taking a role on outside bodies. The report also highlights the potential conflict of interest issues that might arise for councillors who are appointed to the boards of ALEOs and other outside bodies.

- 3.16 East Lothian Council only has one recognised ALEO – Enjoy Leisure – which was established following detailed consideration of governance and other arrangements. The governance arrangements for East Lothian’s community Planning Partnership have been reviewed and revised on several occasions and will be reviewed once again during summer 2017 to ensure they remain ‘fit for purpose’ as the Single Outcome Agreement is replaced by a new East Lothian Plan (Local Outcome Improvement Plan). The elected members’ induction programme included sessions on the role of members on outside bodies and briefings on some of the Council’s key partnership bodies, including the Health and Social Care Partnership.

***Statutory officers need to have sufficient influence***

- 3.17 The Accounts Commission believes that statutory officers, who have an important role to play in promoting and enforcing good governance and for making sure councils comply with legislation, must have sufficient influence and experience to undertake these roles. Councillors must be aware of the purpose of the statutory officers which should be set out in schemes of delegation.
- 3.18 East Lothian Council’s Scheme of Delegation includes the role descriptions for the statutory officers – Head of Paid Service, Chief Financial Officer, Monitoring Officer, Chief Social Work Officer and Chief Education Officer. Four of the five statutory officers are members of the Council Management Team and the other – Chief Social Work Officer – attends regularly and also meets with the Chief Executive on a monthly basis. All elected members have been made aware of the role of the Council’s statutory officers and have direct access to them to seek advice or pursue any matter of concern (e.g. possible breach of Standing Orders or the Councillors Code of Conduct). The statutory officers attend the Council, Cabinet and other Committees as required to provide advice to members.

***Good conduct and behaviours are crucial***

- 3.19 The Accounts Commission has stressed the importance of councillors and officers working well together with relationships built on trust, openness and mutual respect. Again the report stresses the importance of councillors observing the ethical standards and behaviours set out in the councillors’ code of conduct. The 2010 How Council’s Work report noted the benefits of using cross-party meetings to help foster good communication and working relationships between political groups. It also suggested that member-officer working groups can be useful although they should not be used for decision-making. The report stresses that ultimately, actual behaviours are more important than rules.

- 3.20 The Council supports a culture of trust, respect and openness between councillors and chief officers, with the officers providing confidential advice as required to both the administration and opposition groups (e.g. in the preparation of administration and opposition budgets prior to the Council budget setting meeting). The Council has on occasion established cross party meetings to consider matters such as the Council's response to the Local Government Boundary Commission.

***Councillors need the skills and tools to carry out their roles***

- 3.21 As has been highlighted above the role of elected members is evolving and has become increasingly complex, which underlines the importance of councillors having the skills, knowledge and confidence to undertake their various roles. Councils have carried out training needs analysis and put in place personal development plans for councillors. Although there is no requirement in the Councillors Code of Conduct for councillors to participate in training some training, in particular around councillors' quasi-judicial roles and in regulatory functions such as planning is compulsory. The Accounts Commission urges councils to ensure that councillors receive training in the essential areas of scrutiny, audit and financial decision-making. Finally, the report suggests that training and development for councillors should be an on-going process, not just a one-off induction.
- 3.22 The elected members' induction programme has included mandatory sessions, including on the councillors code of conduct, legal duties and responsibilities and the planning system. Other sessions were mandatory for new members. The Council has undertaken training needs analyses which helped to inform the development of an on-going programme of briefing sessions on key issues. Shortly after the 2012 council elections members were encouraged to create personal development plans that were then supported through the Improvement Service. It is proposed that a training needs survey of all elected members will be carried out in the autumn to help inform the development of an on-going training and development programme for councillors.
- 3.23 The Accounts Commission report is accompanied by a summary checklist (Appendix 2) of key questions which councillors and officers should ask themselves to ensure they are satisfied that the issues in the report are being addressed effectively.

## **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 ‘How Councils Work: Roles and Relationships in Councils – Are you still getting it right?’, Accounts Commission, November 2016  
7.2 Summary Checklist, Accounts Commission, November 2016

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# How councils work

## Follow-up messages for councils

Roles and working relationships in councils -  
Are you still getting it right?



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
November 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](http://www.audit-scotland.gov.uk/about/ac) 

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



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# How councils work

## Are you still getting it right?

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1. The Accounts Commission's 2010 [\*How councils work. Roles and working relationships: are you getting it right?\*](#)  (HCW) report set out the importance of good governance in councils. This requires good working relationships, and members and officers being clear about their respective roles and responsibilities. As the Commission said at the time, getting these things right has a significant bearing on how well councils perform in delivering vital public services for local people and communities, and ensuring that public money is used wisely.
2. The report highlighted the complex and demanding role that councillors have in representing their constituents, providing strategic direction for the council, and scrutinising policy decisions and service performance. The Commission also drew attention to the increasing role of councillors on external bodies and partnerships such as health integration joint boards, arm's-length organisations, voluntary sector organisations and police and fire committees. The report stressed the importance of training and development to support councillors with the skills and tools to carry out their role.
3. Many, if not all of the recommendations in that report still stand. That is unsurprising as they were founded on core principles of good governance: clarity about roles and responsibilities; a culture of trust; and the application of good conduct and behaviour. However, since its publication in 2010, the context in which local government operates has changed markedly. The Accounts Commission has therefore decided to re-visit some of the report's key messages in the light of these changes.
4. The Commission hopes that this report will be a useful tool to support councillors and officers in their complex and evolving role. It aims to help them review their practice and to take any necessary actions to ensure that their council's governance arrangements remain fit for purpose.

### Purpose of this report

5. Alongside its role as the local government public spending watchdog, the Accounts Commission also aims to help councils improve. The How councils work series of reports and this follow-up report focus on supporting councils in their drive for improvement.
6. In this report the Accounts Commission revisits the themes in its 2010 HCW report on roles and working relationships. It highlights issues that are important to the governance of councils in the current climate. The Commission hopes that this report will support councillors in their difficult and challenging role. It should also help councils to consider their current governance arrangements and make any necessary changes, including their preparations for the new intake of councillors following the May 2017 local government elections.

**7.** The messages highlighted in this report centre on the main themes of the original HCW of:



- clear roles and responsibilities and arrangements for governance that are up to date
- effective working relationships, with councillors and officers demonstrating appropriate behaviours
- councillors having the skills and tools to carry out their complex and evolving role.

**8.** Councils need to put in place systems for governance that fit their particular ways of working. There are however broad principles of good governance that all councils must observe. The 2007 CIPFA/ SOLACE Delivering Good Governance in Local Government Framework sets out six core principles which provide a useful context for this report:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through 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 capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

**9.** The checklists throughout the report are designed to help councils assess their governance arrangements taking these principles into account.

**10.** The [References](#) section provides links to other useful guidance material prepared by bodies including the Association of Public Service Excellence, the Centre for Public Scrutiny, the Chartered Institute of Public Finance and Accountancy, the Improvement Service, the Society of Local Authority Chief Executives and Senior Managers, and the Standards Commission.


**11.** As part of its research for this report, the Accounts Commission hosted two Round Table discussions to explore how the current local government context impacts on governance in councils. These were attended by senior officers and members from Scottish local authorities and leading local government policy experts and academics. Summaries of those discussions can be accessed here [Round Table 1](#) , [Round Table 2](#) . In addition to the round table discussions, the Commission has drawn on its own audit work in councils, and also wider research from those bodies identified in [references](#).

**12.** The following sections set out significant issues that the Accounts Commission believes are important to effective governance in the changing local government climate.


### **The changing local government operating environment**

**13.** Councillors and council officers are working in an increasingly complex and challenging environment. Councils face continued financial constraints along with demand pressures in areas such as older peoples' care. Councils are having to rethink many of the ways in which they have done things in the past. This has implications for councillors and officers, and how they work together to lead change and improve services. Some of the major changes in the local government environment are summarised below:

- Continuing resource constraints, against a backdrop of increasing demand and rising public expectations about the quality of public services.
- The integration of health and social care, which is fundamentally changing the governance arrangements for this significant area of public service delivery.
- The increasing complexity of service delivery (ALEOs, Trusts, special-purpose vehicles, charities, etc.), often in partnership with others (other public bodies, the third and private sector, or communities themselves).
- The re-emphasis on Community Planning and the Community Empowerment Act, which has the potential to fundamentally change the relationship between councils and local communities.
- The City Region Deal programme, which is giving councils a more prominent role in leading the development of the local economy.
- The Community Justice (Scotland) Act 2016, which gives community planning partnerships responsibility for the strategic planning and delivery of community justice.
- The potential impact on councils of the Scottish Government's Programme for Government.
- The implications on local government of the United Kingdom's decision to leave the European Union.

**14.** The councillor role, while rewarding, can be challenging and stressful. Councillors play an increasingly important role in enabling communities to meet their aspirations. But at a time of financial constraint, they must also take difficult service decisions that may impact on the communities they serve. A report by the Association of Public Service Excellence (APSE) [\*The future role of elected members in Scotland\*](#)  illustrates these points well.

**15.** Councils need to take major decisions over how they provide services to meet current cost and demand pressures. The Accounts Commission has found that councils are implementing incremental changes to services, for example through introducing service charges or reducing employee numbers. But these approaches are not sufficient or sustainable given the scale of the challenges ahead.

**16.** In its 2016 report, *An overview of local government in Scotland* , the Commission emphasised that councils need to consider fundamental changes to cope with these pressures. A more strategic approach is needed with longer-term planning and a greater openness to alternative forms of service delivery. This requires both strong leadership and effective engagement with communities.

**17.** Good governance lies at the heart of how councils manage change and deliver improvement. But, governance has become more complex since the Accounts Commission's 2010 How councils work report because of a range of factors, including:

- the shift from single party council administrations to coalitions, where no single party has overall control
- the shift from traditional service-based committees to the executive or cabinet model, bringing a clearer separation between decision-making and scrutiny
- the increasing prominence of partnership working, including health and social care integration, and service delivery through alternative models such as arm's-length organisations
- the introduction of leaner management structures within councils, with executive directors holding wider service remits.

**18.** Many councils are taking measures to scale-down their management structures and reduce their workforces. Streamlining management and becoming more efficient is an important aspect of delivering Best Value, but the Commission has emphasised that councils need to retain sufficient leadership capacity to deliver effective services for the future. This means having the people in place with sufficient knowledge, skills and available time.

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## Checklist 1

### Keeping governance up to date



#### As a councillor:

How effective is governance in your council?

Have your views been sought over the effectiveness decision-making and scrutiny, coalition working arrangements, or multi-member ward working for example?

Do you think councillors provide strong and effective leadership?

Do you feel that the council's senior management team has the capacity and capability to deliver the council's priorities?

**Cont.**

**As a chief officer:**

Have you consulted with councillors over the effectiveness of the council's governance arrangements?

Do you regularly review governance, eg schemes of delegation, standing orders and working protocols?

How well has the council adapted its governance to take into account significant changes such as health IJBs and its use of arm's-length companies?

Does your annual governance statement address significant issues and identify areas for improvement?

**Councillors and officers must be clear on their roles**

**19.** Governance can be described as the systems for directing and controlling an organisation's activities. Put simply, it's about being clear about what the council is trying to achieve and who is responsible for doing what. The 2010 HCW report emphasised that clear governance, particularly officer and member roles and responsibilities, is essential to delivering effective public services. That fundamental principle is as valid now as it ever was.

**20.** It is important that councillors actively support and contribute to the effective governance of the council itself. For example taking fair and objective decisions and providing constructive scrutiny. The Accounts Commission's Best Value work has shown how difficult it is for councils to make progress where councillors do not support, or may even obstruct their council's governance processes.

**21.** Councillors are required to observe the Councillors Code of Conduct. This sets out core requirements around the role of councillors and their conduct, for example around declaring interests and taking decisions. The McIntosh report into local government and the Scottish Parliament, June 1999 highlighted the distinct roles and responsibilities for councillors and officers.

- The full council (comprising all councillors) is the governing body of the council that determines policy. It is ultimately responsible for ensuring the quality of service delivery.
- Councillors are elected to determine policy, not to engage in the direct operational management of services – this is the responsibility of council officers.
- Officers advise and serve the whole council. The council has a right to expect advice which is candid, expert and impartial.

**22.** It found that these distinctions are often easier to state than to carry out consistently into practice. For example the distinction between policy development and management is notoriously difficult to draw up at the margin. In addition, the changed framework within which councillors and officers operate in cabinet or executive systems of governance call on a new level of skills on the part of officers who are required to work directly to both the executive leadership group and to the council as a whole.

**23.** Coalition administrations are now the norm for local government in Scotland, but these can bring less certainty over decision-making. It can take more effort from both councillors and officers to work effectively in a coalition. It also requires a more sophisticated or nuanced approach to balance different interests across political groups.

**24.** Some council administrations use coalition agreements to set out the joint expectations of the administration parties. These can be used to set out their shared vision and commitments, arrangements for budget setting, decision-making and scrutiny, and arrangements for resolving any differences. Coalition agreements can also be a useful focus for officers to help clarify the goals they need to work to. If managed well coalition working can lead to better decisions through testing policy proposals more widely.

**25.** Councils should also consider developing more specific local guidance or protocols to help clarify roles and responsibilities in their council. Examples include protocols for multi-member ward working; member-officer engagement; and employee conduct. [References](#) outline further guidance available to councillors.

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## Checklist 2



### Clear roles and expectations

#### As a councillor:

How well do you understand and observe the roles expected of you?

Do you need further guidance on how to fulfil your role, for example protocols for member-officer working?

Do you actively contribute to effective governance in the council, as well as fulfilling your representative role as councillor?

Are officers accessible – and to what extent do they provide the right balance between supporting the administration and supporting the council as a whole?

Where your council is led by a coalition, are the working arrangements clear?

Where your council uses the executive or cabinet system, are the roles of the executive and non-executive groups clear?

#### As a chief officer:

Do you feel you provide the right balance between supporting the administration and supporting the council as a whole?

Have you reviewed the council's governance documents including schemes of delegation, guidelines and protocols to ensure they are clear and easily understood?

Do you think all councillors are clear on their roles and have the necessary skills, and have you taken steps to support them?

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## Scrutiny is an essential part of effective decision-making

**26.** Good governance involves councils being accountable and accessible to the communities they serve. Councils must be transparent about the decisions they make and the quality of the services they provide. The council's leadership must be scrutinised and held to account for its plans and performance. This requires a culture that recognises the importance of scrutiny and is open to candid discussions about risks.


**27.** Putting effective scrutiny in place can be particularly difficult in complex partnerships or where there is an uncertain and changing environment. Whatever system of governance is used, it is crucial to know who is asking questions over risk and resilience. A prerequisite for effective scrutiny is that councillors must regularly attend committee or board meetings and actively take part in scrutiny when they do so.

**28.** Councils must have good systems for decision-making, audit and scrutiny if they are to operate effectively. Scrutiny and audit are both important, but their distinction is not always clear. Blurring these roles can weaken governance.

**29.** In broad terms, scrutiny questions whether councils are doing the right thing and questions policy proposals and the performance and quality of services. Audit examines the regularity of governance and financial management including how the council has applied its resources to achieve its objectives. Councillors' involvement in discussion and debate at the start of the decision-making process is an important element of good policy making and effective scrutiny.

**30.** The Accounts Commission believes that effective and transparent scrutiny is best achieved where the chair of the scrutiny or audit committee is not a member of the political administration. Scrutiny and audit committees must have clear terms of reference that set out their independent role in scrutinising the councils decisions and its performance and practice. They should have adequate support and be given access to independent advice. Members of these committees must have the necessary skills and training to do their job.

**31.** Councils should give careful consideration to the design of their scrutiny arrangements, and review their effectiveness on an ongoing basis. The cabinet or executive model of governance makes a clearer distinction between decision-making and scrutiny. Where councils use this approach they should be clear on the powers that rest with executive members and the means by which non-executive members can hold the executive to account.

**32.** In its [overview of local government in Scotland](#)  report, the Accounts Commission' emphasised the importance of robust scrutiny over councils' strategic service delivery choices, noting that "it is increasingly important that councillors 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".

**33.** The Commission's Best Value work in councils has highlighted that scrutiny works best where councillors receive good quality information on which to base their decisions. But, councillors also need to be proactive and assure themselves that they have sufficient evidence before decisions are made. The information they receive should be balanced, comprehensive and understandable. If things go



wrong it is not enough for councillors to say 'I wasn't told', or 'we weren't given the information'. Where scrutiny fails the public interest is not met; the most graphic example being the failure in scrutiny by councillors in Rotherham MBC in relation to the sexual exploitation of children.

**34.** The 2015 Community Empowerment Act gives communities a much stronger say in how public services are to be planned and provided. The legislation provides a real opportunity for councils to develop imaginative ways of involving communities in local decisions and in scrutinising local services. Councils must use the opportunity that this new legislation presents to strengthen community engagement and participation to drive improved outcomes in local services.

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## Checklist 3



### Effective scrutiny

#### As a councillor:

How open is your council to scrutiny – is scrutiny encouraged as a means to improve services and make better decisions?

Have you received training and support in your scrutiny role?

Do you actively engage in scrutiny and ask constructive and challenging questions?

Do you feel able to ask candid questions, for example about risks?

To what extent does scrutiny take into account service user and community views?

Are the chairs of the audit and scrutiny committees sufficiently independent?

Do you get sufficient information to make balanced decisions, for example on the best options for delivering services?

Does your council's scheme of special responsibility allowances reflect the importance of the scrutiny and audit functions?

#### As a chief officer:

Do you periodically review the effectiveness of scrutiny – including its impact on decision-making?

Are effective scrutiny and audit arrangements in place for services delivered through local partnerships or arm's-length bodies?

Do you provide councillors with comprehensive information on services, costs and risks?

Have you taken measures to engage service users and communities in scrutiny?

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## The governance of partnerships and arm's-length bodies needs to be considered at the outset

**35.** Councils and their partners must give careful consideration to the governance arrangements for partnerships, joint boards, and arm's-length organisations. Issues such as councillor representation, scrutiny and public accountability need to be considered at the outset.

**36.** Where the council jointly leads a service with other partners it is important that they share a common culture and purpose. The Accounts Commission's Best Value audit work found that community planning partnerships for example are most effective where they have a shared culture of trust. But, the integration of health and social care is an example of the complexities involved in achieving this. Our December 2015 report on [Health and social care integration](#) highlighted the need for members of IJBs to understand and respect differences in organisational culture between councils and the NHS and to build a common understanding of the roles and responsibilities of board members.

**37.** There has been steady growth in councils' use of arm's-length organisations. First seen as sports trusts in the 1980s, ALEOs are now also widely used for property, transport, and economic development. More recently, ALEOs have been used for core services such as older people's care. This can mean councillors taking positions on the boards of companies and charitable trusts and brings particular demands to their already diverse role.

**38.** The councillors Code of Conduct sets out principles that councillors must follow when taking a role on outside bodies. The Standards Commission's Advice Note for Councillors on ALEOs provides supplementary guidance to help clarify this complex area of the Code. The Accounts Commission and COSLA's [Following the Public Pound Code](#) (FPP) and the Accounts Commission's [How councils work](#) reports on ALEOs also set out guiding principles for councils in this complex area.

**39.** These reports emphasise that councils should consider carefully the representation on arm's-length organisations. The key question is what skills are required of the board and who is best placed to meet these. Where councillors or officers take such roles they should be clear of their responsibilities and have the right mix of skills and experience.

**40.** There are risks of conflicts of interest where councillors or council officers take board positions. The Companies Act and Charities Act requires board members or trustees to act in the best interests of the company or trust on which they serve, and to put these interests first. But there may be times where this requirement may conflict with a councillors' duties to the council. This can be a difficult balance where councillors and council representatives may be privy to certain information, but are prohibited from sharing or acting on it because of their role. Examples could be council policy decisions that impact on local services and the funding provided to ALEOs.

**41.** There is an ongoing debate around the advantages and disadvantages of having councillors as board members. On the plus-side, councillors bring their status as democratically elected community representatives and their knowledge of the council and its services; on the minus-side, there are potential conflicts of interest between their council and ALEO roles. It is interesting to note that in England it tends to be the exception rather than the rule for councillors to be members of ALEO boards.

**42.** Councils should consider wider options to limit the risks of conflicts. For example, some councils have chosen not to use council representatives as board members for this reason. Alternatively, council representatives can take advisory or non-decision making roles in the ALEO. In all cases, and in line with FPP, councils should ensure that the performance of ALEOs is regularly reported and monitored by the council and reported to committee.

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## Checklist 4



### Partnerships and arm's-length bodies

#### As a councillor:

Do you think the governance arrangements for local partnerships, the health IJB, and the council's arms-length bodies are clear and fit for purpose?

Do you have the necessary skills and abilities to undertake your role?

Do you receive support and training on your roles and responsibilities in relation to any partnership or arms-length body that you sit on?

Does your training specifically cover your legal responsibilities as a member or trustee in relation to the company or charitable trust that you are a member of?

Do you make a strong contribution through your attendance and engagement at board meetings?

Are the different aspects of the role clear eg providing strategic direction, scrutiny, audit, and representing the council or community?

Is the performance of the local body or partnership sufficiently monitored and reported to council?

Does the IJB have a common culture and purpose – is there a clear vision for improving care?

#### As a chief officer:

Does your council provide sufficient training and support to councillors in their roles on local partnerships and boards?

Does the council understand and observe the Following the Public Pound guidance? (eg setting clear criteria for funding, audit access, and monitoring)

Does the council have a clear rationale for council representatives having a role on outside bodies and partnerships?

Are you satisfied with the governance of the IJB including how its decisions are reported to the council?

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## Statutory officers need to have sufficient influence

**43.** Statutory officers have specific duties and discharge their role as part of their wider responsibilities within their council. They have an important, independent role in promoting and enforcing good governance and for making sure councils comply with legislation. [Exhibit 1](#) summarises the core roles of statutory officers.

**44.** The Accounts Commission believes that statutory officers must have sufficient influence and experience to undertake these important roles. It has found in its Best Value audit work that in some cases the role of monitoring officer can be undermined because of a lack of trust and respect between councillors and officers.


**45.** The 2010 HCW report found that councillors are not always clear on the purpose of the statutory officer roles. Council schemes of delegation should set out what these roles involve and why they are important, and the role of statutory officers should feature in induction schemes for all newly councillors. Councillors and committees should know when to seek advice from statutory officers to ensure that they operate legally and responsibly.

**46.** The chief executive is responsible for ensuring that statutory officers have sufficient access and influence to carry out their roles. This could mean for example their being a member of, or attending the senior management team. As such the chief executive may need to balance the benefits of having statutory officers as full members of the senior management team, with any intentions to operate slimmer executive management structures.

## Exhibit 1

### Statutory officer roles

Statutory officer post	Core duties
Head of paid service (the chief executive) <ul style="list-style-type: none"> <li>established under the Local Government and Housing Act 1989</li> </ul>	The head of paid service (the chief executive) is responsible to councillors for the staffing of the council and ensuring the work in different departments is coordinated.
Monitoring officer <ul style="list-style-type: none"> <li>established under the Local Government and Housing Act 1989</li> </ul>	The monitoring officer ensures that the council observes its constitution and operates legally. This includes reporting on the legality of matters, mal-administration, and the conduct of councillors and officers.
Chief financial officer <ul style="list-style-type: none"> <li>established under the Local Government (Scotland) Act 1973</li> </ul>	The chief financial officer (section 95 officer or the senior financial officer) is responsible for the financial affairs of the council.
Chief social work officer <ul style="list-style-type: none"> <li>established under the Social Work (Scotland Act) 1968</li> </ul>	Councils are required to appoint a professionally qualified chief social work officer to provide members and senior officers with effective, professional advice about the delivery of social work services.
Chief education officer <ul style="list-style-type: none"> <li>established under the Education (Scotland) Act 2016</li> </ul>	Councils are required to appoint a suitably qualified and experienced chief education officer to carry out the authority's education functions as defined by the Education (Scotland) Act and other enactments.

47. Our report *Social work in Scotland*  highlights that the role of the chief social work officer (CSWO) has changed significantly as a consequence of health and social care integration. This has created risks that in some councils the CSWO may have too many responsibilities and insufficient status to enable them to fulfill their statutory responsibilities effectively. This is one example of the challenges councils face in putting effective governance in place at a time of ongoing change.

---

## Checklist 5



### The role of statutory officers

#### As a councillor:

Do you understand the roles of statutory officers, and do you have confidence in their abilities and contribution? (eg, monitoring officer, chief social work officer, chief finance officer)

Have you received sufficient training on the roles and responsibilities of statutory officers?

Do you / your committee understand how and when to consult with statutory officers?

#### As a statutory officer:

Do you have sufficient influence to ensure the council operates effectively?

Are you seen to be accessible in the support that you provide throughout the council?

Do you have a constructive relationship with the senior management team?

Are your views sought, and do you provide advice and direction to councillors and senior officials?

Are the responsibilities of the statutory officer roles adequately set out in the council's governance documents?

---

## Good conduct and behaviours are crucial

48. Culture is set from the top and a positive culture is essential for any organisation to operate effectively. The Accounts Commission has stressed the importance of councillors and officers working well together. This means good working relationships built on trust, openness and mutual respect between all parties. Where these are absent it is difficult for any organisation to make progress.

49. Councils should reflect on whether their working relationships are constructive and productive. Councils operate in an often highly politicised environment and this can lead to tensions. The Standards Commission has noted increasing incidences of complaints against councillors. This can damage the reputation of councils and distract them from their purpose to provide people with vital services.

50. The Accounts Commission's Best Value work in councils has found instances where working relationships have broken down between political groups, or where there are tensions between members and officers. For example where

members lack confidence in officers and the information they provide to them. Social media and instantaneous communications are also becoming an increasing area of risk for councillor conduct.

**51.** Councillors and officers should send clear signals over how their people should behave and interact. Councillors should observe the ethical standards and behaviours set out in the councillors' code of conduct. Monitoring officers also have a role to help them with this. Exit interviews for councillors are seldom undertaken but they can provide useful reflection on how councils are run.

**52.** The 2010 HCW report noted the benefits of using cross-party meetings to help foster good communication and working relationships between political groups. Similarly, member-officer working groups can be useful to for members to work more closely with officers. These meetings should not be used for decision-making, observing the principle for council decisions and discussions to be taken in public.

**53.** Ultimately, actual behaviours are more important than rules – which can be worked around or ignored. It can be difficult for monitoring officers to challenge personal behaviours and this takes confidence and experience. Monitoring officers need to know how to act, and when. It is important that they address issues at an early stage, nipping potential problems in the bud to prevent poor behaviour becoming an accepted part of how the council runs itself.

---

## Checklist 6



### Conduct and working relationships

#### As a councillor:

To what extent do you think councillors work constructively together and show mutual trust and respect?

Is there a culture of trust and openness between councillors and chief officers?

Are you made aware of the behaviours and conduct expected of you?

Are cross party or group meetings and member-to-officer working groups used and do they work well?

#### As a chief officer:

Is sufficient guidance on roles and expected conduct available to both councillors and officers /employees?

Do you have positive and constructive working relationships with officers?

Are sufficient opportunities in place for cross party / group meetings, and for members to work with officers?

Are such meetings constructive, and do they respect the principle for public debate and decision-making?

Does the council undertake exit interviews for councillors and learn from them?

## Councillors need the skills and tools to carry out their role

**54.** Local government in Scotland is a significant undertaking on any measure, involving annual expenditure of £20 billion and employing over 240,000 people. The increasing complexity of the local government environment, highlighted in this report, underlines the crucial importance of councillors having the skills, knowledge and confidence to provide demonstrable leadership, to undertake a much wider variety of roles, and to manage this complexity effectively.

**55.** It is essential that councils practice effective scrutiny, and decision-making to make sure that every pound they spend is spent wisely. There is an over-riding need for good governance and this can be especially challenging as service delivery arrangements become more complex.

**56.** Many councils carry out training needs analysis and put in place personal development plans for councillors. But evidence from Best Value audits indicates that councillors' take up of training is at best variable and sometimes they have poor perceptions of the training they receive.

**57.** Despite the importance of skills development there is no requirement in the Councillors Code of Conduct for councillors to participate in training. However, all councils provide compulsory training for the quasi-judicial roles in regulatory functions such as planning and licensing.

**58.** This is in contrast to the position in the health service where health boards have a duty to provide non executive directors with the necessary information and training to ensure that they are able to discharge their corporate responsibility to their highest standards. The approach recommends mandatory training and development for new non executive directors of a health board relevant to their governance committee membership or as identified through the performance development process.

**59.** It is also important to draw attention to the requirement in the Following the Public Pound (FPP) code for councils to properly advise members and officers of their responsibilities in relation to ALEOs, including declarations of interests. Councils should consider the role of their training and development programmes in meeting this requirement. This is not only in the public interest but in the best interests of councils themselves.

**60.** The Accounts Commission urges councils to go further and ensure that councillors receive training in the essential areas of scrutiny, audit, and financial decision-making.

**61.** Involving councillors in the design of training programmes can help to make them more relevant to their needs. Drawing on the views of newly elected and longer-serving members can help ensure that training and development, particularly induction training, is appropriate and effective. This can help to overcome the 'you don't know what you don't know' challenge where councillors may not be aware of skills and knowledge gaps until they have been in the job for some time. There is also a role for peer-to-peer training so councillors can learn and benefit from others' experience.

**62.** Training and development should be an ongoing process, not just a one-off induction. Newly elected councillors can be overloaded at the start of their term.

Councils should consider wider options such as training in the transition period before councillors take office; or a second wave of training once councillors have settled into their roles and are in a better position to apply new learning.

**63.** It is also important that officers provide ongoing support to councillors including good quality advice and information to help them in their various roles. This includes the opportunity to learn from good practice in other councils – another recurring theme of Best Value audits. The overall focus needs to be on continuing personal development.

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## Checklist 7

### Councillors skills



#### As a councillor:

How well do you understand your role in relation to the council, local community, and on partnerships and outside bodies?

Is training and development sufficient for you to do your job?

Are you able to make an effective contribution to scrutiny, audit, and financial aspects of council business?

Do you take up training opportunities and make the most of advice and support from officers?

#### As a chief officer:

Do you ensure that training and development opportunities are available to councillors?

Does training include essential skills in areas such as scrutiny, audit and financial decision-making

Do you give sufficient support, information and guidance to councillors across their diverse roles, including partnerships and arm's-length companies?

Do you tailor training to the individual needs of councillors make it available on an on-going basis?

Do you seek feedback on the effectiveness of training and act on this?

Has the council reviewed the facilities and support provided to councillors to help them make the best use of their time and skills?

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# References

## Accounts Commission/Audit Scotland

[\*How councils work. Roles and working relationships\*](#) , Audit Scotland, August 2010.

[\*How councils work. Arm's-length external organisations \(ALEOs\)\*](#) , Audit Scotland, June 2011.

[\*The following the Public Pound Code \(Accounts Commission and COSLA\)\*](#) , Audit Scotland, March 2004.

[\*An overview of local government in Scotland 2016\*](#) , Audit Scotland, March 2016.


## Other references (as in October 2016)

[Councillors' Code of Conduct \(The Standards Commission\)](#) .

CIPFA/SOLACE [Delivering Good Governance in Local Government: Framework \(2016 Edition\)](#) .

[Advice for councillors on arm's length external organisations](#)  (The Standards Commission).

[Improvement Service learning materials](#) , eg Elected Member Briefing Notes & Guidance (CPP board guidance, continuous professional development, induction, briefings etc.)

Scottish Parliament Information Centre (SPICe) Financial Scrutiny Unit Briefing, [Subject profile – local government in Scotland](#) , (includes councillor roles and council powers / functions).

[The role of the chief financial officer](#) , CIPFA.

Association of Public Service Excellence (APSE) report: [The final piece of the jigsaw: elected members, everyday politics and local democracy in Scotland](#) .

Local Government Association information on being a councillor: <http://beacouncillor.co.uk/> .

Scottish Government: [On Board: A Guide for Board Members of Public Bodies in Scotland](#) .

# How councils work

## Follow-up messages for councils

Roles and working relationships in councils  
- Are you still getting it right?

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# Summary Checklist

## Appendix 2

### Questions for councillors and officers to consider



#### Keeping governance up to date

**As a councillor:**

How effective is governance in your council?

Have your views been sought over the effectiveness decision-making and scrutiny, coalition working arrangements, or multi-member ward working for example?

Do you think councillors provide strong and effective leadership?

Do you feel that the council's senior management team has the capacity and capability to deliver the council's priorities?

**As a chief officer:**

Have you consulted with councillors over the effectiveness of the council's governance arrangements?

Do you regularly review governance eg schemes of delegation, standing orders and working protocols?

How well has the council adapted its governance to take into account significant changes such as health IJBs and its use of arm's-length companies?

Does your annual governance statement address significant issues and identify areas for improvement?

#### Clear roles and expectations

**As a councillor:**

How well do you understand and observe the roles expected of you?

Do you need further guidance on how to fulfil your role, for example protocols for member-officer working?

Do you actively contribute to effective governance in the council, as well as fulfilling your representative role as councillor?

Are officers accessible - and to what extent do they provide the right balance between supporting the administration and supporting the council as a whole?

Where your council is led by a coalition, are the working arrangements clear?

Where your council uses the executive or cabinet system, are the roles of the executive and non-executive groups clear?

**As a chief officer:**

Do you feel you provide the right balance between supporting the administration and supporting the council as a whole?

Have you reviewed the council's governance documents including schemes of delegation, guidelines and protocols to ensure they are clear and easily understood?

Do you think all councillors are clear on their roles and have the necessary skills, and have you taken steps to support them?

**Effective scrutiny****As a councillor:**

How open is your council to scrutiny – is scrutiny encouraged as a means to improve services and make better decisions?

Have you received training and support in your scrutiny role?

Do you actively engage in scrutiny and ask constructive and challenging questions?

Do you feel able to ask candid questions, for example about risks?

To what extent does scrutiny take into account service user and community views?

Are the chairs of the audit and scrutiny committees sufficiently independent?

Do you get sufficient information to make balanced decisions, for example on the best options for delivering services?

Does your council's scheme of special responsibility allowances reflect the importance of the scrutiny and audit functions?

**As a chief officer:**

Do you periodically review the effectiveness of scrutiny - including its impact on decision-making?

Are effective scrutiny and audit arrangements in place for services delivered through local partnerships or arm's-length bodies?

Do you provide councillors with comprehensive information on services, costs and risks?

Have you taken measures to engage service users and communities in scrutiny?

**Partnerships and arm's-length bodies****As a councillor:**

Do you think the governance arrangements for local partnerships, the health IJB, and the council's arm's-length bodies are clear and fit for purpose?

Do you have the necessary skills and abilities to undertake your role?

Do you receive support and training on your roles and responsibilities in relation to any partnership or arm's-length body that you sit on?

Does your training specifically cover your legal responsibilities as a member or trustee in relation to the company or charitable trust that you are a member of?

Do you make a strong contribution through your attendance and engagement at board meetings?

Are the different aspects of the role clear eg providing strategic direction, scrutiny, audit, and representing the council or community?

Is the performance of the local body or partnership sufficiently monitored and reported to council?

Does the IJB have a common culture and purpose – is there a clear vision for improving care?

#### **As a chief officer:**

Does your council provide sufficient training and support to councillors in their roles on local partnerships and boards?

Does the council understand and observe the Following the Public Pound guidance? (eg setting clear criteria for funding, audit access, and monitoring)

Does the council have a clear rationale for council representatives having a role on outside bodies and partnerships?

Are you satisfied with the governance of the IJB including how its decisions are reported to the council?

### **The role of Statutory officers**

#### **As a councillor:**

Do you understand the roles of statutory officers, and do you have confidence in their abilities and contribution? (eg monitoring officer, chief social work officer, chief finance officer)

Have you received sufficient training on the roles and responsibilities of statutory officers?

Do you/your committee understand how and when to consult with statutory officers?

#### **As a statutory officer:**

Do you have sufficient influence to ensure the council operates effectively?

Are you seen to be accessible in the support that you provide throughout the council?

Do you have a constructive relationship with the senior management team?

Are your views sought, and do you provide advice and direction to councillors and senior officials?

Are the responsibilities of the statutory officer roles adequately set out in the council's governance documents?

### **Conduct and working relationships**

#### **As a councillor:**

To what extent do you think councillors work constructively together and show mutual trust and respect?

Is there a culture of trust and openness between councillors and chief officers?

Are you made aware of the behaviours and conduct expected of you?

Are cross party or group meetings and member-to-officer working groups used and do they work well?

**As a chief officer:**

Is sufficient guidance on roles and expected conduct available to both councillors and officers/employees?

Do you have positive and constructive working relationships with officers?

Are sufficient opportunities in place for cross party / group meetings, and for members to work with officers?

Are such meetings constructive, and do they respect the principle for public debate and decision-making?

Does the council undertake exit interviews for councillors and learn from them?

**Councillor skills****As a councillor:**

How well do you understand your role in relation to the council, local community, and on partnerships and outside bodies?

Is training and development sufficient for you to do your job?

Are you able to make an effective contribution to scrutiny, audit, and financial aspects of council business?

Do you take up training opportunities and make the most of advice and support from officers?

**As a chief officer:**

Do you ensure that training and development opportunities are available to councillors?

Does training include essential skills in areas such as scrutiny, audit and financial decision-making

Do you give sufficient support, information and guidance to councillors across their diverse roles, including partnerships and arm's-length companies?

Do you tailor training to the individual needs of councillors make it available on an on-going basis?

Do you seek feedback on the effectiveness of training and act on this?

Has the council reviewed the facilities and support provided to councillors to help them make the best use of their time and skills?



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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** Internal Audit Report – Workforce Planning (Secondments and Higher Duties)

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**8**

**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Workforce Planning (Secondments and Higher Duties).

**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 the internal controls surrounding Workforce Planning was undertaken as part of the Audit Plan for 2016/17.
- 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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017



**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
WORKFORCE PLANNING  
(SECONDMENTS AND HIGHER DUTIES)**

**1. EXECUTIVE SUMMARY**

**1.1 Introduction**

A review of the internal controls surrounding Workforce Planning was undertaken as part of the Audit Plan for 2016/17. Our review examined the arrangements in place for employees undertaking secondments or higher duties. A summary of our main findings is outlined below.

**1.2 Areas where Expected Controls were Met**

- The Council has in place appropriate policies for secondments and higher duties.
- A clear audit trail exists on the Civica system of all secondments and higher duties – a detailed process history screen records all key tasks undertaken at each stage of the workflow process.
- All key documentation is held for secondments and higher duties, including a fully completed Change of Contract form detailing the start and end date and a formal letter to the employee outlining the terms of the secondment or higher duties.
- All Change of Contract forms had been properly authorised by the relevant line manager.
- Arrangements are in place to ensure that employees return to their substantive post and salary grade at the end of their period of secondment or higher duties.

**1.3 Areas with Scope for Improvement**

- The current approach adopted for applying the Secondment Policy requires review – in some cases, Change of Contract forms processed as secondments were inconsistent with the definition contained in the Secondment Policy. *Risk – failure to adopt a consistent approach.*
- There had been a failure by one service area to complete a Change of Contract form timeously to end the period of higher duties resulting in an overpayment occurring – in this case, HR had sent reminders to the service area requesting that a Change of Contract form be completed to either extend or end the higher duties, however the service area had failed to respond to the reminders that had been sent. *Risk – inappropriate payments may be made.*
- The approach adopted for setting up secondments and higher duties on the Payroll system requires review. *Risk – failure to adopt a consistent approach.*

**1.4 Summary**

Our review of Workforce Planning (Secondments and Higher Duties) has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden  
Internal Audit Manager**

**June 2017**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
WORKFORCE PLANNING  
(SECONDMENTS AND HIGHER DUTIES)**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.2	Management should review and update the Secondment Policy to ensure that it provides clarity on what constitutes a secondment and when the Policy should be applied.	Medium	HR Business Partner/Senior HR Adviser	Policy to be reviewed.		October 2017
3.3.2	Management should ensure that all Change of Contract forms are completed prior to the secondment start date.	Medium	HR on behalf of Service Managers	HR to send reminder to all Service Managers and Head Teachers.		July 2017
3.3.3	Management should review and update the existing Secondment Policy to ensure that it clearly sets out the circumstances when secondment agreements should be used.	Medium	HR Business Partner/Senior HR Adviser	Policy to be reviewed.		October 2017
3.3.4	Management should ensure that a consistent approach is adopted for setting up secondments on the Payroll system.	Medium	Payroll Manager	Agreed		June 2017

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.1	Management should ensure that Change of Contract forms for higher duties are completed timeously.	Medium	HR on behalf of Service Managers	HR to send reminder to all Service Managers and Head Teachers.		July 2017
3.4.2	Management should ensure that a consistent approach is adopted for setting up higher duties on the Payroll system.	Medium	Payroll Manager	Agreed		June 2017
3.4.3	Management should ensure that Change of Contract forms are completed timeously to either extend or end the contract for all employees undertaking higher duties.  Where service areas fail to act on the email reminders sent by HR, consideration should be given to escalating the reminder to the Service Manager or Head of Service.	Medium	HR on behalf of Service Managers  HR Business Partner/Senior HR Adviser	HR to send reminder to all Service Managers and Head Teachers.  Will consider amending procedure to reflect this point.		October 2017

### **Grading of Recommendations**

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

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

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** Internal Audit Report – Information Security

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9

## **1 PURPOSE**

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

## **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 the internal controls surrounding Information Security was undertaken as part of the Audit Plan for 2016/17.
- 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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT INFORMATION SECURITY**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2016/17 a review was undertaken of the Information Security arrangements in place within the Council. A summary of our main findings is outlined below.

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

- A high level Information Security Policy is in place setting out the Council's commitment to Information Security.
- Adequate arrangements are in place to ensure that user access to the Council's corporate network is properly controlled.

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

- There was a failure to ensure that information security standards, procedures and guidance documents were readily available to employees on the Council's intranet. *Risk – lack of awareness of information security procedures.*
- For employees moving to another position within the Council, there was a lack of effective processes in place for managing user access to individual systems. *Risk – employees may have access to confidential or sensitive information that they no longer require.*
- There was a failure to ensure that an up to date record was maintained of portable IT equipment – in a number of cases, laptops were recorded as being allocated to former employees of the Council and in some cases laptops allocated to former employees could not be located. *Risk – loss or misuse of Council assets or information.*
- The procedures in place for ensuring laptops are checked and updated on a regular basis require review. *Risk – failure to ensure laptops receive automatic updates.*
- At present, there is a lack of adequate monitoring arrangements in place for identifying and suppressing inactive user accounts. *Risk – failure to ensure that systems access is restricted.*
- There was a failure to ensure that all relevant employees had undertaken the mandatory information security training. *Risk – lack of awareness of information security procedures.*

#### **1.4 Summary**

Our review of the Information Security arrangements in place within the Council has 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**

**June 2017**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
INFORMATION SECURITY**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.2	<p>Management should ensure that all information security standards, procedures and guidance documents are readily available to employees on the Council's intranet.</p> <p>Management should ensure that a clear link is provided to the IT policy documents that are located within the IT Service Desk section of the intranet.</p>	Medium	Service Manager IT Infrastructure	Accepted – we will look to revise the content of the IT pages on the Intranet to ensure they hold key policy documents.		August 2017
3.3.2	<p>Management should ensure that a properly authorised user access request form is in place for all users of individual systems.</p> <p>Management should ensure that all changes to users' access levels are properly authorised by their line manager. Evidence of the authorisation should be retained on file.</p>	Medium	Systems Administrators – Corporate	Agreed		June 2017
3.3.3	Management should ensure that users with access to sensitive and confidential information have signed the most up to date user access request form confirming that they have read and agree to abide by the conditions of use.	Medium	Systems Administrator – MOSAIC	Agreed – all users will be asked to sign and return the MOSAIC access form.		June 2017



<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.3.4	Management should ensure that regular monitoring of inactive user accounts is undertaken – user accounts that have been inactive for a specific period of time should be suppressed.	Medium	Systems Administrators – Corporate	Agreed		August 2017
3.3.5	Management should ensure that appropriate arrangements are in place to notify all relevant parties of employees removed from the Council’s Payroll system following the annual review.	Medium	Payroll Manager	Agreed		In place
3.3.6	Management should ensure that details of agency workers whose network access has been revoked are passed to the local systems administrators.  Management should ensure that for temporary workers and agency staff the user access request forms provide an end date to ensure that access is revoked timeously.	Medium	Service Manager IT Infrastructure  Systems Administrators – Corporate	Accepted – requires discussion with HR and service areas to agree a procedure.  Agreed		December 2017  July 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.7	Management should review the arrangements in place for informing local systems administrators of employees who move to another position within the Council.	Medium	Depute Chief Executive – Resources and People Services on behalf of CMT	Agreed – information note to be sent to Heads of Service and Service Managers.		July 2017
3.4.1	<p>Management should ensure that the existing leavers' notification circulation list includes staff with responsibility for maintaining the asset management database.</p> <p>Management should review the current arrangements in place for maintaining the asset management database to ensure that information held is accurate and complete.</p> <p>Management should ensure that a designated member of staff is identified within each service area with responsibility for maintaining an up to date record of all laptops assigned to the service area – the Council's IT section should be notified of the designated member of staff.</p>	Medium	<p>Service Manager IT Business Services</p> <p>Service Manager IT Business Services</p> <p>Depute Chief Executive – Resources and People Services on behalf of CMT</p>	<p>Accepted</p> <p>Accepted</p> <p>Agreed – information note to be sent to Heads of Service and Service Managers.</p>		<p>June 2017</p> <p>December 2017</p> <p>July 2017</p>

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.1 (cont)	Management should ensure that adequate procedures are in place for laptops to be checked and updated on a regular basis.	Medium	Service Manager IT Business Services / Service Manager IT Infrastructure	Accepted – revising checking procedures and ensuring unused devices are disabled from the network after 3 months. Longer term we will investigate an Access Control system.		December 2017
3.5.1	Management should ensure that the Information Security Incident Management Procedures are updated to reflect the current arrangements within the Council – the procedures should be made available on the Council’s intranet.	Medium	Service Manager IT infrastructure	Accepted – will update procedures and publish on the intranet.		August 2017
3.6.1	Management should give consideration to developing an Information Classification and Handling Procedure.	Medium	Service Manager – Licensing, Admin and Democratic Services	Agreed – full consideration will be given to the implications of adopting a classification scheme.		June 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	Management should ensure that information security training is undertaken by all relevant employees.	Medium	Team Leader – Infrastructure and Security	Agreed – regular reports on training will be obtained and reminders will be sent to service areas.		October 2017

### **Grading of Recommendations**

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

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



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** Internal Audit Report – Capital Projects (Payment Certificates)

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**10**

**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Capital Projects (Payment Certificates).

**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 the internal controls surrounding Capital Projects was undertaken as part of the Audit Plan for 2016/17.
- 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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT CAPITAL PROJECTS (PAYMENT CERTIFICATES)**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2016/17 a review was undertaken of the arrangements in place for Capital Projects (Payment Certificates). A summary of our main findings is outlined below.

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

- Adequate reporting arrangements are in place for capital contracts awarded – contracts in excess of £250,000 are reported to the Members' Library Service in line with the Council's Corporate Procurement Procedures.
- Systems are in place to ensure that expenditure incurred on capital contracts is accurately reflected in the general ledger.
- For all interim payment certificates issued, an authenticated VAT receipt is held by the Council.
- Retention monies are properly deducted on the interim certificates prior to payments being made.

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

- There was a lack of adequate segregation of duties – in one case, an interim payment certificate was prepared, checked and authorised for payment by the same member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- In two instances, there was a lack of documentation to support the gross valuation of works certified on the interim certificates – we were unable to reconcile the payments made to the actual value of work completed. *Risk – errors and irregularities may occur and remain undetected.*
- In one case, there had been a failure to demonstrate best value – additional work had been awarded to an existing contractor outwith the tendering process. *Risk – failure to obtain best value.*

#### **1.4 Summary**

Our review of Capital Projects (Payment Certificates) has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

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

**June 2017**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
CAPITAL PROJECTS (PAYMENT CERTIFICATES)**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	Management should ensure effective segregation of duties between the member of staff preparing the interim certificates and the member of staff checking or authorising the certificates for payment.	Medium	Team Manager Cost and Procurement	Agreed		June 2017
3.3.1	Management should ensure that the gross valuation used in the interim payment certificates is based on the actual value of the work completed to date.	High	Team Manager Cost and Procurement	Agreed		June 2017
3.5.1	Management should ensure that best value can be demonstrated in the awarding of all works.	High	Team Manager Cost and Procurement / Quantity Surveyor	Agreed		June 2017

### **Grading of Recommendations**

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

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



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 20 June 2017  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – Housing Revenue Account

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**11**

**1 PURPOSE**

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

**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 the Housing Revenue Account was undertaken as part of the audit plan for 2016/17.
- 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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT HOUSING REVENUE ACCOUNT**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of the Housing Revenue Account was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

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

- The Orchard system provides a clear audit trail for each property including the property details, tenancy history and the rent account transactions.
- All income collected through the Income Management System is correctly posted to both the Orchard system and the Council's general ledger.
- Adequate arrangements are in place to ensure compliance with legislation in respect of the rent setting process.
- Systems are in place to ensure that all fortnightly housing rent transactions from the Orchard system are correctly updated in the general ledger.

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

- In some cases, errors were identified in the rent increases applied to temporary homeless properties leased from Registered Social Landlords. *Risk – failure to ensure accuracy and completeness.*
- There was a lack of regular reconciliations between the property control totals in the Moores Books and the Orchard system. *Risk – errors and irregularities may occur and remain undetected.*
- In a number of cases anomalies in the tenancy information held on the Orchard system were identified, including incorrect tenure types and duplicate tenancies. *Risk – errors and irregularities may occur and remain undetected.*
- The arrangements in place for processing housing rent refunds require review – a number of errors were identified including a batch of refunds being paid twice in error. *Risk – overpayments may occur.*
- There were delays in quarterly reconciliations being undertaken between the Orchard system and the general ledger and in some cases differences identified had not been investigated. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of a clear written methodology for calculating and allocating costs to the Housing Revenue Account. *Risk – an inconsistent approach may be adopted.*

#### **1.4 Summary**

Our review of the Housing Revenue Account 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**

**June 2017**

## ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should review the adequacy and effectiveness of the current model used for setting rents.	Medium	Service Manager – Community Housing	Agreed – exercise to review the HRA model including rent and service charge policy underway.		February 2018
3.2.2	For all properties added to the housing stock, Management should ensure that the property attributes are obtained from a physical inspection of the property.	Medium	Service Manager – Community Housing	Agreed – consistent approach to be applied for all new housing stock, forms will be completed by Community Housing Officers.		June 2017
3.3.1	Management should ensure that a review is undertaken of service charges that are currently applied to properties.  Management should ensure that appropriate checks are undertaken of rent increases applied to Housing Association and homeless properties – the Homelessness Section should be provided with reports of the rent increases applied.	Medium	Service Manager – Community Housing  Revenues Systems Development and Business Support Team Leader/ Homelessness Manager	Agreed – see action for 3.2.1 above.  Agreed – reports to be passed to the Homelessness Section for checking.		February 2018  June 2017



PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Any discrepancies identified in the rent increases applied should be promptly corrected by the Homelessness Section. The Revenues Systems Development and Business Support Team should be notified of all changes.	Medium	Homelessness Manager	Agreed		June 2017
	Management should ensure that rent increases are only applied for Housing Association properties following appropriate confirmation being received from the Housing Association.		Revenues Systems Development and Business Support Team Leader	Agreed		June 2017
3.4.1	Management should ensure that the tenancy information held on the Orchard system is accurate and complete – appropriate action should be taken to close duplicate or invalid tenancies.	Medium	Service Manager – Community Housing	Agreed – housekeeping exercise to be carried out.		June 2017
	Management should ensure that the annual rent charge letters sent out for Housing Association properties exclude information on ELC rent increases.		Revenues Systems Development and Business Support Team Leader	Agreed – procedures will be updated to split the files sent to Critiqom. Inserts advising of the ELC rent increase will be removed for HA properties.		June 2017

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.1 (cont)	Management should undertake a review of garages recorded as void on the Orchard system to determine if the Council is making the best use of its garage stock.	Medium	Service Manager – Community Housing	Agreed – review of garages to be undertaken as part of the Housing Asset Management Strategy.		January 2018
3.4.2	Management should ensure that a reconciliation is undertaken between the number of properties identified for a rent increase and the number of properties that receive an annual rent charge letter.	Medium	Revenues Systems Development and Business Support Team Leader	Agreed		June 2017
3.4.5	Evidence should be obtained to confirm the date of dispatch for the annual rent charge letters.	Medium	Revenues Systems Development and Business Support Team Leader	Agreed		In place
3.5.2	Management should ensure that reconciliations of property control totals between the Moores Books and the Orchard system are undertaken on a regular basis.	Medium	Service Manager – Community Housing	Agreed – revised procedure for verification now in place.		June 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2 (cont)	<p>Management should ensure that a reconciliation sheet is prepared to evidence the reconciliation being carried out – all supporting documentation from the Orchard system should be retained.</p> <p>A person independent of processing should check the reconciliation of the property control totals and sign the reconciliation sheet as evidence of the check being carried out.</p>	Medium	Service Manager – Community Housing	Agreed		June 2017
3.6.3	Management should ensure that all transfer allowances processed through the Income Management System are reconciled to the list of 'non-cash payments'.	Medium	Revenues Systems Development and Business Support Team Leader	Agreed		June 2017
3.7.2	Management should ensure that quarterly reconciliations between the Orchard system and the general ledger are carried out timeously – differences identified should be investigated.	Medium	Service Manager – Business Finance	Agreed – quarterly reconciliations will be carried out timeously and material differences identified will be investigated.		June 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.2 (cont)	<p>Management should review the current approach adopted for processing refunds.</p> <p>Management should ensure that all overpayments in respect of refunds are promptly recovered from the tenants.</p> <p>Appropriate checks should be undertaken to ensure that refunds are correctly coded on the Orchard system.</p> <p>Management should ensure that refunds are posted to the correct refund ledger code in the general ledger.</p>	Medium	<p>Revenues Systems Development and Business Support Team Leader</p> <p>Rent Income Team Leader</p> <p>Rent Income Team Leader</p> <p>Revenues Systems Development and Business Support Team Leader/Principal Accountant (Financial)</p>	<p>Agreed – the refund process has now been automated and will no longer be processed through the Creditors Section.</p> <p>Agreed</p> <p>Agreed – all refunds will now be correctly coded as part of the automated process.</p> <p>Agreed</p>		<p>In place</p> <p>In place</p> <p>June 2017</p> <p>June 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	<p>Management should ensure that a clear written methodology is developed for calculating and allocating costs to the Housing Revenue Account.</p> <p>Management should ensure that service areas provide appropriate documentation to support expenditure posted to the Housing Revenue Account.</p>	Medium	Service Manager – Business Finance	<p>Partly agreed – see below.</p> <p>Currently working with Budget Holders and HRA service users to increase transparency of costs charged to HRA.</p> <p>Review of historic internal recharges to ensure that charge remains appropriate.</p> <p>Discussions ongoing around enhanced training for Budget Holders.</p> <p>External review of HRA budget model with any further need to prepare additional specific guidance explored in line with wider review.</p>		<p>Ongoing</p> <p>December 2017</p> <p>2017/18</p> <p>December 2017</p>

### **Grading of Recommendations**

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

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

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 20 June 2017  
**BY:** Internal Audit Manager  
**SUBJECT:** Annual Internal Audit Report 2016/17

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**12**

## **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 2016/17 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 2016/17.

## **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 2016/17 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 2016/17 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.

### **Delivery of the Internal Audit Service 2016/17**

3.6 In March 2016, the Audit and Governance Committee approved the Internal Audit Plan for 2016/17. Our audit plan was scoped to address the Council's key risks and strategic objectives.

3.7 In 2016/17 Internal Audit issued 18 reports (see Table A below). In addition, two audit reviews (Housing Benefit & Council Tax Reduction and Gas Servicing & Maintenance) are currently being finalised and a further review (Fuel Management) is outstanding.

3.8 Table A outlines the audit work undertaken which resulted in a number of recommendations being made – 16 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action), 123 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) and 3 low risk recommendations were made (i.e. recommendations 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 and have prepared reports for the East Lothian Integration Joint Board Audit and Risk Committee.



3.10 We have completed the following reviews in 2016/17:

**Table A**

<b>Audit Assignment</b>	<b>Report Status</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Section 75 Payments	Final	7	7	-
Direct Payments – Children’s Wellbeing	Final	-	11	-
Housing Voids	Final	-	9	-
PPP Contract Monitoring	Final	-	15	1
Preston Lodge High School	Final	-	9	1
Contracts Audit	Final	-	2	-
Freedom of Information (FOI)	Final	-	3	-
Home to School Transport	Final	3	2	-
Payments to Third Sector Organisations	Final	1	6	-
Prevention of Tenancy Fraud	Final	-	6	-
Public Services Network (PSN)	Final	-	6	-
Income – Waste Services	Final	2	5	-
Roads Contracts	Final	1	9	-
Performance Indicators 2015/16	Final	-	4	1
Workforce Planning	Final	-	7	-
Information Security	Final	-	11	-
Housing Revenue Account	Final	-	10	-
Capital Projects – Payment Certificates	Final	2	1	-
<b>Totals</b>		<b>16</b>	<b>123</b>	<b>3</b>

### **Conflicts of Interest**

3.11 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

### **Performance Indicators**

3.12 We have 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 2016/17 covers:

- Completion of the annual Audit Plan – 95%
- % of recommendations accepted by Management – 98%
- % 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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 20 June 2017  
**BY:** Internal Audit Manager  
**SUBJECT:** Controls Assurance Statement 2016/17

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**13**

## **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 2017.

## **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 2016/17 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 2016/17 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 2016/17 Statement of Accounts under the Group Accounts section.

**Assessment of Controls and Governance**

- 3.9 The Annual Internal Audit Report 2016/17 presented to the Audit and Governance Committee summarises the work of Internal Audit during the year.
- 3.10 For areas reviewed, an Executive Summary and Action Plan is submitted to the Audit and Governance Committee. The Action Plan contains detailed recommendations including Management responses to the recommendations made.
- 3.11 The majority of Internal Audit recommendations made in 2016/17 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 2016/17 is outlined below:

<b>Recommendations Priority Level</b>	<b>Number of Recommendations</b>	<b>Recommendations %</b>
High	16	11
Medium	123	87
Low	3	2
<b>Total</b>	<b>142</b>	<b>100</b>

- 3.12 During 2016/17 areas identified with scope for improvement included the following:
- Adherence to Council policies, procedures and guidance.
  - Compliance with the Council's 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 both Section 75 payments and the PPP contract.
- The approach adopted for the allocation of work to external contractors and the informal arrangements in place for agreeing rates.
- The review and updating of creditor accounts to ensure that duplicate accounts are not held.

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 2017.

## **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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 20 June 2017

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** Internal Audit Progress Report 2016/17

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2016/17.

**2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2016/17.

**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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	8 June 2017



**INTERNAL AUDIT PROGRESS REPORT 2016/17**

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Housing Voids	We will assess the arrangements in place for the management and reporting of housing voids.	September 2016	Completed
Contracts Audit	We will examine a sample of contracts to ensure that the Council's Corporate Procurement Procedures have been properly complied with.	September 2016	Completed
Road Services Contracts	We will examine the arrangements in place for the procurement and monitoring of contracts within Road Services.	November 2016	Completed
Public Services Network (PSN)	We will evaluate the Council's security arrangements, policies and controls to ensure PSN compliance.	November 2016	Completed
Property Maintenance – Housing Repairs	Our review will cover both housing repairs undertaken directly by Property Maintenance and work allocated to external contractors.	November 2016	Completed
Funding – Third Sector Organisations	We will continue our review of 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. In 2016/17 we will examine the grant awards made by Children's Wellbeing.	November 2016	Completed

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
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 2016	Completed
Schools Audit	We will examine the internal controls operating within one secondary school in East Lothian.	January 2017	Completed
Prevention of Tenancy Fraud	We will review the adequacy and effectiveness of the arrangements in place for the prevention of tenancy fraud, including a review of tenancy changes.	January 2017	Completed
Income – Waste Services	We will review the current arrangements in place for the collection and re-sale of recycled materials.	January 2017	Completed
PPP Contract Monitoring	A review will be undertaken of the arrangements in place for the performance monitoring of the PPP contract.	January 2017	Completed
Freedom of Information (FOI)	We will carry out a review of the arrangements in place to ensure compliance with legislative requirements and timescales for responding to FOI requests.	March 2017	Completed

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	March 2017	Completed
Home to School Transport	We will examine the payments made to operators for Home to School transport for both Mainstream and Additional Support Needs pupils to ensure compliance with the contract rates in place.	March 2017	Completed
Internal Audit Plan 2017/18	Internal Audit will present the detailed operational Audit Plan for 2017/18 for approval to the Audit and Governance Committee.	March 2017	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 2017	Completed
Workforce Planning	We will review the processes and controls in place for managing secondments and 'acting up' roles.	March 2017	Completed
Information Security	We will carry out an assessment of the arrangements in place within the Council to ensure that information is appropriately controlled.	January 2017	Completed

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Capital Projects – Payment Certificates	We will review the issuing, authorisation and payment of interim and final certificates for capital projects.	June 2017	Completed
Housing Rents	We will examine the processes and controls in place for housing rents.	June 2017	Completed
Annual Internal Audit Report 2016/17	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2016/17, as required by the Public Sector Internal Audit Standards.	June 2017	Completed
Controls Assurance Statement 2016/17	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 2016 to 31 March 2017.	June 2017	Completed
Gas Servicing and Maintenance	We will review the adequacy and effectiveness of the contractual arrangements in place for undertaking gas servicing and maintenance of all Council properties (both HRA and non HRA).	January 2017	Ongoing
Housing Benefit and Council Tax Reduction	We will examine the systems in place for the processing, assessment and payment of Housing Benefit and the award of Council Tax Reduction.	June 2017	Ongoing
Fuel Management	We will review the fuel management arrangements in place at the Council's fuel depots.	March 2017	Outstanding