



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 28 NOVEMBER 2017
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

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Committee Members Present:

Councillor J Henderson (Convener)
Councillor F Dugdale
Councillor J Findlay
Councillor K Mackie
Councillor B Small

Council Officials Present:

Mr A McCrorie, Depute Chief Executive – Resources and People Services
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services
Mr R Montgomery, Head of Infrastructure
Mr D Proudfoot, Head of Development
Mr J Lamond, Head of Council Resources
Ms S Saunders, Head of Children and Adult Services
Mr T Shearer, Head of Communities & Partnerships
Mr P Vestri, Service Manager – Corporate Policy
Ms L Shaw, Corporate Finance Manager
Mr E John, Service Manager – Sport, Countryside & Leisure
Mr W Axon, General Manager - enjoyleisure
Ms J McCartney, Business Accountant, enjoyleisure
Ms S Cormack, Service Manager – HR & Payroll
Mr P Ritchie, HR Business Partner
Mr I Patterson, Homelessness Manager
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr C Grilli, Service Manager – Legal & Procurement
Mr S Kennedy, Emergency Planning and Risk Officer
Ms J Mackay, Media Manager

Other Councillors Present:

Councillor J Goodfellow
Councillor K McLeod

Clerk:

Ms F Currie

Visitors Present:

Ms E Scoburgh, Audit Scotland
Ms C Foster, Audit Scotland

Apologies:

None

Declarations of Interest:

None

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 26 SEPTEMBER 2017

The minutes of the Audit and Governance Committee meeting held on 26 September 2017 were approved as a true record.

SUMMARY OF PROCEEDINGS – EXEMPT INFORMATION

The Audit & Governance Committee unanimously agreed to exclude the public from the following business containing exempt information by virtue of Paragraph 6 (information concerning the financial or business affairs of any particular person other than the Authority) of Schedule 7A to the Local Government (Scotland) Act 1973.

Matters Arising from the Minutes of the Audit and Governance Committee meeting on 26 September 2017

The Committee received an update in private session on the review of governance arrangements for the Musselburgh Joint Racing Committee.

2. COUNCIL RESOURCES RISK REGISTER

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

Scott Kennedy, Emergency Planning and Risk Officer, presented the report outlining the background to the register and the risk matrix which was used to evaluate individual risks. He advised that the current Council Resources Risk Register contained 3 Very High risks, 7 High risks, 26 Medium risks and 12 Low risks.

Jim Lamond, Head of Council Resources, responded to questions from Members on the risks relating to the Council's IT systems and corporate procurement, as well as the impact of the recent UK Government budget on the risks associated with welfare reform.

Decision

The Committee agreed to note the contents of the Council Resources Risk Register and that:

- The relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- The total profile of the Council Resources risk can be borne by the Council at this time in relation to the Council's appetite for risk.
- Although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Council Resources and are likely to be a feature of the risk register over a number of years.

3. HEALTH AND SOCIAL CARE PARTNERSHIP RISK REGISTER

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

Mr Kennedy presented the report. He advised Members that this new document replaced both the previous Adult Wellbeing Risk Register and Children's Wellbeing Risk Register and reflected the move to integrated health and social care and joint working with the NHS and is now the combined Health & Social Care Partnership Risk Register. He reminded Members that the risk register was a 'live' document which was regularly reviewed and updated, and that it currently included 6 High risks, 14 Medium risks and 1 Low risk. As per the Council's Risk Strategy only the Very High and High risks were being reported to the Committee.

Sharon Saunders, Head of Children and Adult Services, responded to questions from Members. Councillor Small asked if officers were comfortable with the control measures in place for risk items 1, 2 and 3 on the register and the financial implications of having these risk measures in place. Ms Saunders confirmed that the risk control measures had been developed in discussion with the Management Team and would help to mitigate the risks identified. She also confirmed that the stated mitigating actions intended to reduce risks could be delivered within budget.

In reply to questions from Councillor Findlay, Ms Saunders stated the risk control measures were continually reviewed and would be updated to take account of predicted changes in the county's population over the coming years.

The Convener asked why the risks in the register were assessed as 'amber' rather than 'red' given the significant budget overspend. Ms Saunders explained that the risks in the register were not classed as financial risks but rather are service delivery risks and those related to demand for and capacity to deliver services. The Convener acknowledged that they could be read in isolation but felt that this was not the best way forward and that they should be linked to other factors such as budgets.

Responding to a question from Councillor Dugdale, Ms Saunders gave further detail on the joint substance misuse services and their work to improve accessibility of treatment services for some of their most vulnerable clients.

Councillor Small welcomed the confirmation that the risks identified in the register could be managed within allocated budgets.

The Convener echoed Councillor Small's comments and added that, while she appreciated the report, in the past the risk levels had increased and it would be important to continue to review them closely and to link them with budget spending.

Ms Saunders clarified her earlier remarks regarding spending and stated that she had been referring to the mitigating factors contained in the register and not the Health and Social Care budget as a whole.

The Convener noted this clarification but stated that in terms of her own comments she was broadening the point to include the Service's budget as a whole.

Decision

The Committee agreed to note the contents of the Health and Social Care Partnership Risk Register and that:

- The relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
- The total profile of the Health and Social Care Partnership risk can be borne by the Council at this time in relation to the Council's appetite for risk.
- Although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for the Health and Social Care Partnership and are likely to be a feature of the risk register over a number of years.

4. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW 2017/18

A report was submitted by the Depute Chief Executive (Resources and People Services) to update the Committee on Treasury Management activity during the first half of 2017/18.

Liz Shaw, Corporate Finance Manager, presented the report outlining the background to its preparation and providing some contextual information on the economy and interest rates. She then updated Members on the Council's current capital and borrowing positions and added that it was extremely likely that the Council would have to borrow again before the end of the year. In the meantime, officers would continue to monitor the impact of factors such as the recent increase in interest rates and the ongoing uncertainty around Brexit.

Ms Shaw responded to questions from Members relating to interest rates, debt rescheduling, current borrowing figures and investments. She also agreed to provide additional information to the Convener regarding non treasury type investments.

Decision

The Committee agreed to note the content of the report.

5. COUNCIL GOVERNANCE ARRANGEMENTS WITH ENJOYLEISURE ALEO

A report was submitted by the Depute Chief Executive (Partnerships & Community Services) to update members on the Council's governance arrangements with its ALEO enjoyleisure and highlight areas of work that enjoyleisure is contributing to wider Council objectives.

Eamon John, Service Manager – Sport, Countryside & Leisure, presented the report advising Members that enjoyleisure was meeting the objectives of the service provision placed on it in the initial service specification. He outlined a number of areas where it was providing and enhancing opportunities for the Council, such as general management and operation of facilities, promoting and making available health and fitness activities for a range of users and operating and administering concessionary schemes for eligible users. He also referred to the Audit Scotland performance audit of Scottish Councils' use of ALEOs which will report in spring of 2018. He said he

looked forward to reviewing the contents of the report and of sharing in the good practice identified within it.

Councillor Small asked about statistics on the age profile of service users, in particular the elderly. Mr John confirmed that a range of statistics were prepared for quarterly performance reports and these included user statistics. He added that enjoyleisure provided activities suitable for a wide range of users and also worked with other services such as occupational health.

Councillor Mackie asked about the possibility of the withdrawal of relief on non-domestic rates and whether any concerns had been expressed to the Scottish Government. Mr John acknowledged that concerns about the Barclay report were significant and had been expressed to the Government through representations and meetings. However, he said he was optimistic about a positive outcome.

Councillor McLeod asked if there had been any problems with procurement. Mr John replied that there had been no issues.

Councillor Small said it was good to see the service providing activities for a range of users and that this needed to continue as it played an important part in improving public health.

The Convener said that the Committee looked forward to seeing the Audit Scotland report when it was published in the spring and which she hoped would provide more of a framework for the future.

Esther Scoburgh, Audit Scotland, asked if in the meantime she could share both of the enjoyleisure reports from today's agenda with her colleagues as examples of good practice.

Decision

The Committee agreed to note the contents of the report.

6. ENJOYLEISURE PERFORMANCE AND GOVERNANCE REPORT

A report was submitted by the General Manager of enjoyleisure to update the Committee on the performance and governance of enjoyleisure.

Bill Axon, General Manager of enjoyleisure, presented the report providing a detailed overview of the range of services available across facilities in East Lothian and looking at some of the issues currently impacting on the business. He also commented on the points raised by members in the previous item regarding statistics, procurement and the Barclay report recommendation on non-domestic rates.

In response to questions from Councillor Findlay, Mr Axon advised that the charge for the Access to Leisure Scheme was set by the Council. Jennifer McCartney, Business Accountant, provided background on enjoyleisure's pension fund liabilities and evaluation of contributions.

Councillor Small about the Board's governance arrangements. Mr Axon explained that the Board met five times per year and that there were three sub committees - Audit & Risk, Business Development and HR – which also met regularly and reported directly

to the Board. However, he said that at present the Audit & Risk sub committee did not have a chair but that this would be rectified in 2018.

In response to further questions from Councillor Small, Mr Axon confirmed that there would be a small cost saving in the first instance as a result of taking HR in-house. Referring to revenue and maintenance, he said that there were significant challenges going forward to ensure that facilities were maintained to the expected standards and to minimise the impact of this work on customers and thereby revenue. On the issue of the trading subsidiary, both he and Ms McCartney provided information on the commercial sales and café elements.

Councillor McLeod asked whether enjoyleisure had its own procurement arrangements and how these differed from the Council's procedures. Mr Axon advised that enjoyleisure's rule were not as rigid as the Council's but that with regard to any capital expenditure they worked closely with the Council's procurement staff to ensure due diligence.

Councillor Mackie welcomed the objective of inclusion of ASN users and the continued investment in this area.

Councillor McLeod said that this was an excellent report and he was pleased to see that it had been brought before the Audit & Governance Committee.

The Convener thanked Members for their questions and comments and reiterated the importance of the Committee receiving regular reports of this type.

Alex McCrorie, Depute Chief Executive, suggested that future reports from enjoyleisure could include more financial information. Mr Axon suggested that the accounts be circulated separately to the Committee members.

Decision

The Committee agreed to note the information contained in the report.

7. AUDIT SCOTLAND – EQUAL PAY

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the key findings of the Accounts Commission's recent national review on how effectively Councils have implemented the Single Status Agreement.

Mr Lamond presented the report outlining the background to the Single Status Agreement (SSA) and the development of the Council's own pay and grading structure. He also drew Members' attention to the report's key findings as they related to the position in East Lothian.

In response to questions from Members Mr Lamond advised that there were no outstanding claims at the moment. However, he added that while the risk of future claims had been minimised it could not be completely ruled out.

Ms Saunders, who was Head of Human Resources at the time of SSA, observed that the arrangements put in place during that process had been to secure a sustainable equal pay structure and this had proved largely successful. She added that further

work would be needed in future to review the job evaluation process and to ensure that equality was maintained.

Decision

The Committee agreed to note the contents of the Accounts Commission's *Equal Pay in Scottish Councils* report in relation to East Lothian Council.

8. INTERNAL AUDIT REPORT – HOMELESSNESS

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

Mala Garden, Internal Audit Manager, presented the report outlining some of the key findings and referring Members to the recommendations contained in the Action Plan which had been agreed by Management.

Councillor Small asked if there would be any follow up planned given the number of recommendations and the high profile nature of the subject area. Ms Garden confirmed that progress on the Action Plan would be followed up and that a report would be presented to the Committee. She added that Management were required to implement 'High' level recommendations within three months.

In response to a question from Councillor McLeod, Ms Garden confirmed that non-contract accommodation would only be used in an emergency situation, for example where all contracted B&Bs were full.

The Convener observed that this was an extremely challenging area subject to significant pressures. She noted the extensive list of recommendations and asked how realistic it was to expect officers to address some of these given the nature of the problem.

Ian Patterson, Homelessness Manager, pointed out that a number of the recommendations related to contract end arrangements and were already being addressed. He also reminded Members that the Homelessness Action Plan had been agreed by Cabinet earlier this month.

Councillor Dugdale welcomed the report and said that the staff in the Homelessness Team did an excellent job. She was also pleased to hear that Management were taking action on the recommendations.

Decision

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

9. INTERNAL AUDIT REPORT – ALEO (ENJOY EAST LOTHIAN LIMITED)

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on ALEO (Enjoy East Lothian Limited).

Ms Garden presented the report informing Members that this review of the arrangements for funding external bodies, focusing on Enjoy East Lothian Limited, had been undertaken as part of the 2017/18 Audit Plan. She summarised the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

The Convener commented that some of the issues raised in this report had been covered in the discussion of earlier items on the agenda. She also acknowledged the work that had been undertaken to get the necessary audit and governance structures in place.

Decision

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

10. INTERNAL AUDIT REPORT – TRAINING

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

Stuart Allan, Senior Auditor, presented the report outlining some of the key findings and referring Members to the recommendations contained in the Action Plan which had been agreed by Management.

In reply to a question from Councillor Small, Mr Allan stated that there were several areas of the Council which demonstrated good practice and some with a very structured approach to training, e.g. professional qualifications.

Decision

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

11. INTERNAL AUDIT FOLLOW-UP REPORTS

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recent follow-up work undertaken by Internal Audit and the progress made by Management in implementing audit recommendations.

Mr Allan presented the report outlining progress on recommendations made in previously issued audit reports regarding Housing Voids and Home to School Transport. This report followed an earlier update presented to the Committee in September 2017. He advised Members that all of the recommendations resulting from the audit on Home to School Transport had now been fully implemented and of the nine recommendations on Housing Voids, six were currently outstanding.

In response to questions from Councillor Mackie and the Convener, Mr Allan explained that the main recommendation related to the Voids Management Policy which was last revised in 2009 and which Management had agreed to review. He added that other recommendations related to policy and operational arrangements which would flow from the review. Regarding timescales he stated that a new project officer was to be

appointed in January 2018 and that the review itself required a period of consultation and so the completion date had been set at December 2018.

Douglas Proudfoot, Head of Development, acknowledged that resources had been problematic and that the review would be an extensive piece of work involving other areas of the Council and impacting on other areas of work such as the allocations policy. He said that the review would be about achieving a balance between legislative requirements and taking the views of the client base into account to avoid any unintended consequences. He said he was happy to give an assurance to Members that this work would be prioritised.

The Convener asked that any slippage on the timescale for completion be notified to the Committee.

Ms Garden responded to further questions from Councillor Small and the Convener regarding the grading of the recommendations. She explained that these were based on an assessment of risk at the time of the audit and were not usually reassessed during the follow up process. She also confirmed that all recommendations were followed up regardless of whether they were graded high, medium or low.

In reply to a question from Councillor Findlay on Home to School Transport, Mr Allan advised that the audit had focussed on procurement procedures and therefore the proposals to extend the transport distance from 2 to 3 miles would not have any impact of the audit findings or recommendations.

Monica Patterson, Depute Chief Executive, gave her assurance to Members that Housing Voids was an area of intense focus for the Council. She accepted the audit had identified a number of areas to address in terms of policy and that this work would progress over the coming months. In the meantime, all housing voids would continue to be closely and regularly monitored and the area as a whole would continue to be subject to intense management activity.

Mr Allan provided some additional clarification of the grading of recommendations in this and other audit reports.

Decision

The Committee agreed to note the findings of Internal Audit's follow-up work on Housing Voids and Home to School Transport.

12. INTERNAL AUDIT PROGRESS REPORT 2017/18

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of Internal Audit's progress against the annual audit plan for 2017/18.

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

Responding to a question from Councillor Small Ms Garden explained that the audit completion dates were not directly linked to the Committee meeting dates. However, she observed that the reduction in the frequency of meetings (from 5 to 4 per year) had increased the number of audit reports being presented at each Committee

meeting. She concluded that while not all of the audit reports scheduled for completion by February would be presented to the February meeting, she would try to bring forward as many as possible.

The Convener thanked the Internal Audit staff for their valuable work and said she looked forward particularly to the report on the review of overtime.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2017/18.

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Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee

EAST LoTHIAN COUNCIL

Annual Audit Plan 2017/18

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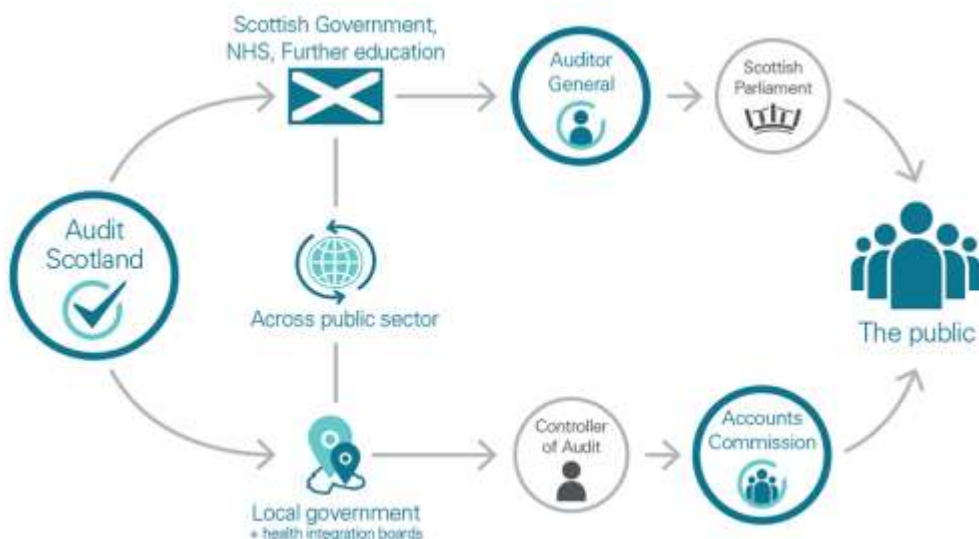
 AUDIT SCOTLAND

Prepared for East Lothian Council
February 2018

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for East Lothian Council (ELC). We have categorised these risks into financial risks and wider dimension risks. The key audit risks which require specific audit testing are detailed in [Exhibit 1](#).

Exhibit 1: 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>ELC receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>All income is reviewed monthly.</p> <p>Monthly monitoring and performance reporting for council tax and rental income.</p> <p>Specific grant/account codes used for other income and verified via monthly monitoring and bank reconciliations.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Clear procedures in place for staff.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</p> <p>Budget monitoring and review with significant variances investigated and discussed with budget holders.</p>	<p>Reviews work on the National Fraud Initiative matches.</p> <p>Assess high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure and housing benefit transactions.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuations carried out every 5 years for all assets as part of rolling revaluation programme.</p> <p>Procurement and contract criteria ensure valuations are carried out by reputable valuers.</p> <p>Detailed discussions between valuers and ELC Estates team.</p> <p>Detailed working papers retained to support asset reviews and impairments.</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer.</p> <p>Focused substantive testing of asset valuations and asset useful lives.</p> <p>Focused substantive testing of provisions.</p>
<p>5 Rent arrears</p> <p>The Council's risk register (at November 2017) includes a high residual risk in relation to Welfare Reform and the rollout of Universal Credit (UC). It notes that rent arrears for UC claimants are increasing with 82% of ELC tenants claiming UC now in arrears.</p> <p>There is a risk that debtors could be overstated if the provision for doubtful debts is not adequate in light of rising rent arrears. There is an increased risk to the overall delivery of services in line with the Council's strategic objectives.</p>	<p>Impact of UC subject to monthly monitoring by the local team.</p> <p>High level scrutiny group established to monitor the impact of rent arrears and rent collection.</p> <p>Bad debt provision monitored to ensure it remains at reasonable and prudent level.</p>	<p>Monitor rent arrears levels and provision for doubtful debts.</p>

Wider dimension risks

<p>5 Financial sustainability</p> <p>ELC's 2018-19 to 2022-23 Financial Strategy recognises that it faces significant financial challenges resulting from the expected reduction in grant funding and a rapidly expanding population.</p> <p>Current approved spending plans require the delivery of over £9 million of additional efficiencies between 2017-18 and 2019-20.</p>	<p>The Financial Strategy covering the period from 2018-19 to 2022-23 was approved in December 2017. The period covering the Financial Strategy has been extended to cover a 5 year planning horizon in recognition of the future financial challenges and uncertainty around the future financial resources which will be made available to the Council.</p>	<p>Review the Council's change / transformation plans as part of the Best Value Audit Review.</p> <p>Assessing the robustness of the Council's transformation plans and other items supporting longer term plans.</p>
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Audit Risk	Source of assurance	Planned audit work
<p>The total estimated level of revenue savings required over the next 5 years in addition to the current planned savings has been calculated based on a number of different scenarios and ranges from £12.4 million to £39 million.</p> <p>The Council recognises that the scale of the further savings required over the coming years presents a significant challenge.</p>	<p>The Council budget covering a 3 year revenue horizon and five year capital and Housing Revenue Account, will be considered by Council on 13 February and requires the Council to consider how future spending obligations can be delivered within anticipated resources. The budget which is presented by the Administration will require the delivery of £12.5m of efficiencies over the next 3 financial years.</p> <p>The delivery of these efficiencies will be monitored during the financial year by the Council Management Team and progress reported to Council through the quarterly financial reports.</p> <p>The efficiencies include the delivery of a Transformational Change Programme, and this is monitored through a Transformational Change Programme Board which is chaired by the Council's Chief Executive and includes senior officers from the Council's Executive Team.</p>	
<p>6 Financial management</p> <p>The Quarter 2 financial report for 2017/18 identifies two services areas (Adult Wellbeing and Children's Wellbeing) as high risk of not operating within approved budgets. Both service areas had difficulty operating within budget and required additional funding in the last financial year.</p> <p>There is a risk that the Council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.</p>	<p>Director of Health & Social Care, respective Heads of Service and the Health & Social Care Management Team have been asked to identify further options to bring these financial commitments back in line with available resources.</p>	<p>Review of financial monitoring reports and the Council's financial position.</p>
<p>7 Following the Public Pound</p> <p>In our 2016/17 Annual Audit Report, we reported that no reports were presented to the Audit and Governance Committee during 2016/17 regarding enjoyleisure or the other significant Group</p>	<p>Arrangements in place for enjoyleisure to report to future Audit and Governance Committees. First report was presented to the Committee in November 2017.</p>	<p>Attendance / observation of relevant Committee(s).</p> <p>Review of arrangements put in place by the Council in response to 2016/17 recommendation.</p>

Audit Risk	Source of assurance	Planned audit work
<p>components and we could not find evidence of any routine performance monitoring / reporting to Council committees in this area. Formal reporting and monitoring arrangements should be put in place for significant Group components.</p> <p>There remains a risk that the Council is not complying with the duties set out in the Code of Guidance on Funding External Bodies and Following the Public Pound ensuring they are holding the various group components to account.</p>		

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to East Lothian Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Section 95 Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2: 2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	12 February 2018	20 February 2018
Management (Interim) Report	4 June 2018	12 June 2018
Annual Audit Report	25 September 2018	25 September 2018
Independent Auditor's Report	25 September 2018	25 September 2018

Audit fee

7. The proposed audit fee for the 2017/18 audit of East Lothian Council including the Dr Bruce Charitable Fund is £237,010 (2016/17: £236,070). In determining the audit fee we have taken account of the risk exposure of East Lothian Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements with a complete working papers package on 29 June 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer (or equivalent)

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of East Lothian Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how East Lothian Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the council and its group as at 31 March 2018 and of their expenditure and income
- whether they have been properly prepared in accordance with IFRS' as adopted by the European Union, as interpreted and adapted by the Code
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2013.

Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the independent auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for East Lothian Council are set out in [Exhibit 3](#).



Exhibit 3: Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts.	£3.8 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£1.9 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.038 million

Source: Audit Scotland (prepared from East Lothian Council 2016/17 audited accounts)



17. We also set separate materiality levels for the Council's charitable trust, the Dr Bruce Fund, and this has been set to 1% of gross expenditure (£2).

18. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Audit and Governance Committee.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is at [Exhibit 4](#) and takes account of submission requirements and planned Audit and Governance Committee dates:

Exhibit 4: Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	12 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Head of Council Resources	14 September 2018
Issue of letter of representation and proposed independent auditor's report	14 September 2018
Agreement of audited unsigned annual accounts	25 September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	25 September 2018
Independent auditor's report signed	26 September 2018

**Key stage****Date**

Latest date for signing of WGA return

30 September 2018

Internal audit

20. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by an East Lothian Council Internal Audit section overseen by a Chief Internal Auditor.

Adequacy of Internal Audit

21. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an early assessment of the internal audit function and concluded that it has sound reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Further review of the internal audit working papers will be undertaken for the planned areas of reliance.

Areas of Internal Audit reliance

22. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Council Tax Income
- Non Domestic Rates Income – IT access controls

23. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Counter Fraud Arrangements
- ALEOs
- Review of Overtime
- Housing Rent Arrears
- NFI
- Controls assurance statement to inform 2017/18 Governance Statement

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5: Audit dimensions



Source: Code of Audit Practice

25. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

26. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

27. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether East Lothian Council has arrangements in place to ensure systems of internal control are operating effectively
- whether East Lothian Council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how East Lothian Council has assured itself that its financial capacity and skills mix are appropriate
- whether East Lothian Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

28. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and, transparent reporting of financial and performance information. We will review, conclude and report on:

- whether East Lothian Council can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency in decision-making and on finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- East Lothian Council can provide evidence that it is demonstrating value for money in the use of its resources
- East Lothian Council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- East Lothian Council can demonstrate that outcomes are improving.

Best Value

30. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments.

31. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment both through the on-going annual audit work and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An Annual Assurance and Risks report that the Controller of Audit will provide to the Accounts Commission that will highlight issues raised across all 32 council annual audit reports.
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

32. The six councils on which a BVAR will be published during the second year of the new approach (2017/18) are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

Exhibit 6: 2017/18 Best Value Assurance Reports

East Lothian Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Ayrshire Council	Fife Council

Source: Audit Scotland

33. The work planned in East Lothian Council this year will focus on the Council's arrangements for demonstrating Best Value in the following areas:

- leadership, governance and scrutiny - vision, priorities, member and officer roles and responsibilities
- outcomes and performance - overall assessment of outcomes, performance and public reporting
- improvement - self-evaluation and, change / transformation plans and programmes
- partnership working - Community Planning Partnership including community empowerment

34. The results of this work will be reported in the Best Value Audit Report to the Accounts Commission in October 2018.

Independence and objectivity

35. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services who serves as Audit Scotland's Ethics Partner.

36. The engagement lead for East Lothian Council is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor, Gillian Woolman, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of East Lothian Council.

Quality control

37. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

38. The foundation of our quality framework is our Audit Guide which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the

required quality standards, Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing its arrangements for external quality reviews.

39. As part of our commitment to quality and continuous improvement Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Adding Value

40. Through our audit work we aim to add value to East Lothian Council. We do this by ensuring our Annual Audit Report provides a summary of the audit work completed in the year together with clear judgements and conclusions on how well East Lothian Council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

EAST LOTHIAN COUNCIL

Annual Audit Plan 2017/18

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REPORT TO: Audit and Governance Committee
MEETING DATE: 20 February 2018
BY: Chief Executive
SUBJECT: Development Risk Register

4

1 PURPOSE

- 1.1 To present to the Audit and Governance Committee the Development Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Development Risk Register has been developed in keeping with the Council's Risk Management Strategy and is a live document, which is reviewed and refreshed on a regular basis, led by the Development Local Risk Working Group (LRWG).

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the Development Risk Register and in doing so, the Committee is asked to note that:
 - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
 - the total profile of the Development risk can be borne by the Council at this time in relation to the Council's appetite for risk.
 - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Development and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Development LRWG. All risks have been evaluated using the standard (5x5) risk matrix, which involves

multiplying the likelihood of occurrence of a risk (scored 1-5), by its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Development Risk Register includes 1 Very High Risk, 6 High risks, 10 Medium risks and 14 Low Risk. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

3.4 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy, are embedded across the Council.

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 - It is the consideration of the Development Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

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

7 BACKGROUND PAPERS

7.1 Appendix 1 – Development Risk Register 2018

7.2 Appendix 2 – Risk Matrix 2018

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning and Risk Officer
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900
DATE	09 February 2018

Development Risk Register 2018

Date reviewed: 9th February 2018

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
D 1	<p>Homelessness</p> <p>Abolition of priority need in 2012 placed an obligation on the council to accept re-housing responsibility for additional (c.300 per year) homeless cases (mostly single people seeking 1 bedroom accommodation). The legislation also placed an obligation for the provision and funding of temporary accommodation until the responsibility is delivered. This has placed considerable pressure on the Community Housing Service and has increased Homeless demand, particularly for smaller sized properties.</p> <p>Reduced turnover has also resulted in fewer lets available and longer average time spent in temporary accommodation. The Scottish Housing Regulator has noted this.</p> <p>There is a higher financial cost burden for the general services budget due to additional demand for temporary accommodation.</p> <p>A shortage of temporary homeless accommodation could result in an inability to accommodate those in need, forcing use of B&Bs outwith East Lothian.</p> <p>There is also risk of the breach of Unsuitable Accommodation Orders due to a shortage of family sized temporary accommodation.</p> <p>Reduced supply of private lets due to landlords' concerns regarding new Private Tenancy legislation and welfare reform impacts.</p> <p>Increased evictions due to rent arrears lead to increased workload for Homeless team.</p> <p>Uncertainty over future funding of supported housing (DWP).</p>	<p>Housing Options preventative approach to provision of advice.</p> <p>Increasing use of private rented sector via Rent Guarantee Scheme to prevent/ deal with homelessness. B&B accommodation used for single people at capacity.</p> <p>Additional properties for temporary accommodation commissioned through Private Sector Leasing contract with Orchard and Shipman.</p> <p>Continued monitoring of Registered Social Landlord nomination process (new build and routine turnover).</p> <p>Allocation Policy reduced number of offers for each Homeless applicant to 1, to encourage quicker throughput in temporary accommodation.</p> <p>Housing Access team established to co-ordinate delivery of ELC's Housing Options advice service, including statutory homelessness duties.</p> <p>Cabinet report (Nov 17) gave approval for change to Allocations Policy to allow mandatory widening of choice, house type and size for those in temporary accommodation for more than six months.</p> <p>Open Market Acquisitions to increase supply prioritising the western part of the county, where demand is highest. These acquisitions vary year on year depending on capital budget and available subsidy. 25 properties purchased during 2017/18.</p>	5	4	20	<p>Continue new build activity to increase housing stock.</p> <p>Explore potential to further increase supply and optimise temporary accommodation provision, including consideration of re-tendering of Private Sector Leasing contract.</p> <p>Cabinet report submitted (November 2017) on recommended actions to address pressures relating to a lack of affordable housing supply and address Homelessness pressures through delivery of an agreed action plan. Monthly progress review meetings for Action Plan delivery established and will commence February 2018.</p> <p>January 2018 Cabinet approval of allocations targets to general needs / homeless applicants. Performance to targets kept under ongoing review.</p> <p>January 2018 Cabinet approval of Allocations Policy Review.</p> <p>Housing Options advice service will be rolled out via area housing teams during 2018/19. Scottish Government funding for staff training to support Housing Options.</p>	4	4	16	Service Manager – Community Housing	<p>Ongoing year on year.</p> <p>March 2019</p> <p>March 2019</p> <p>March 2019</p> <p>March 2019</p> <p>March 2019</p>	9, 10	<p>Risk refreshed January 2018 by Service Manager and Head of Service with no change to assessment of risk scores.</p> <p>Risk refreshed February 2016 - current risk score increased from 16 to 20 and residual score increased from 12 to 16.</p> <p>Risk refreshed February 2015 to combine risks together - current risk score reduced from 20 to 16.</p>
D 2	<p>BREXIT – potential loss of funding</p> <p>East Lothian Council directly benefit from European funding interventions as outlined below. In addition, advice given to businesses in relation to the export of goods and services and European legislation impact on businesses and public sector are other considerations. Local farming businesses will have access to outstanding £360m Scottish Common Agricultural Policy (CAP) funding and Scottish fishing businesses to the £60m European Maritime and Fisheries fund. There are a number of other programmes to which the public sector, further/higher education and small businesses can access –</p>	<p>Keep in close contact with COSLA to ensure we are up to date with the latest Brexit developments, participate, and influence direction of travel, where possible.</p>	4	4	16	<p>Assess future impact of funding changes on service as specific changes become clearer.</p>	4	4	16	<p>Head of Development</p> <p>Service Manager EDSI</p>	<p>Ongoing/Unable to influence greatly.</p>		<p>Risk refreshed by Service Manager – EDSI, January 2018 with no change to assessment of risk scores.</p> <p>New risk added February 2017 by Service Manager</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
	<p>including Interreg, COSME, Life, Horizon 2020, Erasmus.</p> <p>In relation to the 2014-20 European Structural and Investment monies for East Lothian Council: The Business Gateway Plus programme provides range of consultancy and financial support and business growth seminars from 1 January 2016 for 3 years. The total financial investment is £1.03m with £621,942 from East Lothian Council and ERDF (European Regional Development Fund) of £414,628. The target outputs of 739 interactions and engagements with East Lothian small- and medium-sized businesses – grant support to 121 companies, consultancy support to 123 and 495 attending events and workshops.</p> <p>An enhanced employability service is delivered through a European Social and Investment Fund Strategic Investment Grant to East Lothian Council. The pipeline is characterised by five stages and a range of available support for different groups of young people and adults on their journey towards and into sustained employment. Activity focuses on specific support for people facing multiple barriers to employment within the strategic pipeline. Project activity is until the end of December 2018 and funding is via three operations:</p> <ul style="list-style-type: none"> • Lead Partner Management Costs – £236,462 (ESF grant £94,585) • Employability Pipeline - £1,182,800 (ESF grant £473,120) • Challenge Fund - £300,000 (ESF grant £180,000) <p>The Tyne/Esk LEADER programme aimed at rural economic development applies to all of East Lothian, except Musselburgh but including Wallyford and Whitecraig, as well as rural Midlothian; £3.14m is available from 2014 to 2020. Fund management rotated and currently managed by Midlothian Council on behalf of the community-run Local Action Group. Community and council projects in the eligible area can apply for up to 60% funding, maximum £250,000 and minimum grant of £10,000.</p> <p>The European Maritime and Fisheries Fund, Fisheries Local Action Group (FLAG), is a programme of support to fishing communities with the East Lothian fishing communities (Cockenzie & Port Seton, Dunbar, North Berwick) together with East Berwickshire and East Neuk of Fife communities covered. Managed by Scottish Borders Council on behalf of three local authority area fishing</p>												

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	<p>communities with total available funding of £1m across the programme area.</p> <p>As part of the principles of the EU-UK Withdrawal Treaty which were agreed in December 2017, the funding programmes will continue as if the UK remained in the EU between Brexit day and December 2020, which is the end of the current 2014-2020 Budget period. However, some EU funds operate under the N+3 rule meaning funding claims could take place until the end of 2023. The UK and the EU agreed that this would be settled by way of the Reste A Liquider, but the UK will continue contributing to the EU budget up until its commitments to the EU budget 2014-2020 end.</p> <p>The option of opting into some EU cooperation programmes post Brexit may exist.</p> <p>There appears to be a tacit commitment by the UK Government that this funding will continue to be provided. It is not yet clear whether this will be transferred to Scottish Government to allocate nor how they may choose to distribute the funding.</p>												
D 3	<p>Solid Fuel Installations and Safety</p> <p>Failure to Manage Solid Fuel safety on all Solid Fuel Installations in ELC Housing Properties leading to potential CO poisoning of tenants, increased risk of house fires and potential risk of prosecution. Chimneys are generally in poor condition while the Council are unable to control fuels burnt in solid fuel appliances.</p>	<p>Programme of Solid Fuel Servicing exists. Heating replacements to energy efficient, low carbon alternative fuels are available and being installed with available RHPP /RHI funding but implementation is difficult. Servicing contractor in place for removal and replacement of solid fuel systems.</p>	3	5	15	<p>Programme for removal and replacement of solid fuel systems ongoing in remaining 50 properties. Gas supplies being installed to all Council houses in gas areas to enable rapid replacement when consent received.</p>	2	5	10	<p>Service Manager - Engineering Services & Building Standards (ESBS)</p> <p>Service Manager - Community Housing</p>	<p>March 2018 to review numbers installed.</p>	7,9	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Current score increased Feb'15 from 12 to 15 and residual score from 0 to 10.</p> <p>Risk also on Infrastructure Register</p>
D 4	<p>Affordable Housing Supply</p> <p>Supply of affordable housing is outstripped by need and demand influencing rising numbers on the Councils Housing Register and increased risk of arising Homeless applications.</p> <p>Insufficient land in control of affordable housing providers due to limited amount of Council owned land and difficulty in competing on the open market to purchase land due to high land prices. Much of the land in East Lothian is tied up in options to private housing developers, leading to an inability to control provision of new affordable</p>	<p>Emerging LDP and significant land use allocations therein, providing land through planning policy to deliver an increase supply of affordable homes.</p> <p>Section 75 Co-ordinator recruited to project manage delivery of strategic sites, including affordable housing contribution.</p> <p>The Council continues to pursue opportunities to acquire land/bring forward private projects for affordable housing.</p> <p>Sites purchased by HRA from General Services.</p>	5	3	15	<p>New Local Housing Strategy to be put in place with associated actions in relation to delivery of affordable housing.</p> <p>Strategic Housing Investment Plan Annual Review.</p> <p>Supplementary planning guidance on affordable housing being developed to be adopted with the Local Development plan.</p> <p>Supporting Local Investment Framework being developed.</p>	3	3	9	<p>Head of Development</p> <p>Service Manager – EDSI</p> <p>Service Manager - Planning</p>	<p>May 2018</p> <p>November 2018</p> <p>June 2018</p> <p>June 2018</p>	9	<p>Risk refreshed by Service Manager and Head of Service January 2018 with no change to assessment of current scores.</p> <p>Risk refreshed by Service Manager February 2017 with residual score reduced from 12 to 9.</p>

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	<p>housing and reliance on planning policy for affordable housing to deliver land.</p> <p>Government Resource Planning Assumptions (RPAs) for East Lothian have been provided for the period 2017/18 to 2020/21 as follows: 2017/18 - £6.486m 2018/19 - £8.907m 2019/20 - £10.007m 2020/21 - £10.751m</p> <p>The Scottish Government have announced a target of 50,000 affordable homes in the lifetime of this Parliament (35,000 of these to be social rent). This has been accompanied by an increase in funding at a national level allocated to support this and is reflected in increased RPAs at a local level.</p>	<p>Regional Housing Programme proposed through South East Scotland City Region Deal.</p> <p>Contribute to and influence review of planning system.</p> <p>Accessed Scottish Government Infrastructure Fund.</p> <p>The Council continues to deliver and to discuss with RSLs and other organisations unsubsidised affordable housing models. HRA Programme Board in place.</p> <p>Strategic Housing Investment Plan for 2018/19 to 2022/23.</p>											
D 5	<p>Fuel Poverty</p> <p>Increase in fuel poverty due to a variety of factors:</p> <ul style="list-style-type: none"> - Increase in fuel prices - Impact of welfare reform - Changing householder economic/financial situation <p>Scottish Government is planning to introduce a Warm Homes Bill to Parliament, which will enshrine the Scottish Government's ambition to eradicate fuel poverty. The Scottish Government are currently consulting detailed proposals for a Fuel Poverty Strategy for Scotland and the targets, which will be enshrined in legislation. This consultation includes a revised definition of fuel poverty.</p> <p>Energy Efficiency is a national infrastructure priority (Scottish Government's Infrastructure Investment Plan 2015). During 2017, the Scottish Government consulted on a range of related issues as part of the draft Climate Change Plan and draft Scottish Energy Strategy. Scotland's Energy Efficiency Programme (SEEP) is currently under development and will commence in 2018. It will be a co-ordinated programme to improve the energy efficiency of homes alongside commercial, public and industrial sectors.</p> <p>The impact of living in fuel poverty can place additional pressure on existing services – health, social care, advice, rent income.</p>	<p>Home Energy Efficiency Programme for Scotland: Area Based Scheme (HEEPS:ABS) in place, offering targeted energy efficiency measures and fuel poverty advice to private sector stock.</p> <p>Continue to implement HEEPS: ABS programme.</p> <p>Energy advice and fuel debt support in place. Capital Programmes in place for council housing and Registered Social Landlords to increase energy efficiency measures. Social rented tenure must meet EESH by 2020.</p>	4	3	12	<p>Improve knowledge of the levels, extent and nature of fuel poverty and target resources to the worst affected areas.</p> <p>New Local Housing Strategy to be put in place with associated actions in relation to energy efficiency of existing housing stock, fuel poverty and climate change</p> <p>Commence preparation for transition to SEEPS Programme (programme to deliver energy efficiency measures across public, commercial and private sector stock as part of National Infrastructure Priority for Energy Efficiency.</p>	3	3	9	Service Manager – Economic Development & Strategic Investment (EDSI)	<p>April 2020</p> <p>May 2018</p> <p>SEEPS implementation in 2020/21</p>	6, 10	<p>Risk refreshed by Service Manager January 2018 with no change to assessment of current scores.</p> <p>Risk refreshed by Service Manager February 2017 with current score reduced from 15 to 12 and residual score from 12 to 9.</p>

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			L	I	L x I		L	I	L x I					
D 6	<p>Housing Quality</p> <p>Our houses are required to meet the Scottish Housing Quality Standard (SHQS) and will be required to meet the Energy Efficiency Standard in Social Housing (EESH) by December 2020. Delivery of these Standards is a significant contributor to the achievement of several of the National Outcomes the Scottish Government aims to achieve.</p> <p>The Scottish Housing Regulator (SHR) is monitoring progress towards achieving these Standards and failure to clearly demonstrate compliance may involve intervention by the SHR on the management of stock quality. It could also lead to loss of reputation to the Council as a service provider and the largest landlord in East Lothian.</p> <p>Stock condition survey data is incomplete and requires updated.</p> <p>Remaining Solid Fuel systems, (66 properties) present possible health and safety risk for tenants – fire and CO risk.</p>	<p>Annual monitoring and reporting to SHR (via Social Housing Charter) and Audit Scotland.</p> <p>Annual Housing Capital Investment Programme review. The Capital Programme funds planned programmes of work has been targeted at continued compliance with the requirements of the SHQS.</p> <p>Keystone domestic asset management software system in place ensuring robust information held on the condition of Council housing stock. Data validation checks of information held on Keystone.</p> <p>Dedicated asset surveyors in place and rolling programme of stock condition surveys has commenced to keep data up to date.</p> <p>Housing Asset Management Team established to oversee delivery of HRA Capital programme including modernisation, adaptations and new build programmes although these are not permanent posts thus creating a risk of temporary staff/turnover.</p> <p>Monthly monitoring and reporting as part of Balanced Scorecard.</p> <p>Continued investment in targeted capital programme works.</p> <p>Keeping SHR regularly updated on progress towards meeting the Standards. Keystone informs future planning of annual programme of modernisation work.</p>				<p>Housing Asset Management Strategy to be developed.</p> <p>Programme targeted to address failures and improve reported performance against targets.</p> <p>Policy required on solid fuel systems replacement process.</p> <p>Service Review will look to closer align development of modernisation programme and associated delivery.</p> <p>Additional asset surveyor in proposed restructure will ensure more complete and current stock intelligence.</p>				<p>Service Manager - Community Housing</p> <p>Service Manager – Property Maintenance</p>	<p>September 2018</p> <p>March 2019</p> <p>December 2018</p> <p>June 2018</p> <p>June 2018</p>	9	Risk refreshed January 2018 by both Service Managers with no change to assessment of risk scores.	
D 7	<p>Mobile Working</p> <p>Current mobile working hardware, within Property Maintenance, is dated and does not meet PSN requirements.</p> <p>This has resulted in a switch-off of existing hardware, and reverting to paper-based job ticketing, placing increased pressure on administrative resources.</p> <p>A project to implement Windows 8 tablet technology was terminated due to the supplier failing to meet expectations.</p>	<p>A new iOS-based mobile working platform has been procured.</p> <p>A paper-based contingency has been implemented to cover the intervening period between PSN 'switch-off' and go-live of the new platform.</p>				<p>Implementation of phase 2 mobile working, encompassing iOS Smartphone technology has commenced.</p> <p>Revised project plan agreed with suppliers to ensure system in place by deadline.</p> <p>ELC IT included in project planning to ensure resources and supporting system architecture is in place.</p>				<p>Service Manager – Property Maintenance</p>	<p>March 2018</p>	9	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>New risk identified 30/10/14 by Service Manager – Property Maintenance.</p>	
	Original date produced (V1)	6 th May 2014											Risk Score	Overall Rating
	File Name	Development Risk Register											20-25	Very High
	Original Author(s)	Scott Kennedy, Risk Officer											10-19	High

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
Current Revision Author(s)	Scott Kennedy, Risk Officer										5-9	Medium	
											1-4	Low	
Version	Date	Author(s)	Notes on Revisions										
1	06/05/2014	S Kennedy	Former Housing & Environment Risk Register altered to become the Development Risk Register following realignment.						Original Version				
2	28/10/2014	S Kennedy	Testing & Regulation Risks updated										
3	November and December 2014	S Kennedy	Economic Development & Strategic Investment Risk Updated along with Planning Risks and Engineering Services & Building Standards Risks										
4	January-February 2015	S Kennedy	Trading Standards and Environmental Health Partnership risks refreshed along with Strategic Asset & Capital Plan Management risks. Further, refresh of Engineering Services & Building Standards and Economic Development & Strategic Investment Risk Risks.										
5	December 2015 – January 2016	S Kennedy	Environmental Health, Economic Development & Strategic Investment, Engineering Standards & Building Services and Planning risks refreshed.										
6	February 2016	S Kennedy	Review and refresh by Head of Development.										
7	January – February 2017	S Kennedy	All risks reviewed and refreshed by Service Managers and further reviewed by Head of Development and CMT.										
8	November 2017	S Kennedy	Community Housing & Homelessness Risks moved from Communities & Partnerships Risk Register, Property Maintenance Risks moved from Infrastructure Risks Register and Protective Services & Trading Standards risks moved to Communities and Partnerships Risk Register. Engineering Services & Building Standards and Strategic Asset & Capital Plan Management moved to Infrastructure Risk Register following Council Service Review.										
9	January 2018	S Kennedy	All risks reviewed and refreshed by Service Managers and further reviewed by Head of Development and CMT.										

East Lothian Council

Risk Matrix

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	Will undoubtedly happen, possibly frequently >90% chance
Likely	4	Will probably happen, but not a persistent issue >70%
Possible	3	May happen occasionally 30-70%
Unlikely	2	Not expected to happen but is possible <30%
Remote	1	Very unlikely this will ever happen <10%

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity	Legal
Catastrophic	5	Unable to function, inability to fulfill obligations.	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances)	Single or Multiple fatality within council control, fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved.	Significant disruption to building, facilities or equipment (Loss of building, rebuilding required, temporary accommodation required).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions.
Major	4	Significant impact on service provision.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty)	Number of extensive injuries (major permanent harm) to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Major adverse publicity (regional/national), major loss of confidence.	Major disruption to building, facilities or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council.
Moderate	3	Service objectives partially achievable.	Significant impact on budgets (can be contained within overall directorate budget)	Serious injury requiring medical treatment to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Some adverse local publicity, limited damage with legal implications, elected members become involved.	Moderate disruption to building, facilities or equipment (loss of use of building for medium period).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council.
Minor	2	Minor impact on service objectives.	Moderate impact on budgets (can be contained within service head's budget)	Lost time due to employee injury or small compensation claim from service user or public (First aid treatment required).	Some - between 2 and 6 months to recover.	Some public embarrassment, no damage to reputation or service users.	Minor disruption to building, facilities or equipment (alternative arrangements in place and covered by insurance).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council.
Minimal	1	Minimal impact, no service disruption.	Minimal impact on budgets (can be contained within unit's budget)	Minor injury to employee, service user or public.	Minimal - Up to 2 months to recover.	Minor impact to council reputation of no interest to the media (Internal).	Minimal disruption to building, facilities or equipment (alternative arrangements in place).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council.

Risk	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High
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REPORT TO: Audit and Governance Committee
MEETING DATE: 20 February 2018
BY: Chief Executive
SUBJECT: Infrastructure Risk Register

5

1 PURPOSE

- 1.1 To present to the Audit and Governance Committee the Infrastructure Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Infrastructure Risk Register has been developed in keeping with the Council's Risk Management Strategy and is a live document, which is reviewed and refreshed on a regular basis, led by the Infrastructure Local Risk Working Group (LRWG).

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the Infrastructure Risk Register and in doing so, the Committee is asked to note that:
 - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
 - the total profile of the Infrastructure risk can be borne by the Council at this time in relation to the Council's appetite for risk.
 - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Infrastructure and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Infrastructure LRWG. All risks have been evaluated using the standard (5x5) risk matrix, which involves multiplying the likelihood of occurrence of a risk (scored 1-5), by its

potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Infrastructure Risk Register includes 10 High risks, 49 Medium risks and 14 Low Risks. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

3.4 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

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 - It is the consideration of the Infrastructure Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

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

7 BACKGROUND PAPERS

7.1 Appendix 1 – Infrastructure Risk Register 2018

7.2 Appendix 2 – Risk Matrix 2018

AUTHOR'S NAME	Scott Kennedy	
DESIGNATION	Emergency Planning and Risk Officer	
CONTACT INFO	skennedy@eastlothian.gov.uk	01620 827900
DATE	09 February 2018	

Infrastructure Risk Register 2018

Date reviewed: 9th February 2018

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 1	Maintenance of Burial Grounds Failing to maintain the Council's burial grounds could result in a serious injury/death to the public or ELC employees from falling headstones/memorials and a resulting financial loss due to insurance claims. There is also the risk of losing part of East Lothian's cultural heritage through the loss of family history records on headstones and memorials and failure to comply with the Equalities Act if access paths aren't maintained.	<p>Responsibility for maintenance of facilities shared with Property Maintenance. Inspection of all headstones now complete North Berwick Cemetery extension has concrete foundation provided for headstones.</p> <p>A Community Pay Back scheme to repair headstones/memorials has been set up but will take time to make any significant impact.</p> <p>St Mary's Haddington has had emergency stability work undertaken on headstones. ELC staff now responsible for installation of foundations for all new memorial stones.</p> <p>Additional equipment purchased to assist with roll out of headstone safety works and improve output. Priority for safety works now moved over to Amenity Services Staff from Criminal Justice Team</p> <p>Now in year 3 of a 6 year programme to Dig and Deepen unstable headstones. Risk reduced by 26% volume – 1,600 of 6,000 stones now safe with most high risk stones now dealt with.</p> <p>Round 2 of Headstone Inspection Programme completed November 2017 and Risk Assessment reviewed December 2017 with results used to prioritise consolidation programme for Spring 2018.</p> <p>Toolbox talks for staff completed to cover safety aspects of working in and around headstones and to ensure consistent approach towards consolidation works.</p>	4	4	16	<p>Further programme of consolidation works programmed for completion March 2018 based on revised risk assessment.</p> <p>Round 3 of Headstone Inspection Programme to be completed by March 2020 according to agreed 3 year rolling programme.</p>	3	4	12	Principal Amenity Officer	<p>March 2018</p> <p>March 2020</p>	11	<p>Risk refreshed by Principal Amenity Officer January 2018 with no change to assessment of current score.</p> <p>Risk Refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 20 to 16.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 2	<p>Burial Service</p> <p>Inability to provide an efficient burial service and sufficient land for burial purposes would mean that the Council is unable to undertake its statutory duties, and create distress to family and mourners.</p> <p>An audit highlighted there is less available burial space than indicated previously.</p>	<p>Burial Administration now centralised in single office and revised procedures from service review now operating. Risk Assessments and SOPs are in place, regularly updated and employees are aware of them.</p> <p>Training programme in place to ensure employees are qualified.</p> <p>Burial Strategy now adopted by ELC. Communication procedure with the Registration Service in place and monthly liaison meetings take place. New procedures for management of burials are now operational.</p> <p>Negotiation ongoing with landowners and consultation with Planning for new burial provision at priority site in Tranent.</p> <p>Active Planning Applications now lodged for Dunbar and Prestonpans with ground water studies ongoing to satisfy SEPA.</p> <p>Representation made to MIR consultation regarding all cluster needs for new space</p> <p>Recruitment exercise complete meaning staffing filled to budget.</p>	4	4	16	<p>Take Planning Applications for Dunbar and Prestonpans through to Full Planning Applications (progress made on provision for Dunbar and Prestonpans clusters more secure by way of partner applications for development sites being granted Planning Permission in Principal).</p> <p>Complete negotiations and secure ownership of land according to priority list.</p> <p>Deliver induction session for all burial staff on current procedures.</p>	3	4	12	Principal Amenity Officer	<p>March 2018</p> <p>March 2018</p> <p>March 2018</p>	11	<p>Risk refreshed by Principal Amenity Officer January 2018 and residual score increased from 9 to 12 to reflect reducing burial capacity at existing sites and no confirmed alternatives at time of review.</p> <p>Risk Refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 20 to 16.</p>
INF 3	<p>Solid Fuel Installations and Safety</p> <p>Failure to Manage Solid Fuel safety on all Solid Fuel Installations in ELC Housing Properties leading to potential CO poisoning of tenants, increased risk of house fires and potential risk of prosecution. Chimneys are generally in poor condition while the Council are unable to control fuels burnt in solid fuel appliances.</p>	<p>Programme of Solid Fuel Servicing exists. Heating replacements to energy efficient, low carbon alternative fuels are available and being installed with available RHPP /RHI funding but implementation is difficult. Servicing contractor in place for removal and replacement of solid fuel systems.</p>	3	5	15	<p>Programme for removal and replacement of solid fuel systems ongoing in remaining 50 properties. Gas supplies being installed to all Council houses in gas areas to enable rapid replacement when consent received.</p>	2	5	10	<p>Service Manager - Engineering Services & Building Standards (ESBS)</p> <p>Service Manager - Community Housing</p>	<p>March 2018 to review</p>	7,9	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Risk score increased Feb'15 from 12 to 15 and residual score from 0 to 10.</p> <p>Risk also on Development Register.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 4	<p>Maintenance of Non-operational Properties</p> <p>Failure to maintain non-operational properties in compliance with statutory legislation, particularly in relation to Public Buildings Statutory Electrical Testing and inspections due to insufficient resources may expose the Council to legal proceedings, financial loss, service reduction, damage to its reputation and potential Health and Safety incidents in properties. This could result in injury/loss of life of public building users and legal action against the Council.</p> <p>Failure to make sufficient finance available to carry out testing and implement recommendations may result in all of the above.</p>	<p>Funding required from limited Property Renewals budget to address identified remedial works in public buildings.</p> <p>Programme of Fixed Electrical Installation in place in accordance with statutory requirements.</p> <p>Contractors' reports reviewed on an ongoing basis.</p> <p>Close liaison with and monitoring performance of framework electrical contractor to ensure inspections, reports, cost estimates, works and certification are completed timeously.</p>	3	5	15	<p>Programme for dealing with remedial works identified during EICR testing in place for all public buildings.</p> <p>Review and identify inspection and management resource required within SACPM and Engineering Services.</p> <p>Progress policy of asset rationalisation, disposing of public buildings in line with the Asset Strategy.</p>	2	4	8	<p>Service Manager – ESBS</p> <p>Service Manager – SA&CPM</p>	<p>August 2018</p> <p>August 2018 - review monthly until satisfactory arrangements are in place</p> <p>August 2018</p>	7	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Risk Refreshed February 2016 by Head of Service and residual risk score reduced from 10 to 8.</p>
INF 5	<p>Building Standards Team</p> <p>Recruitment constraints faced by the Council could lead to the Building Standards Team not being able to maintain a level of staff that is adequately qualified, trained and competent to carry out the Building Standards duties of verification, enforcement, licensing etc. to the targets expected in BSD's new performance framework. This could influence service levels and result in an audit by the BSD, which could lead to the Council losing the verification role.</p> <p>A Service Review was carried out during 2016 and implemented; however, there is an ongoing inability to recruit suitably qualified BS Surveyors resulting in an inability to meet targets. Also in-house Structural Engineer retired December 2017.</p>	<p>Monitoring of workload to fee income, performance to staffing levels and project complexity to staff abilities and training.</p> <p>Involvement with the Local Authority Building Standards Scotland (LABSS) and the BSD to influence delivery of the new performance framework of 9 performance outcomes and a risk based inspection regime for Reasonable Inquiry to deliver compliance with the building regulations.</p> <p>Preparation of the Building Standards Team and review of its resources to align with the requirements and implementation of the new performance framework.</p> <p>Building Standard Surveyor appointed November 2017, however, still 2 vacancies to fill.</p>	3	4	12	<p>Measure impact of BSD's new performance framework, workload, employee costs for appraisal of warrants, acceptance of completion certificates and enforcement duties for varying project size and complexity to compare against fee income.</p> <p>Look to recruit to graduate post and discuss apprentice progression with HR.</p>	2	4	8	Service Manager – ESBS	<p>August 2018</p> <p>August 2018</p>	7	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Risk Refreshed November 2014 and residual risk score reduced from 12 to 8.</p>
INF 6	<p>Dangerous Buildings</p> <p>Higher enforcement workload in terms of dangerous buildings for Officers due to various reasons (including increasing instances of severe weather and owners unable to maintain their properties) resulting in increased risk to members of the public.</p> <p>A Service Review was carried out during 2016 and implemented; however, there is an ongoing inability to recruit suitably qualified BS Surveyors resulting in inability to meet targets. Also in-house Structural Engineer retired December 2017.</p>	<p>Climatic and financial factors are outwith East Lothian Council's control.</p> <p>No contractual obligation for staff to provide an out of hours dangerous buildings service which therefore relies on the goodwill of the BS Manager and three Senior BS Surveyors to provide cover outwith office hours.</p> <p>Building Standard Surveyor appointed November 2017, however, still 2 vacancies to fill.</p>	3	4	12	<p>Working with HR to try to recruit by alternative means or by re-training of alternative disciplines and to implement an Out of Hours agreement.</p> <p>Continue to advertise and contact agencies with a view to filling posts.</p>	2	4	8	Service Manager – ESBS	<p>August 2018</p> <p>August 2018</p>	7	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Risk Refreshed February 2015 with current score reduced from 15 to 12 and residual score from 10 to 8.</p>

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			L	I	L x I		L	I	L x I				
INF 7	<p>Future Required Maintenance of New or Extended Assets</p> <p>Insufficient budget allocation to manage and maintain the increased asset base may result in deterioration in condition of the assets with consequential risk of failure.</p> <p>Repairs and maintenance cost pressures and adoption of new facilities e.g. school extensions mean a real term reduction in resource and availability.</p> <p>This could ultimately result in a failure of building elements with the risk of closure or enforcement by Statutory or Regulatory authorities.</p>	<p>Annual update of programme of works based on Condition, Suitability and Statutory Compliance assessments to inform budget requirement.</p>	3	4	12	<p>Ensure Condition and other data is maintained up to date to inform the planned delivery of works required to ensure buildings comply with statutory and legal requirements and are maintained in a good condition.</p> <p>Continue to look for opportunities to co-locate and share facilities to reduce the number of assets held by the Council.</p> <p>Looking at Lifecycle Costing as part of project/business plan.</p>	2	4	8	<p>Service Manager – ESBS</p> <p>Service Manager – SA&CPM</p>	<p>August 2018</p> <p>Ongoing – long term</p> <p>August 2018</p>	7	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Current Risk scores reduced from 16 to 12 February 2015.</p>
INF 8	<p>Current Asset Data</p> <p>Asset data for operational properties is not current, resulting in insufficient information to prioritise planned investment in buildings and potential risk to occupants, contractors and members of the public at risk from failure of building elements or systems.</p>	<p>Limited annual desktop updates carried out on existing data informed by feedback from maintenance team.</p> <p>2nd Phase of 3 Phase building survey now complete.</p>	3	4	12	<p>3rd Phase of 3 Phase building survey now underway. External resources allocated to enable ongoing surveys and comprehensive 5 yearly reviews.</p>	2	4	8	Service Manager – ESBS	April 2018	7	Risk refreshed January 2018 with no change to assessment of risk scores.
INF 9	<p>Tree Estate</p> <p>Failure to manage and maintain the Council's tree estate including a failure to monitor for the current risk from tree diseases resulting in potential damage to people and or property. Also potential negative impact on the landscape and character of East Lothian and its towns and villages, biodiversity, health & wellbeing of residents and the local economy and tourism.</p>	<p>Regular inspections undertaken as well as monitoring for tree diseases within the tree estate with record kept of trees inspected. Record kept of arboriculture work undertaken.</p> <p>Annual programme of tree planting and record kept of trees planted.</p> <p>All forestry staff have appropriate qualifications, training and experience.</p> <p>Risk Assessments and SOPs in place and regularly updated for all arboriculture and forestry work which employees are aware of.</p> <p>Woodland Action Plan in the Biodiversity Action Plan.</p>	3	4	12	<p>Survey of all Council owned trees on their condition and location has commenced and a rolling inspection programme to be set up. Resourcing issues are such that survey progress will be limited and completion will take an extended period of time.</p> <p>Purchase of specialised Tree Management software to allow mapping and detailed recording of condition & history.</p>	2	4	8	Tree Officer	<p>March 2021</p> <p>December 2018</p>	11	<p>Risk refreshed by Principal Amenity Officer January 2018 with no change to assessment of current score.</p> <p>Risk refreshed by Head of Infrastructure Dec'14 with Current Score reduced from 16 to 12 and residual score from 10 to 8.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
INF 10	<p>Statutory Water & Air Hygiene monitoring and testing</p> <p>Failure to comply with statutory Water & Air Hygiene monitoring and testing may expose the Council to legal proceedings, financial loss, service reduction, damage to its reputation and potential injury or loss of life to building users through Legionella.</p> <p>Failure to make sufficient budget available to carry out testing and implement recommendations may result in the above.</p> <p>Now sharing framework agreement for Advanced Procurement for Universities & Colleges (APUC) giving us a further means of procurement to enable further works to take place and reduce the risk.</p> <p>Risks to be updated when assessments received but concerns over likely significant budget requirement to deal with remedial works identified.</p>	<p>Performance will be monitored through risk assessment and regular inspection and testing. Funding required from the Property Renewals budget and Day to Day Maintenance budget to address identified remedial works in public buildings.</p> <p>Existing contractors risk assessments and reporting being reviewed on ongoing basis. Programme of risk assessment, maintenance and testing tendered and accepted 2018. Contract extended to cover all buildings.</p> <p>Transition of Housing Management areas to new Housing Asset team.</p>	2	5	10	<p>Majority of risk assessments now nearing completion and remedial works being addressed as identified.</p>	2	4	8	Service Manager – ESBS	March 2019	7	<p>Risk refreshed January 2018 with no change to assessment of risk scores.</p> <p>Risk Refreshed February 2015 with current score reduced from 15 to 10 and residual score from 10 to 8.</p>
Original date produced (Version 1)		9 th January 2013									Risk Score	Overall Rating	
File Name		Infrastructure Risk Register									20-25	Very High	
Original Author(s)		Scott Kennedy, Risk Officer									10-19	High	
Current Revision Author(s)		Scott Kennedy, Risk Officer									5-9	Medium	
Version		Date	Author(s)		Notes on Revisions							1-4	Low
1		09/01/2013	S Kennedy		Environment Register updated to Infrastructure Risk register following Senior Management Restructure and updates to Risk Strategy and Corporate Risk Register.								
2		April-May 2013	S Kennedy		Updated by M Johnston and T Reid and risks combined following Working Group meeting. Dog Fouling/Dangerous Dogs risk split by M Johnston. Transport Services updated by I Dagleish. Facilities Management updated by J Marlow. Property Maintenance updated by R Rafferty.								
3		September 2013	S Kennedy		Landscape & Countryside Risks updated by S Pryde.								
4		October 2013	S Kennedy		Waste Management Risks updated and two added by T Reid and no change to Road Services Risks (A Stubbs) or Transport Services Risks (I Dagleish). Facilities Mgmt risks updated.								
5		December 2013	S Kennedy		Roads Network Risks Added								
6		January 2014	S Kennedy		Dangerous Dogs & Dog Fouling Risks transferred to Communities & Partnerships (Customer Services) Risk Register; Healthy Living Risks added and Print Unit Risk added to Facilities to create initial Infrastructure Risk Register following realignment process.								

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
7		May 2014	S Kennedy			Waste risks reviewed by Tom Reid. Land Management Risk transferred from Corporate RR at the request of CMT.							
8		November 2014	S Kennedy			Waste, Transport, Road, Facilities Services and Property Maintenance Risks all reviewed and refreshed by respective Service Managers. Amenity Risks reviewed by Principal Amenity Officer.							
9		December 2015	S Kennedy			All Infrastructure risks reviewed and refreshed by all Service Managers. Risks on postal strike and print unit deadlines removed by Head of Infrastructure. Risk on staffing levels also removed as covered in Corporate Risk Register.							
10		December 2016	S Kennedy			All Infrastructure risks reviewed and refreshed by all Service Managers.							
11		November 2017	S Kennedy			Property Maintenance Risks moved to Development Risk Register while Engineering Services & Building Standards and Strategic Asset and Capital Plan Management risks moved from Development Risk Register following Council Service Review. Two Waste Services Risks on Carberry Landfill Site removed as risk removed.							
12		December 2017 - January 2018	S Kennedy			Transport, Waste and Roads (Traffic Warden Risk Removed) Risks updated followed by January updates to Engineering Services & Building Standards, Sport Countryside & Leisure, Facilities and Strategic Asset & Capital Plan Management.							

East Lothian Council

Risk Matrix

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	Will undoubtedly happen, possibly frequently >90% chance
Likely	4	Will probably happen, but not a persistent issue >70%
Possible	3	May happen occasionally 30-70%
Unlikely	2	Not expected to happen but is possible <30%
Remote	1	Very unlikely this will ever happen <10%

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity	Legal
Catastrophic	5	Unable to function, inability to fulfill obligations.	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances)	Single or Multiple fatality within council control, fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved.	Significant disruption to building, facilities or equipment (Loss of building, rebuilding required, temporary accommodation required).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions.
Major	4	Significant impact on service provision.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty)	Number of extensive injuries (major permanent harm) to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Major adverse publicity (regional/national), major loss of confidence.	Major disruption to building, facilities or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council.
Moderate	3	Service objectives partially achievable.	Significant impact on budgets (can be contained within overall directorate budget)	Serious injury requiring medical treatment to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Some adverse local publicity, limited damage with legal implications, elected members become involved.	Moderate disruption to building, facilities or equipment (loss of use of building for medium period).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council.
Minor	2	Minor impact on service objectives.	Moderate impact on budgets (can be contained within service head's budget)	Lost time due to employee injury or small compensation claim from service user or public (First aid treatment required).	Some - between 2 and 6 months to recover.	Some public embarrassment, no damage to reputation or service users.	Minor disruption to building, facilities or equipment (alternative arrangements in place and covered by insurance).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council.
Minimal	1	Minimal impact, no service disruption.	Minimal impact on budgets (can be contained within unit's budget)	Minor injury to employee, service user or public.	Minimal - Up to 2 months to recover.	Minor impact to council reputation of no interest to the media (Internal).	Minimal disruption to building, facilities or equipment (alternative arrangements in place).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council.

Risk	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High
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REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Partnerships and Community Services)

6

SUBJECT: 2017/18 Council Improvement Plan Monitoring Report

1 PURPOSE

- 1.1 To present the 2017/18 Council Improvement Plan monitoring report to the Audit and Governance Committee.

2 RECOMMENDATIONS

- 2.1 That Audit and Governance Committee notes the progress in achieving the Council Improvement Plan as detailed in the monitoring report (Appendix 1).

3 BACKGROUND

- 3.1 The 2017/18 Council Improvement Plan was approved by Council on 22 August 2017. The ten action points in the Plan were drawn mainly from the Corporate Governance self-evaluation carried out by the Council Management Team (as reported to Audit & Governance Committee, 20 June 2017). These actions for development and improvement build on existing good practice and improvement actions being implemented to support the Council's progress through continuous improvement.
- 3.2 The six month monitoring report (Appendix 1) outlines progress that has been made in completing the actions in the Improvement Plan. It shows that significant progress has been made on most actions and that all actions will be completed by May 2018.

4 POLICY IMPLICATIONS

- 4.1 The 2017/18 Council Improvement Plan will assist the Council in demonstrating that it is achieving Best Value. It will provide the necessary

focus to improve key areas of the Council at a corporate level, thus aiding delivery of the Council Plan. Moreover, it will support East Lothian Council in its striving for continuous improvement, to continue improving the quality and delivery of its services and to meet Council Plan objectives.

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 directly, although certain actions within the Plan are likely to require the commitment of staff resources.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 Appendix 1: 2017/18 Council Improvement Plan Monitoring Report
- 7.2 Council Improvement Plan; report to Council, 20 June 2017

AUTHOR'S NAME	Paolo Vestri
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DATE	8 February 2018

Appendix 1: 2017/18 Council Improvement Plan Monitoring Report (February 2018)

2017/18 Council Improvement Plan

We deliver excellent services as effectively and efficiently as possible

	ACTION	LEAD OFFICERS	DEADLINE	UPDATE
1	Adopt a 2017-2022 Council Plan	Service Manager Corporate Policy & Improvement	Completed	Completed with approval of 2017-2022 Council Plan by Council; 27/6/17.
2	Further develop staff communications and engagement, building on positive programmes such as the One Council Workshops	Service Manager Corporate Policy & Improvement	May 2018	Inform, the monthly staff e-zine, was introduced in December 2016 and is being used to improve staff communications. A new phase of One Council Workshops to engage staff in key issues facing the Council will be launched in the spring. These will build on the success of the first round of One Council Workshops.
3	Review the Council's key performance indicators (KPIs) and targets	Service Manager Corporate Policy & Improvement	Completed	Completed with review of KPIs approved by Policy & Performance Review Committee; 11/10/17.
4	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	Service Manager Corporate Policy & Improvement	Completed	Completed with approval of the new East Lothian Plan 2017-2027 by the East Lothian Partnership; 26/9/17. The review of the structure of the Partnership has been completed and approved by the East Lothian Partnership; 24/01/18 (to be reported to Council 27/02/18).

5	Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements	Service Manager Corporate Policy & Improvement	Completed	<p>'A Guide to Community Participation Opportunities' has been published on the Council website. This provided information on the large number of ways in which the Council encourages and supports consultation and engagement. It</p> <p>Cabinet (12/09/17) approved the Council's approach to meeting the new duties around Participation Requests and Community Asset transfer requests.</p> <p>East Lothian's six Area Partnerships are a key element of the Council's approach to public engagement and participation. Recommendations from a review of Area Partnerships carried out in 2017 are being used to further develop the Partnerships and their relationship with the Council and East Lothian Partnership.</p> <p>The Health & Social Care Partnership has published an Engagement Strategy and is involved in several consultations and engagement exercises.</p> <p>The Council's Consultation and Engagement Strategy has been reviewed and will be re-launched in April 2018.</p>
6	Prepare and adopt a Workforce Plan, incorporating a Workforce Development Plan	Service Managers HR and Corporate Policy & Improvement	April 2018	<p>A Draft Workforce Plan has been prepared and will be issued for consultation in March 2018. The draft plan and results of the consultation will be reported to Cabinet in the spring.</p> <p>A Workforce Development Plan based on the new Workforce Plan is being prepared.</p>

7	Review elected members' development needs and provide an ongoing training and development programme	Service Manager Corporate Policy & Improvement	April 2018	A '100 days review' following the May 2017 elections has been carried out with elected members. A follow up survey of elected members' training and development needs will be carried out in March 2018.
8	Develop a regulatory services charter covering all services that provide regulatory services to business	Service Manager Protective Services	May 2018	The regulatory services charter is being prepared and will be completed by May 2018
9	Using Audit Scotland's Best Value Audit Toolkits, review the performance and practice of the council's key processes.	Service Manager Corporate Policy & Improvement	Completed	The Council's key processes have been reviewed using Audit Scotland's Best Value Toolkits. Improvement actions, including reviewing the Council's Continuous Improvement Framework, self-evaluation and the reporting and use of performance information, are being taken forward in preparation for the Best Value Audit that will take place in spring 2018.
10	Take necessary actions to improve processes, performance and governance identified through action 9 and in the Quality Scotland Committed to Excellence award feedback in preparation for submitting an application for the Quality Scotland Recognised for Excellence Award. This will provide independent external validation of the Council's practice.	Service Manager Corporate Policy & Improvement	Completed	The Council submitted its Recognised for Excellence submission in December 2017, and is preparing for the assessment, which will take place in March 2018.

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: East Lothian Land Ltd 2016/17

7

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Land Ltd in 2016/17.

2 RECOMMENDATIONS

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

3 BACKGROUND

- 3.1 East Lothian Council established East Lothian Land Ltd (ELL) in 2000, a company limited by guarantee (SC208723), through the transfer of undeveloped employment land in Council ownership at Macmerry (opposite the industrial estate) in return for 100% equity in the company.
- 3.2 The transferred employment land at that time was viewed by the private sector as undevelopable providing insufficient return on investment.
- 3.3 No additional financial support was provided to the company by East Lothian Council (ELC). ELL went to the financial market to fund the development costs of the Macmerry Business Park as well as self-funding through selling plots as they were serviced.
- 3.4 The company has a Board of 4 directors comprising of the Leader of the Council, Economic Development spokesperson, a private industry sector representative and the Depute Chief Executive (Resources and People Services).

- 3.5 The Economic Development & Strategic Investments (EDSI) Business Development manager, is the Company Secretary and manager of the company. The manager is supported by the EDSI Business Development assistant.
- 3.6 The Board act on a “*Pro Bono*” basis and do not receive payment. The Business Development manager and assistant undertake the work under their current ELC job remits.
- 3.7 Board meetings are held on a regular basis linked to ongoing business requirements and commercial developments. Decisions made are taken by a majority with the Chair having the casting vote on any tied outcome.
- 3.8 Minutes of any Board meetings are taken and approved at subsequent Board meetings by the Chair.
- 3.9 East Lothian Land Ltd is VAT registered and is audited annually by Springfords Accountancy, Dalkeith. End of Year accounts are approved by the Board and signed off accordingly and provided to ELC for group accounting purposes.
- 3.10 The company has an interest bearing and chequing account with the Royal Bank of Scotland. This is currently under review.

2016/17 PROJECTS CONSIDERED

Spott Road, Dunbar

- 3.11 ELL Ltd was approached in relation to a joint venture to build 19 industrial units at Spott Rd, Dunbar. Negotiations took place however, following a QS report on the costs of development, it no longer became financially viable for both parties.

Elvingston Proposal

- 3.12 Elvingston Science Centre, Gladsmuir made a request for a joint venture to support the building of phase 2 and 3 of the science park (2 further 10,000 sqft commercial units). This development was linked to an enabling housing aspect.
- 3.13 The Board of ELL were interested in supporting the commercial aspect of the proposal but only once full planning permission for the whole development, including the housing, had been granted. This permission was not forthcoming.

Various

- 3.14 A number of other sites and buildings were raised and discussed by the Board of ELL Ltd but did not come to fruition.

2016/17 PROJECT DELIVERED

Brewery Park

- 3.15 ELL Board saw the opportunity to develop the vacated Council building located at Brewery Park (Block B), Haddington into commercial office spaces for let.
- 3.16 The benefits of the development were 3 fold:-
- Reduction in ELC commercial rates bill
 - An income stream for ELC through rentals received
 - Provision of commercial office space in the town – spin off benefits to town centre businesses such as cafés.
- 3.17 ELL took the head lease from ELC for the building and undertook the refurbishment to create 10 individual offices (See appendix 1 – floor plans).
- 3.18 The refurbishment work was tendered to only East Lothian building businesses and the successful build was within budget.
- 3.19 Following completion the building was subsequently sub let back to ELC to manage – the sub let rent paid to ELL is calculated at 80% of the total commercial rentals received by ELC until the total cost of refurbishment is met. Thereafter the Council will receive 100% of the rental income.
- 3.20 The office refurbishment was completed in October 2016 and the facility is currently 100% occupied. (This occupancy level was achieved within 3 months of opening.)

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 - EDSI's Business Development Team Manager, Business Development Assistant and Depute Chief Executive.

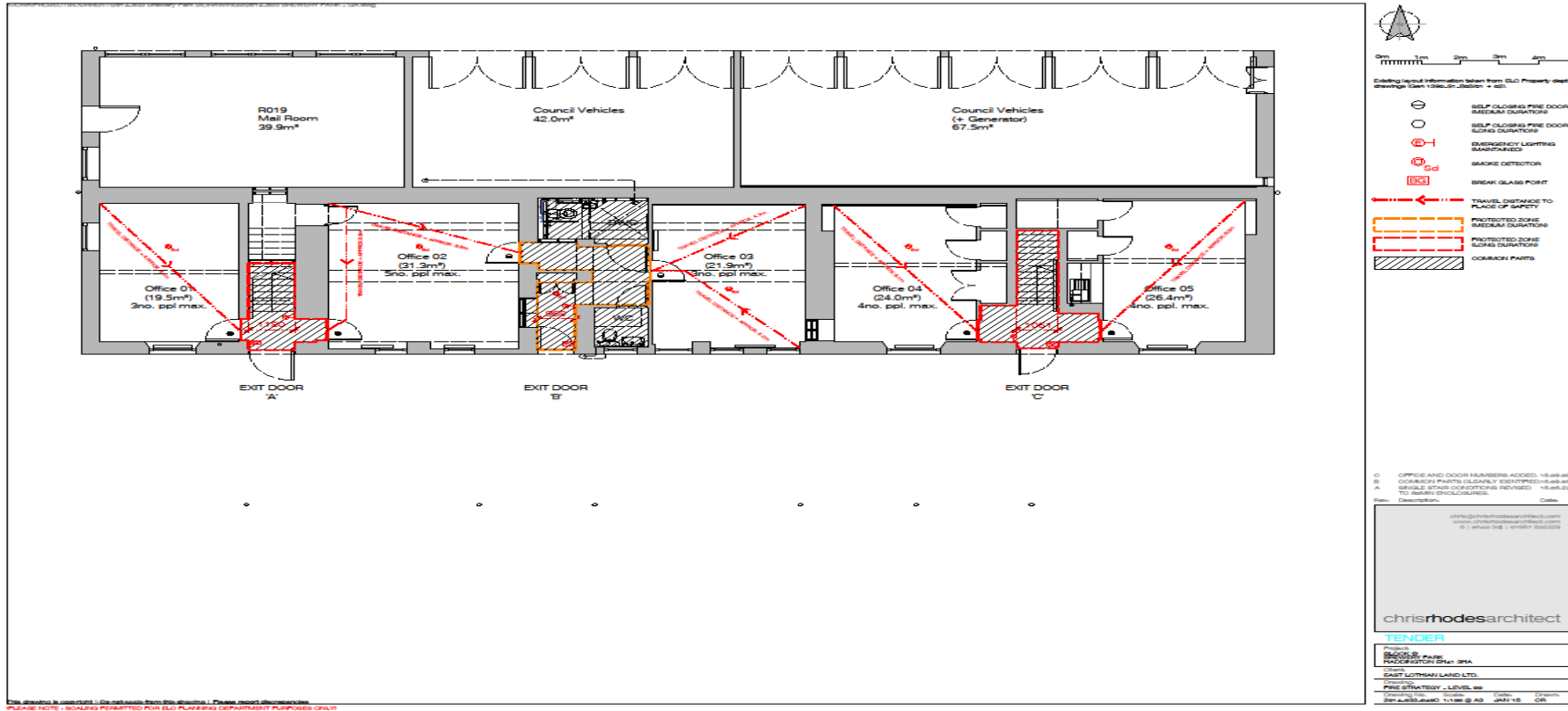
6.3 Other – none.

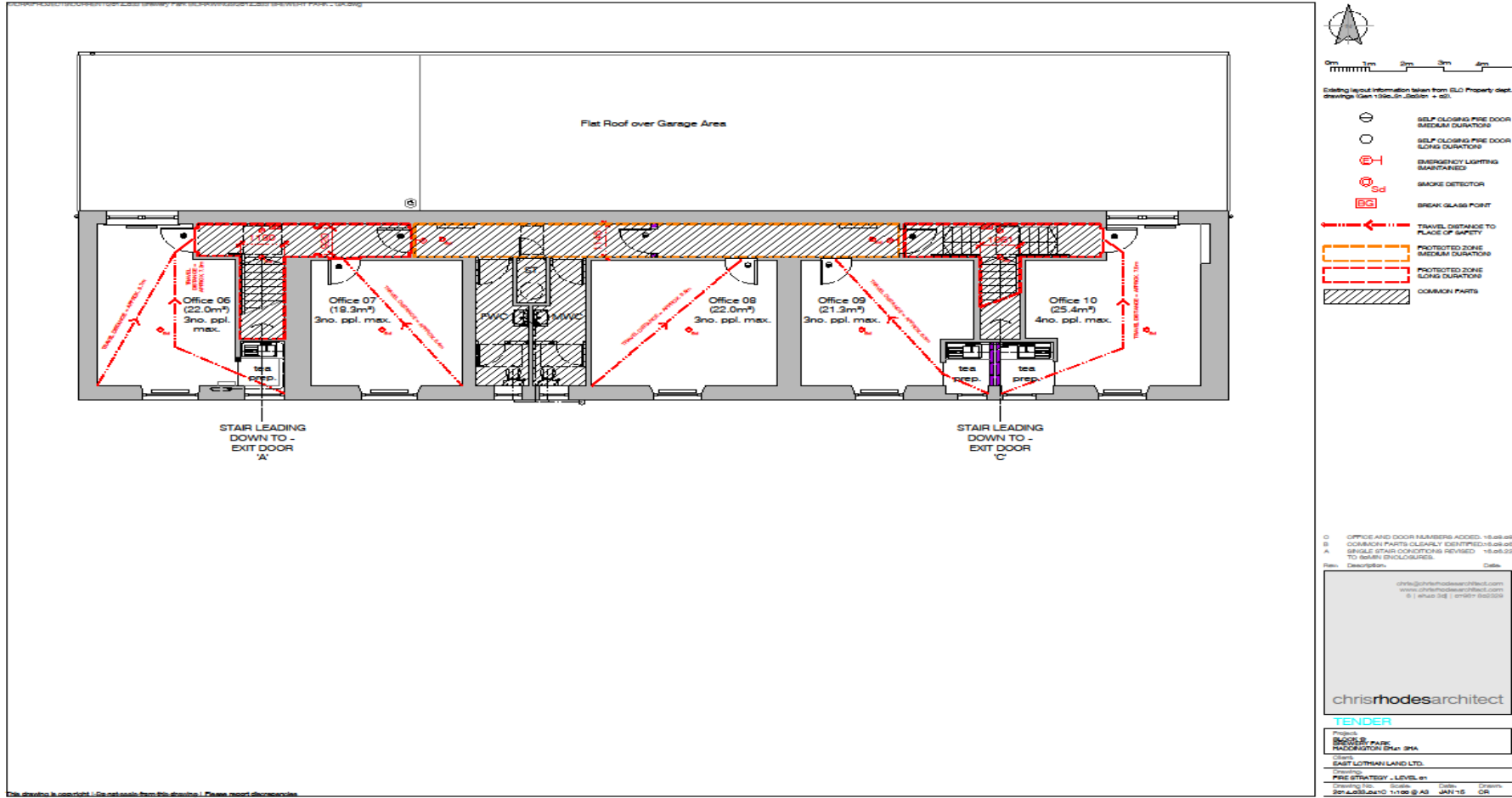
7 BACKGROUND PAPERS

7.1 None.

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DATE	8 February 2018

Appendix 1 –Floor plans Brewery Park





This drawing is unapproved for construction purposes. Please report discrepancies.
 PLEASE NOTE: WORKING PERMITTED FOR GLO PLANNING DEPARTMENT PURPOSES ONLY

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Partnerships and Community Services)

8

SUBJECT: Local Government in Scotland: Financial Overview 2016/17
(Accounts Commission, November 2017)

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: Financial Overview 2016/17'*.

2 RECOMMENDATIONS

- 2.1 The Committee should:

- Note the position of East Lothian Council in regard to the key messages in the Accounts Commission report, 'Local Government in Scotland: Financial Overview 2016/17'
- Use the recommendations in the Accounts Commission report to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

3 BACKGROUND

- 3.1 Each year the Accounts Commission produces a financial overview of issues that have arisen from the local authority audits conducted by Audit Scotland. In line with the previous year, this report focuses on financial matters, with a separate report on Councils' performance and outcomes due to be published in April 2018. The latest report, 'Local Government in Scotland: Financial Overview 2016/17' was published in November 2017 (Appendix 1). The report provides "a high-level independent analysis of

the financial performance of councils during, and their financial position at the end of, 2016/17.”

3.2 The report is aimed particularly at senior council officers and elected members. It will be of significant interest to elected members who joined councils for the first time in May 2017. Whilst the focus of the report is on Councils, it also provides early information about Integrated Joint Boards (IJBs) following their first full year of operation. The report itself is structured in three parts:

- Part 1 comments on councils’ income and budgets for 2016/17
- Part 2 looks at councils’ financial performance during, and position at the end of 2016/17
- Part 3 looks at councils’ 2017/18 finances and the challenges faced going forward.

3.3 Each part of the report includes key messages backed up by evidence and exhibits sourced mainly from local authority annual accounts.

3.4 This report provides a summary of the key messages and evidence from the Financial Overview with some explanation or commentary on the position in East Lothian Council.

Part 1: Councils’ income and budgets for 2016/17

3.5 The report’s key message is that *“2016/17 was a challenging year for councils with a real-terms reduction in revenue funding, a continuation of the council tax freeze, inflationary pressures and the cost of new UK and Scottish Government policy commitments.”*

3.6 The report highlights that Scottish Government revenue funding (Revenue Grant plus Non-Domestic Rates) for councils in 2016/17 fell by 5.2% in real terms compared to 2015/16 (see Exhibit 2, page 11). The third main source of income for councils is Council Tax. However, 2016/17 was the last of eight years of Council Tax freeze so increase in income from this source was restricted to additional Council Tax from new houses.

3.7 Exhibit 3 (page 12) shows that income from General Revenue Grant, Non-Domestic Rates and Council Tax per head of population in 2016/17 varied from between £2,000 and £2,400 (except for four Councils that received Special Islands Needs Allowance). East Lothian, at just over £2,000 was the Council with the 5th lowest per head income from General Revenue Grant, Non-Domestic Rates and Council Tax.

3.8 The report highlights the complexities in the funding formula to distribute the Scottish Government funding to Councils, particularly given the changing landscape for local government. Alongside this, the report highlights that the Scottish Government allocated additional funding specifically directed at delivering national policies such as the expansion of early years’ childcare and Discretionary Housing Payments. However,

the shift in 'ring fenced' funding *"increasingly restricts the flexibility councils have in managing their budgets across the full range of services."*

- 3.9 Exhibit 5 within the report highlights an increased and growing budgetary pressure facing Councils from a combination of; restricted funding from Revenue Grant, Non-Domestic Rates and Council Tax and increased budgetary pressures such as increased pension contributions resulting from the move to the single state pension at a UK level and increased teachers' pension contribution rates, the cost of introducing the living wage, and annual inflationary and demand pressures. Given these pressures, councils approved about £524million of savings and budgeted to use about £79m of reserves to balance their budgets in 2016/17, with the focus for savings plans continuing to reduce staff numbers, rationalisation of surplus property and improvement in procurement of goods and services. Across Scotland the biggest savings were in Other Services (mainly 'backroom' and support services), Planning and Development and Cultural and Related Services (see Exhibit 6, page 17).
- 3.10 In East Lothian, during 2016/17, cash savings of over £5m were delivered, with around £2.5m of General Fund reserves used during 2016/17 with a similar sum planned for 2017/18.
- 3.11 The report highlights that councils have been seeking to maximise their income through increasing charges and by introducing new charges for services. Exhibit 7 (page 18) shows the sources of £544m income from charges to service users. Charges for social care services accounts for £239m (over 40%) of the income raised from charges to service users.
- 3.12 For the majority of councils, 2016/17 was the first operational year of the IJB, and highlighted the complexity in budget setting due to the differences in the approach and timing of budget setting between councils and NHS Boards.
- 3.13 The key challenges identified by Audit Scotland form the financial background and context to the Council Plan 2017-2022 that was approved by Council in June 2017, which in turn provides the basis of the Council's Financial Strategy now covering the period from 2018/19 to 2022/23 which was approved by Council in December 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 now approved 5 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.

- 3.14 The need to look more radically at how the Council provides and delivers services in the face of continuing financial pressures was also reflected in the Council Plan commitment to the Council increasingly becoming an enabling and empowering, a more entrepreneurial and a digital authority.

Part 2: 2016/17 Financial Performance

- 3.15 The second part of the report focuses on the 2016/17 audited accounts of Scotland's 32 councils. It highlights that all councils received unqualified audit opinions but that the accounts could more clearly explain their financial performance. This is done through the management commentary that accompanies annual accounts. Audit Scotland suggests that elected members *"have an important role in ensuring that the management commentary effectively tells a clear story of financial performance and can be understood and scrutinised by a wider audience."*
- 3.16 The Council's annual accounts include a management commentary that provided a detailed account of the Council's financial performance, governance arrangements and other key information such as performance and council priorities.
- 3.17 The report highlights that councils are showing increasing signs of financial stress with an increasing number of councils drawing on reserves. In 2016/17 nineteen councils drew on their reserves to balance budgets compared to only eight in 2015/16. (Exhibit 9, page 22) East Lothian Council made a net contribution of £5.7m to reserves in 2015/16, and utilised £2.5m of reserves in 2016/17, which was lower than approved budget plans.
- 3.18 The Audit Scotland report shows that some councils failed to deliver their savings plans in 2016/17 leading to substantial variations between planned and actual use of reserves. However, East Lothian was one of only eight councils where the variation in the use of reserves was less than 0.5% of the council's budget. The Council's Annual Audit report for 2016/17 noted that the Council recognised the need to develop sustainable budgets through avoiding the use of reserves in year 3 when setting its revenue budget, however it did highlight that the continued use of reserves is not sustainable in the longer term with decreasing levels of reserves available.
- 3.19 The report highlights that levels of usable reserves can vary widely with details of reserve levels set out in Exhibit 13 of the report. The Council's approved Financial Strategy 2018-2023 clearly sets out the Council's position with regards to maintaining an adequate reserve, and the wider strategy for utilising reserves. The strategy sets out that reserves for the Council can be held for three main purposes:

- Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
 - A contingency to cushion the impact of unexpected events or emergencies
 - A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.
- 3.20 As at 1 April 2017 the Council held a total of £20.534m in General Reserves, of which £4.67m is earmarked to support future budgets.
- 3.21 The Audit Scotland report also highlights concerns about the level of net debt held by Councils which increased in 2016/17. Exhibit 15 (page 28) shows that East Lothian Council has the 10th highest total debt as a proportion of income from general revenue grant, taxation and housing rents; but rise to third highest when HRA debt is taken into account.
- 3.22 The report also points out that councils spent 84% of their planned capital expenditure in 2016/17 and that 24 councils underspent against their capital budgets in both 2015/16 and 2016/17. During 2016/17, East Lothian Council spent in total around £41.5m of capital expenditure (£18.149m relating to General Services and £23.343m relating to HRA), with slippage of around £7.9m on General Services programme and an overspend of £0.835m on HRA capital.
- 3.23 This part of the Audit Scotland report also provides some commentary on local authority pension liabilities and concludes with a short section highlighting that *“Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures.”*

Part 3: Financial Outlook

- 3.24 The third part of the report highlights the challenges Councils face on setting their 2017/18 budgets with a further fall in real terms Scottish Government funding of 2.3%, and the continuing trend of additional funding being ring fenced for national priorities.
- 3.25 The reductions in Scottish Government funding were only partly offset by the end of the Council Tax freeze. East Lothian Council increased its Council Tax in 2017/18 by 3%, which provided around £1.5m additional income.
- 3.26 However, as is pointed out in the report, although £110m was raised across Scotland from changes in banding multipliers (£2.9m in East Lothian) Councils will not benefit from this additional income as the Scottish Government funding mechanism (i.e. the level of Revenue Grant) has been adjusted accordingly.
- 3.27 The report highlights that whilst receiving less real terms funding from the Scottish Government, councils still face increased cost pressures from inflation, commitment to pay the living wage and the apprenticeship levy and higher non-domestic rates. Therefore delivering savings is critical to

councils' financial sustainability and in total all Scottish councils approved savings of £317m and the use of £103m reserves for 2017/18. East Lothian Council's 2017/18 approved budget includes planned savings of £2.6m and the use of £2.530m of reserves.

3.28 Exhibit 20 (page 36) provides a useful illustration of the kind of measures being taken by councils to close their funding gaps in 2017/18, including economies and efficiencies, reducing or stopping services, transformation, capitalisation and increasing income.

3.29 Looking beyond the current financial year, Audit Scotland's report forecasts future funding gaps caused by uncertainty in levels of Scottish Government funding, ongoing demand pressures, cost pressures, staffing costs, interest rate rises and potential impacts of withdrawal from the European Union. In October 2017, the Council received a report setting out the financial prospects for 2018/19 and beyond, which included financial modelling which was used to inform the budget development for 2018-2021.

3.30 Part 3 of the report concludes with short sections that recommend/ suggest that:

- long-term affordability of capital programmes should be kept under review – this is a key part of East Lothian Council's financial strategy and budget setting process
- effective leadership is increasingly important in maintaining financial sustainability – the revised Council budget setting process has provided greater transparency on the budget decisions being taken by the Administration and alternative options promoted by the non- Administration groups
- addressing the underlying demand for services through transformation is key to long-term sustainability – the Council's transformation programme is beginning to deliver real changes in the way the council delivers services and achieves financial savings and increased income in line with the Council Plan commitment to becoming a more empowering, enabling, entrepreneurial and digital authority.

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: Financial Overview 2016/17' will assist the Council in recognising the challenges that it faces in achieving financial stability and sustainability in the future.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 This report is not applicable to the wellbeing 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: Financial Overview 2016/17’, Accounts Commission, November 2017
7.2 ‘Financial Strategy 2018-2023’, East Lothian Council, 19 December 2017

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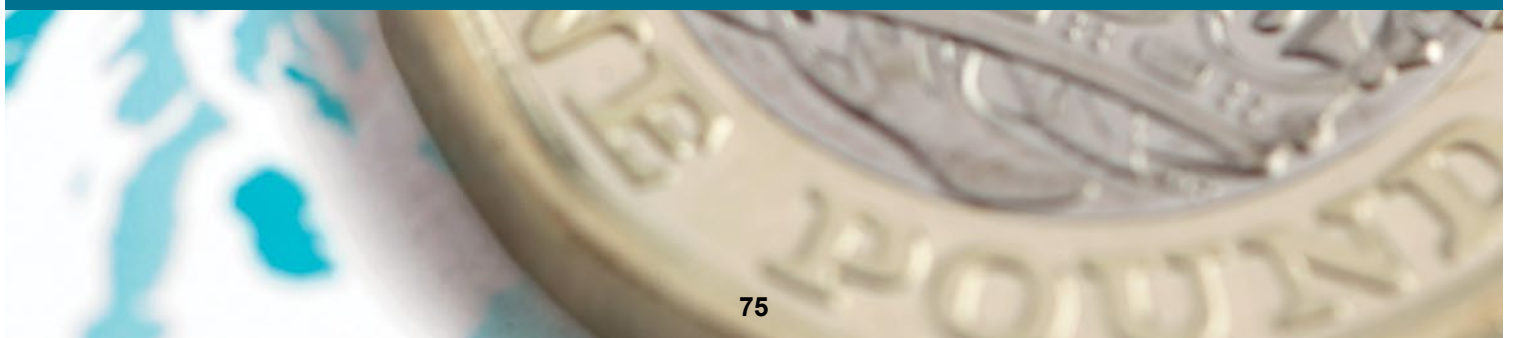
Local government in Scotland

Financial overview 2016/17



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
November 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 

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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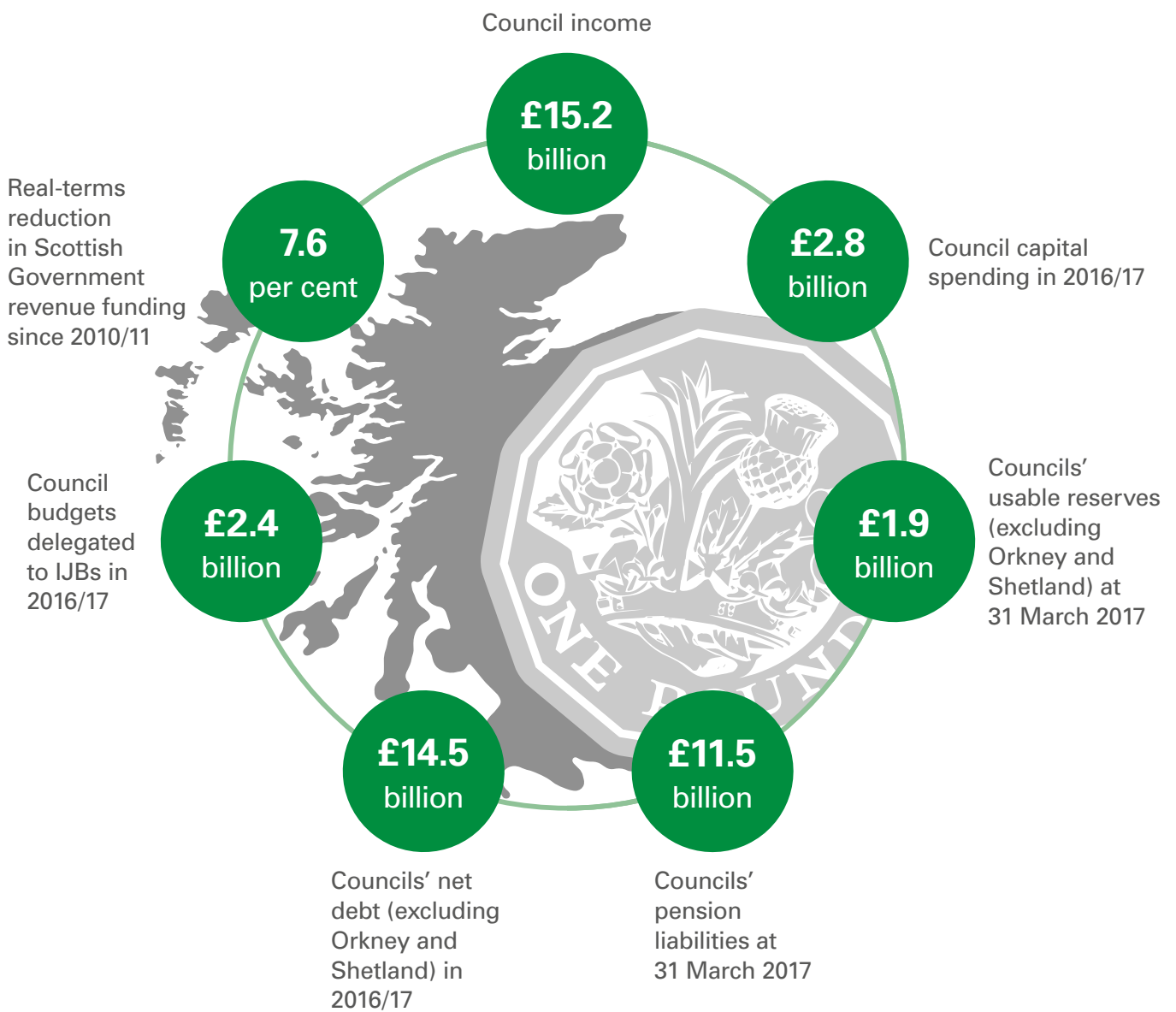
Links

-  PDF download
 -  Web link
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These question mark icons appear throughout this report and represent sample questions for councillors ([paragraph 7](#)).

Key facts



Chair's introduction



Welcome to the Accounts Commission's 2017 financial overview report for local government.

Last year was the first time that we published a separate financial overview report. In view of the very positive feedback we received from our stakeholders, we have decided to continue publishing two overview reports each year: this one focuses on financial matters, and the other on councils' performance and outcomes, which we plan to publish in April 2018.

Generally, councils face increasing challenges which require flexible responses that balance immediate needs, sound long term planning and limited financial resources. This task is a demanding one for elected members – not least for newly elected members – and I would hope that this overview report and its associated material, including the examples of questions we provide to support scrutiny by councillors, is a useful source of information and guidance.

We live in a rapidly changing public sector landscape, where external issues such as the transfer of further powers to Scotland and the decision to withdraw from the European Union add to an already complex domestic environment. Against this general backdrop the Commission is very aware of the importance of understanding the individual context faced by each council in terms of demand for services and resources available to sustain or develop them.

A major element of this operating environment for councils is the continuing pressure on finances. There was a real terms reduction in councils' main source of funding from the Scottish Government for 2016/17. This year has seen a further real terms funding reduction, with that trend forecast to continue into future years.

Councils tell us that they are finding the situation more serious than ever, with savings becoming increasingly difficult to identify and achieve. The Commission recognises this, but also recognises that some councils are in a better position to respond than others.

Effective leadership and financial management is becoming increasingly critical and medium-term financial strategies and well thought out savings plans are key to financial resilience and sustainability.

Elected members need to be clear about the potential impact of planned savings on achieving corporate objectives and the subsequent outcomes for citizens. The implications of community empowerment legislation heighten the importance of engaging effectively with communities around local priorities, and working together on options for the best future use of resources in service provision.

The Commission continues to emphasise the importance of Best Value as a comprehensive framework, based on the principle of continuous improvement that encompasses the key features of a high performing and effective council. It is especially relevant in times of tight finances, and we welcome the work being carried out by the Scottish Government, CoSLA, Solace and others, to refresh the Best Value statutory guidance so that it better reflects the current context for local government.

Finally, we welcome that once again the audits of annual accounts from all 32 councils were signed off with no qualifications. This is testament to the hard work amongst council staff, especially those within the finance function, and the good relationships developed by our auditors. There is of course, always room for improvement in financial management, such as in monitoring and reporting of financial matters to both councillors and the wider public. We will continue our interest in this.

Graham Sharp

Chair of Accounts Commission

Summary



Key messages

- 1** Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.
- 2** Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at levels planned for 2017/18.
- 3** Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.
- 4** Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.
- 5** All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.
- 6** The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

councils are showing signs of increasing financial stress

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during, and their financial position at the end of, 2016/17. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year, complementing a report on councils' performance and outcomes that will be published at the start of the next financial year in April 2018.

2. The report is intended to inform the public and its representatives. It is particularly aimed at councillors and senior council officers, and will be of significant interest to elected members who joined councils for the first time following the May 2017 elections. While the focus of the report is on councils, we also provide some early information about Integration Joint Boards (IJBs), which are also local government bodies, following their first full year of operation in supporting health and social integration. A programme of audit work looking in more detail at health and social care integration and IJBs is under way.¹


3. The report is in three parts:



- **Part 1 (page 10)** comments on councils' income and budgets for 2016/17.
- **Part 2 (page 20)** looks at councils' financial performance during, and position at the end of, 2016/17.
- **Part 3 (page 33)** looks at councils' 2017/18 finances and the challenges faced going forward.

4. Our primary sources of information are councils' 2016/17 audited accounts (including management commentaries) and their 2016/17 external annual audit reports. We have supplemented this with data submitted by councils to the Scottish Government through local finance returns (LFRs) and Provisional Outturn and Budget Estimates (POBE). LFRs present spending information for councils on a different basis from the spending information that councils record in their annual accounts. We do not audit data contained in LFRs.

5. UK-wide changes to the format of council financial statements in 2016/17 mean that we are no longer able to compare spending on services across councils using the annual accounts. This includes changes that make it difficult to establish the true service income and expenditure totals. We will include further analysis of these areas in our local government overview report in April 2018, using Scottish Government LFR data.

6. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2016/17 prices, adjusted for inflation, so that they are comparable to information from councils' 2016/17 accounts. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

7. Throughout the report, we identify examples of questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The questions are also available on our website in [Supplement 1: Scrutiny tool for councillors](#) .

8. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders. We have also produced a separate supplement on councils' [Housing Revenue Account \(HRA\)](#)  and the [Local Government Pension Scheme \(LGPS\)](#) .

9. Throughout this report Orkney and Shetland have been excluded from exhibits that show usable reserves and debt. This is because the levels they hold mean inclusion would make it difficult to see relative positions of other councils. Most councils hold usable reserves of between five and 35 per cent of their annual income, whereas Shetland's reserves were 250 per cent of its annual income and Orkney's 300 per cent of its annual income. These large reserves relate to oil, gas and harbour related activities. As a result, both Orkney and Shetland also have more investments than borrowing unlike other councils.

Part 1

Councils' income and budgets for 2016/17



Key messages

- 1** 2016/17 was a challenging year for councils with a real-terms reduction in revenue funding, a continuation of the council tax freeze, inflationary pressures and the cost of new UK and Scottish Government policy commitments.
- 2** Councils depend on Scottish Government funding for the majority of their income. The largest element of Scottish Government funding, relating to Grant Aided Expenditure, has remained largely unchanged since 2008/09, with additional funding linked to supporting national policies. The Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government. It is important that it is suited to improving outcomes for local communities and sensitive to priorities such as reducing inequality within and across council areas.
- 3** In response to funding reductions, councils approved about £524 million of savings and the use of £79 million of their reserves when setting budgets for 2016/17. Councils' savings plans have focused on reducing staff numbers, rationalising surplus property and improving procurement of goods and services. Councils were not always clear in their budget-setting reports about the risks associated with savings and their potential impact on levels of service.
- 4** Councils' budget-setting processes for 2016/17 were complicated by later confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care.
- 5** Councils set larger capital budgets in 2016/17 than in 2015/16. The Scottish Government capital grant fell and councils planned to fund expenditure through increased borrowing.

**2016/17 was
a challenging
year for
councils**

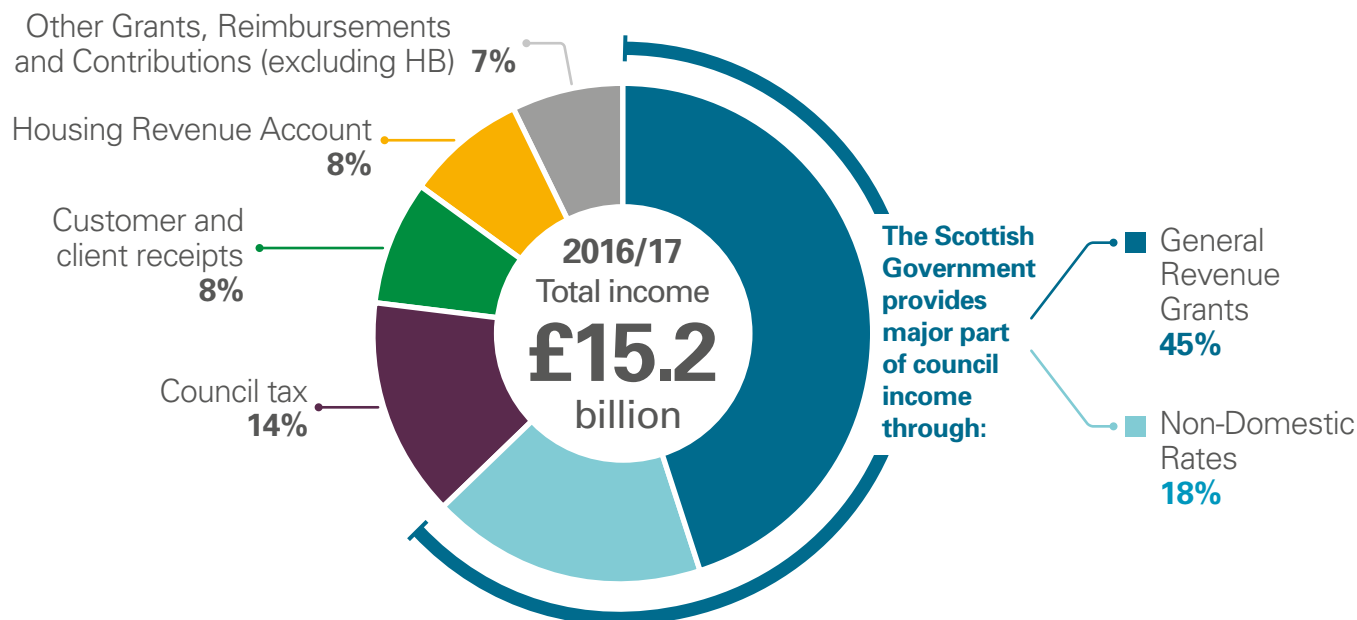
Councils faced a major challenge from the significant fall in revenue funding for 2016/17

10. The Scottish Government provides almost two-thirds of councils' income through general revenue grant, non-domestic rates (NDR) and specific grants for things like community justice ([Exhibit 1, page 11](#)). In comparison, council tax accounts for 14 per cent of councils' income, and fees and charges about eight per cent of their income.²

Exhibit 1

Sources of council revenue income, 2016/17

Councils are dependent on the Scottish Government for the majority of their income.



Notes:

- Does not include all income collected for services delivered through council arm's-length external organisations (ALEOs) and Integration Joint Boards (IJBs).
- Income excludes housing benefit.
- Customer and client receipts are 2015/16 totals at 2016/17 prices.

Source: Annual accounts 2016/17 and Scottish Local Government Finance Statistics 2015-16

11. Scottish Government revenue funding for councils in 2016/17 fell by 5.2 per cent in real terms ([Exhibit 2](#)). Councils' revenue funding from the Scottish Government has fallen in real terms by 7.6 per cent since 2010/11. The size of the reduction in 2016/17 presented councils with a major challenge in delivering services and required most to identify significant savings.

Exhibit 2

Scottish Government revenue funding to councils

Revenue funding fell both in cash and real terms in 2016/17 compared to 2015/16.

	2016/17 £'000	Change on 2015/16	
		Cash %	Real %
NDR	2,769	-0.7 ▼	-2.7 ▼
Revenue Grant	6,939	-4.3 ▼	-6.2 ▼
Total revenue funding	9,708	-3.3 ▼	-5.2 ▼
Additional resource via IJBs	250		
	9,958	-0.8 ▼	-2.8 ▼

Source: Local Government Finance Circular 1/2017, Scottish Government

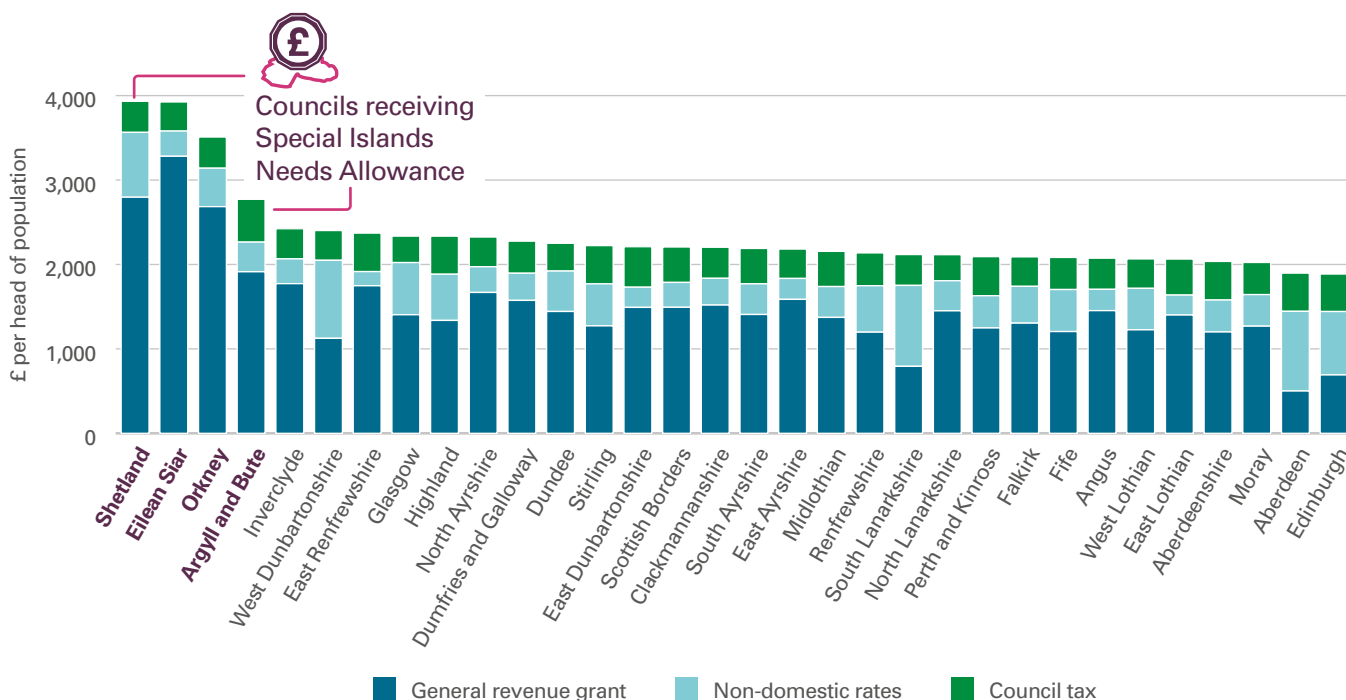
12. In 2016/17, the Scottish Government transferred an additional £250 million from the health budget to support health and social care integration. Even taking this into account, total revenue funding for councils fell in 2016/17.

13. Council tax is a key source of income for local government. Councils have typically set council tax rates to reflect local policy choices. Between 2008/09 and 2016/17, councils agreed with the Scottish Government to freeze council tax rates. To compensate them, the Scottish Government provided local government with an additional £70 million in each year of the freeze. In 2008/09, £70 million represented just over three per cent of council tax income and councils each received a share in line with their tax base. Councils that may not have increased their council tax by this amount each year will have benefited from additional funding as a result of the freeze. Councils did, however, lose the option of raising council tax to generate additional revenue. Although the council tax freeze was lifted in 2017/18, councils were constrained to increases of three per cent.

14. The revenue funding that councils received from the Scottish Government and council tax income varied between £2,000 and £2,400 per head of population for most councils in 2016/17 (Exhibit 3). This impacts on the income they have available and on the decisions they need to make about delivering services. The income per head of population in Argyll and Bute, Eilean Siar, Orkney and Shetland is higher than in other councils because they receive extra funding for their island populations, in recognition of the additional costs they face when providing services.

Exhibit 3

Income from General Revenue Grant, Non-Domestic Rates and council tax per head of population, 2016/17
 Most councils received between £2,000 and £2,400 per head of population.



Source: Annual accounts 2016/17; and National Records of Scotland mid-year population estimate for 2015

Additional Scottish Government funding has been linked to supporting national policies

15. The Scottish Government funding mechanism is the main determinant of a council's overall funding. It is designed to reflect differences between councils in terms of population and other factors, such as geography and deprivation. The funding mechanism is based on a large number of elements as illustrated in [Exhibit 4 \(page 14\)](#). The Fraser of Allander Institute has provided a useful outline summary of how funds are allocated:

'The Scottish Government allocates grants to local authorities taking into account both the relative spending need of each authority, and the revenues raised from council tax and non-domestic rates income.

The grant allocation system first calculates the 'total estimated expenditure' (TEE) that each local authority is likely to need to meet its various commitments. The elements of TEE are:

- an assessment of spending needs, based on the Grant Aided Expenditure (GAE) assessments combined with a Special Islands Needs Allowance (SINA)
- a series of additional revenue grants – such as the funding used in the past to support the council tax freeze – the allocation of which is determined on a case-by-case basis
- a series of further non-specific changes to grant allocations, the allocation of which is based on local authorities' shares of GAE + SINA
- local authorities' commitments in respect of certain historic loan charges
- the sum of these elements is then adjusted by a 'floor' to ensure that no local authority experiences particularly large swings in support from one year to the next.

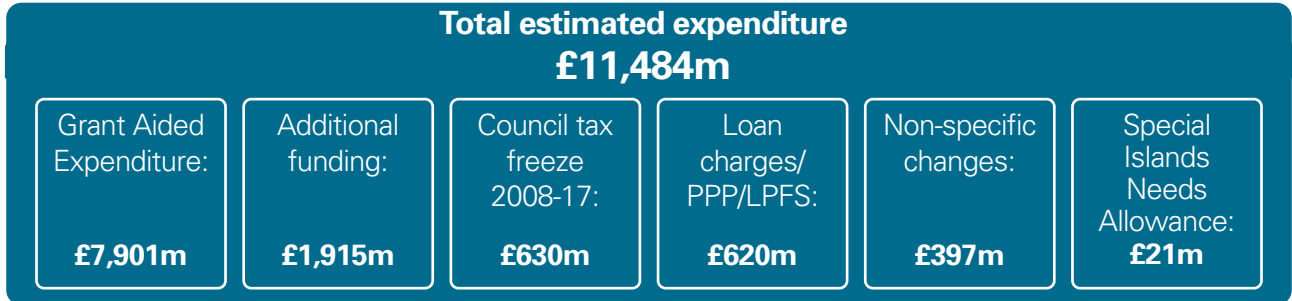
Having calculated TEE, an adjustment is then made based upon an estimate of what each local authority is expected to raise from council tax, the revenues that each local authority is forecast to raise from non-domestic rates, and their allocation of ring-fenced Gaelic funding. A further 'floor' calculation is applied to ensure that no local authority receives less than 85 per cent of the Scottish average on a per capita basis.¹³

16. Within the Scottish Government's estimate of councils' TEE in any year, the largest element is Grant Aided Expenditure (GAE). GAE totals have remained broadly the same since 2008/09, with the exception of funding for police, fire and district courts having been removed. In 2016/17, GAE was £7.9 billion of a total estimated expenditure of £11.5 billion. GAE is distributed between councils based on an estimate of their relative spending needs across 89 elements, with reference to one or more indicators. For example, the GAE for primary education is allocated with reference to its share of primary school aged pupils. A small adjustment is made based on a secondary indicator of the percentage of pupils in small schools. The variations between councils in each of the elements are mostly determined by population profiles, although other factors to reflect rurality and deprivation are also used when appropriate.

Exhibit 4

Local Government funding mechanism, 2016/17

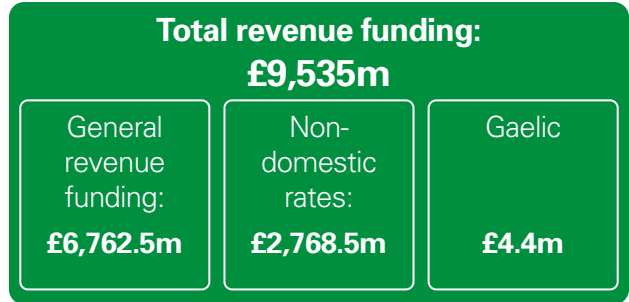
The formula contains many elements.



Main Floor: Redistributes so **no council loses more than 4.5%** a year



Assumed council tax contribution:
£1,949m



85% Floor: Ensures Scottish Government funding 85% to all councils: **£25m**



**Distributable revenue funding:
£9,560.4m**

Notes: On top of distributable revenue funding, councils also received £133 million from other grants and payments such as the Teacher Induction Scheme and Discretionary Housing Payments.

In 2016/17, the 85 per cent floor was applied to funding for Aberdeen City and City of Edinburgh Councils.

Source: Audit Scotland and Fraser of Allander Institute

17. New funding for councils since 2008/09, for example funding to expand early years' childcare, has come as 'additional funding' and 'non-specific changes' and is funding specifically directed at delivering particular national policies. The proportion of council funding directed towards national policies is increasing, a trend that will continue with Scottish Government proposals for fairer funding for equity and excellence in education. This shift increasingly restricts the flexibility councils have in managing their budgets across their full range of services. The Scottish Government and COSLA should assure themselves that the funding

formula remains fit for purpose in a changing landscape for local government. It is important that it is suited to improving outcomes for local communities and sensitive to priorities such as reducing inequality within and across council areas.

Councils faced increased budgetary pressures in 2016/17

18. Councils faced a growing range of budgetary pressures in 2016/17 from the real-terms reduction in Scottish Government funding, the continuation of the council tax freeze and cost inflation. They also faced additional pressures in meeting new UK and Scottish Government policy commitments. Many of the budgetary pressures that councils faced were associated with staff. As councils' largest area of expenditure, additional staff-related costs have a very significant impact on their budgets ([Exhibit 5](#)).

Exhibit 5

Significant budgetary pressures on councils in 2016/17

UK and Scottish Government policy commitments had sizeable cost implications for councils.



The **move to the single state pension at UK level**. This ended the employer NI rebate in relation to staff in contracted-out pension schemes (such as the LGPS and Teachers schemes).

3.4 per cent increase in NI costs affected employees from 1 April 2016.



The cost of introducing the **living wage for social care workers** from 1 October 2016.

Estimated cost of £100 million.



The undertaking to **maintain teacher numbers in Scotland** and the **Teacher Induction Scheme**.

Councils spend around £2.4 billion on teachers. By not cutting teacher numbers they receive a share of £88 million extra funding.



Annual increases in staff costs.

Estimated cost of one per cent pay rise about £70 million. Costs also increase as staff move up pay scales.




The **full year effect of increased pension contributions for teachers** (increased from 14.9 per cent to 17.2 per cent from September 2015).

The estimated impact was around £20 million in 2016/17.

Source: Audit Scotland

19. In addition to the costs of meeting government policies and inflationary pressures, councils also had to deal with ongoing demand pressures. Some demand pressures such as those associated with an ageing population and placements for looked-after children, are often not easy to forecast and budget for. This highlights the need for adequate budget contingency and robust arrangements for identifying and responding to changes in demand for services.

20. Rent arrears can also create budgetary pressures for councils' Housing Revenue Accounts. The Department for Work and Pensions (DWP) began a roll-out of Universal Credit (UC) in Scotland in March 2016. By March 2017, UC had rolled out across five councils.⁴ Rent arrears across these councils increased in 2016/17 by an average of 14 per cent, compared with an average of 4 per cent across the remaining councils. Our [Housing Benefit Performance Audit: Annual update 2016/17](#)  highlighted that councils are finding that the roll-out of UC is having a detrimental effect on their collection of housing rental income.

Some service areas saw larger reductions to budgets in 2016/17

21. In responding to the range of pressures they face, councils approved about £524 million of savings and budgeted to use about £79 million of reserves in their budgets for 2016/17. Savings plans continued to focus on their main areas of spend, reducing staff numbers, rationalising surplus property and improving procurement of goods and services. It was not always clear from budget-setting reports how savings aligned with the council's corporate and financial plans or how they would impact on service delivery.

22. In 2016/17, budgets for education increased, mainly as a result of the policy commitment to maintain teacher numbers and the inflationary pressures around pay and pension costs. Despite demand pressures in social work, overall budgets reduced – but not by as much in percentage terms as in other areas of service. Remaining service areas have seen larger reductions to their budgets. In some cases, increases in fees and charges may have reduced the amount of budgeted expenditure. This pattern of larger reductions to relatively smaller service areas has been recurrent in recent years and is something that has continued into 2017/18. While it is right that resources should be aligned with policy priorities, the impact on other services and their outcomes should be carefully assessed ([Exhibit 6, page 17](#)).

Councils have been seeking to maximise the income available to them from charging for services



23. Councils generate about eight per cent of their total income from charging for services (excluding housing rents). This includes income from charges to service users, rental income (excluding council houses) as well as 'other' charges. It is difficult to establish from the data available the full extent of income councils receive. Some income from services provided via arm's-length external organisations (ALEOs) and IJBs is not shown in council totals.⁵

24. Councils have been seeking to maximise their income through increasing charges and by introducing new charges for services, for example introducing charges for garden waste. Councils have also sought to collect more of the income that is due to them. Charges for social care which are subject to regulation, represented the largest area of income from charging services in 2015/16 ([Exhibit 7, page 18](#)).



Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?

What information do you need to be able to explain increases in fees and charges to your constituents?










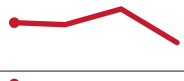






25. The Scottish Parliament's Information Centre (SPICe) has published a [detailed briefing on some fees and charges](#) . The Accounts Commission also considered fees and charges for services in its 2013 report, [Charging for services: are you getting it right?](#) 

26. Although councils generate a relatively small proportion of their overall income from fees and charges, increases can make a difference to council finances over time. However, councils face difficult decisions in balancing their need to maximise income while also ensuring their charging policy is consistent with corporate objectives, such as providing access to services and addressing inequality. Increasing prices can be unpopular with the public, but effective leadership, sensitive management, good communications and community engagement can assist with this.

Exhibit 6

Trend in council expenditure on main services, in real terms

There was significant variation in budget changes across council services.

	2013/14 £million	2014/15 £million	2015/16 £million	16/17 Budget £million	Change over period
 Education	4,771	4,736	4,830	4,826	1% 
 Cultural and related services	639	661	610	560	-12% 
 Social work	3,158	3,194	3,233	3,086	-2% 
 Roads and transport	454	431	427	419	-8% 
 Environmental services	686	684	698	668	-3% 
 Planning and development services	291	286	248	251	-14% 
 Other services	839	802	778	687	-18% 
 Total (excludes trading services and interest payments)	10,840	10,793	10,823	10,496	-3% 

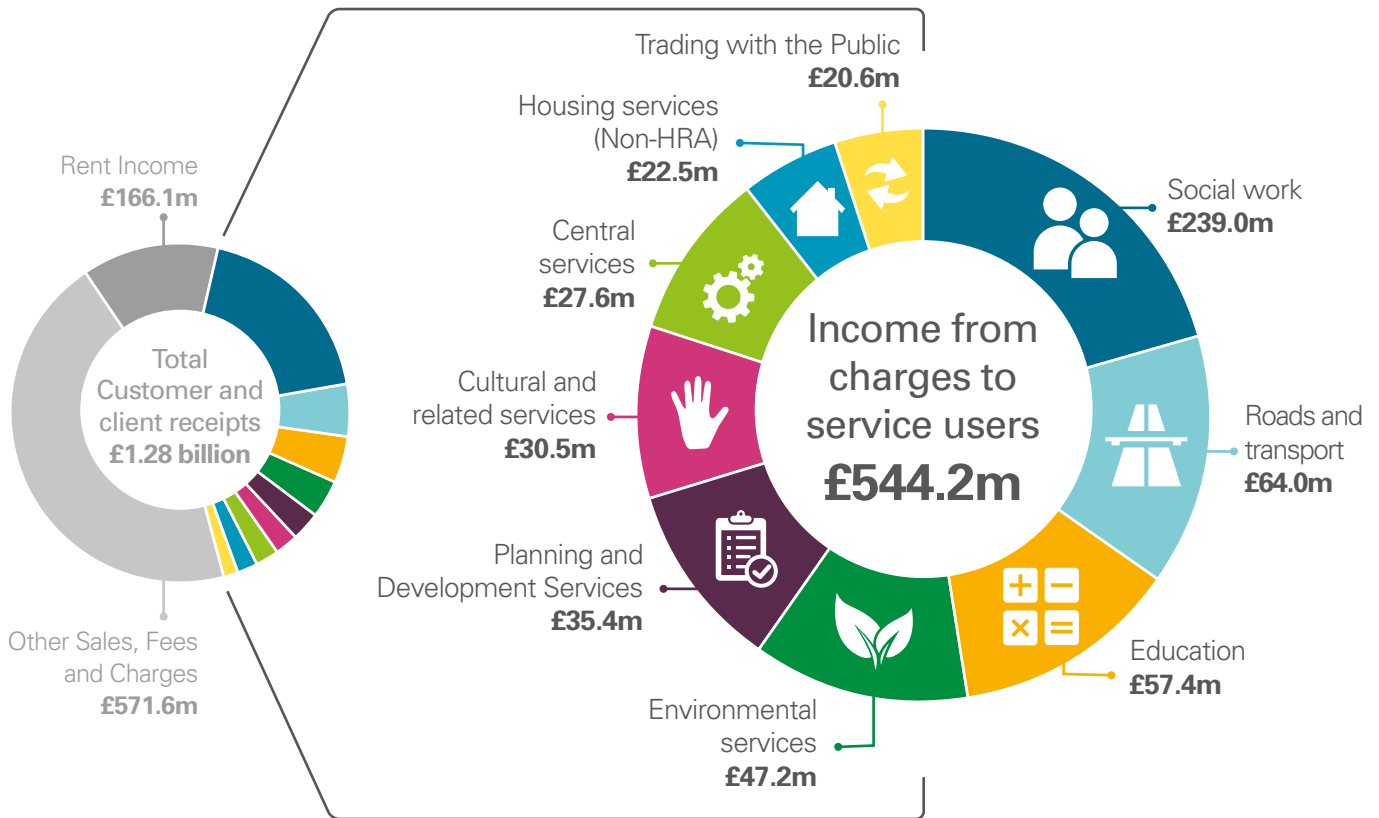
Note: 'Other services' combines Central Services and non-HRA housing.

Source: Scottish Local Government Finance Statistics 2015-16; and Scottish Government Provisional Outturn Budget Estimate returns 2016

Exhibit 7

Charges to service users

Charges to service users account for over £500 million of councils income.



Note: Does not include all income collected for services delivered through council ALEOs and IJBs.

Source: Scottish Local Government Finance Statistics 2015-16

Integration Joint Boards added further complexity to budget setting

27. For the majority of councils, 2016/17 was the first operational year for Integration Joint Boards (IJBs). IJBs were established as a result of the Public Bodies (Joint Working) (Scotland) Act 2014. They are partnerships between NHS boards and councils and are responsible for the delivery of adult health and social care, and in some council areas, for other services, such as children’s services. The partnerships are the subject of ‘integration schemes’ which are written agreements about how they will operate, including responsibilities for any budget underspends and overspends.

28. Councils delegated £2.4 billion of social care expenditure to IJB budgets for 2016/17 and NHS boards contributed £5.6 billion. The introduction of IJBs has complicated budget-setting, due to differences in both the approach and timing of budget-setting between councils and NHS boards. The establishment and development of IJBs has been a complex exercise and will take time to mature. Their operation will be the focus of further performance audit work we have planned in 2018.

Councils set larger capital programmes for 2016/17, with plans to increase borrowing

29. In addition to their day-to-day revenue spending on goods and services, councils also incur capital expenditure on the assets that support those services, including schools, houses and equipment such as vehicles. In 2015/16, councils spent about £2.4 billion on capital projects. Budgets for 2016/17 were much higher at over £3.3 billion.

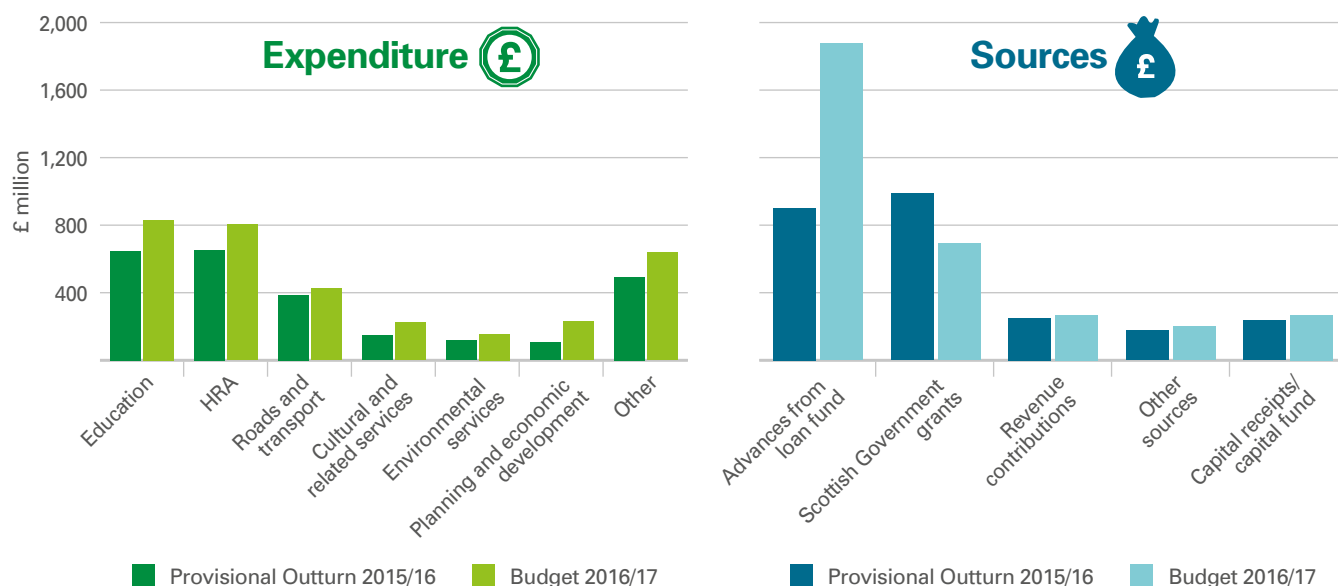
30. Councils finance their capital expenditure from a number of sources, including Scottish Government capital grants and borrowing. Scottish Government grants fell from £834 million in 2015/16 to £591 million in 2016/17, returning to a more usual level following re-profiling in earlier years. [Exhibit 8](#) shows where councils were planning to spend their capital and how they planned to finance it.

31. Councils are required to consider the affordability of their capital programmes. This includes the cost of any borrowing along with the impact on day-to-day running costs. However, they are free to determine what they consider prudent and with interest rates remaining low in 2016/17, councils assessed increased borrowing to be affordable. The delivery of capital programmes and the affordability of debt are considered further in [Part 2](#) and [Part 3](#).

Exhibit 8

Capital programmes and sources of finance, 2015/16 and 2016/17

Councils planned to borrow more in 2016/17 to meet the cost of larger capital programmes.



Notes:

1. Excludes regional transport partnerships and Joint Valuation Boards.
2. Other budgeted use of capital includes Social Work, Central Services, Trading Services, etc.
3. Other sources of capital finance for the General Fund are grants (excluding those received from the Scottish Government).
4. For HRA this includes capital from other sources, such as developer contributions.

Source: Scottish Government Capital Provisional Outturn Budget Estimate 2015-16

Part 2

2016/17 financial performance



Key messages

- 1** All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance.
- 2** Councils are showing signs of increasing financial stress with 20 councils drawing on their usable reserves in 2016/17.
- 3** Councils' actual use of reserves was often quite different from that originally planned. The reasons why are not always clear.
- 4** Auditors found that budget-setting needed to be more robust and that financial management could be improved in several councils.
- 5** Levels of net debt increased by £836 million in 2016/17. On average councils spent almost ten per cent of their revenue budgets servicing this debt. Some councils are concerned about the ongoing affordability of servicing their debt as resources decrease.
- 6** Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures.

Twenty councils drew on reserves in 2016/17 – actual use of reserves was often quite different from original plans

All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance to readers

32. In 2016/17, for the sixth consecutive year, auditors issued a 'true and fair' unqualified audit opinion on the accounts of all 32 councils. An unqualified opinion means auditors have judged that all council's financial records and statements are fairly and appropriately presented, that the council's financial statements are sound and free from material misstatements or errors.

33. For the last three years, councils have had to produce a management commentary to accompany their annual accounts. These commentaries play an important role in public accountability and helping interested parties to better understand the accounts of each council and its financial performance and position. As such, they should include explanations of amounts included in the accounts as well as:

- a description of the council's strategy and business model
- a review of the council's business
- a review of principal risks and uncertainties facing the council
- an outline of the main trends and factors likely to affect the future development, financial performance and financial position of the council.

34. Each management commentary should concisely present the financial 'story' of a council in an understandable format for a wide audience. Auditors express an opinion on whether the management commentary is consistent with the audited financial statements and is in line with Scottish Government guidance.

35. Management commentaries for 2016/17 vary in how clearly councils and IJBs explain their financial and general performance. Overall there remains scope for improvement. It is the Accounts Commission's view that councillors have an important role in ensuring that the management commentary effectively tells a clear story of financial performance and can be understood and scrutinised by a wide audience. The story at the end of the year should be produced from regular reports provided to councillors throughout the year.

Councils are showing increasing signs of financial stress

Twenty councils drew on their usable reserves in 2016/17

36. In 2016/17, 20 councils drew on their usable revenue and capital reserves. Nineteen councils drew on their revenue reserves in 2016/17, an increase from the eight councils that did so in 2015/16. Council revenue reserves fell by £32 million in 2016/17. ([Exhibit 9, page 22](#)). Overall council usable reserves (capital and revenue) fell by about £33 million.

37. The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified the rapid decline of usable reserves as one of the symptoms exhibited by councils under financial stress.⁶ Councils with good financial management demonstrate well-planned and managed use of reserves, in accordance with carefully thought out council policies.

38. In some cases, councils have used reserves to support service delivery. Councils have used reserves to invest in their change programmes, such as meeting the additional costs of staff severance. In 2016/17, councils continued to focus on reducing staffing levels. They reduced their workforces by almost 2,200 staff (almost one per cent of the total workforce), at a cost of £78 million ([Exhibit 10, page 23](#)). Councils' policies around voluntary severance and redundancy typically require payback of the costs over two to three years.

39. In future, severance schemes could become less attractive for staff under Scottish Government proposals to limit payments. Conversely, severance packages for staff with retirement dates after April 2020 will become more expensive for councils following changes to pension protection.



Do management commentaries clearly explain council performance and any changes to plans?

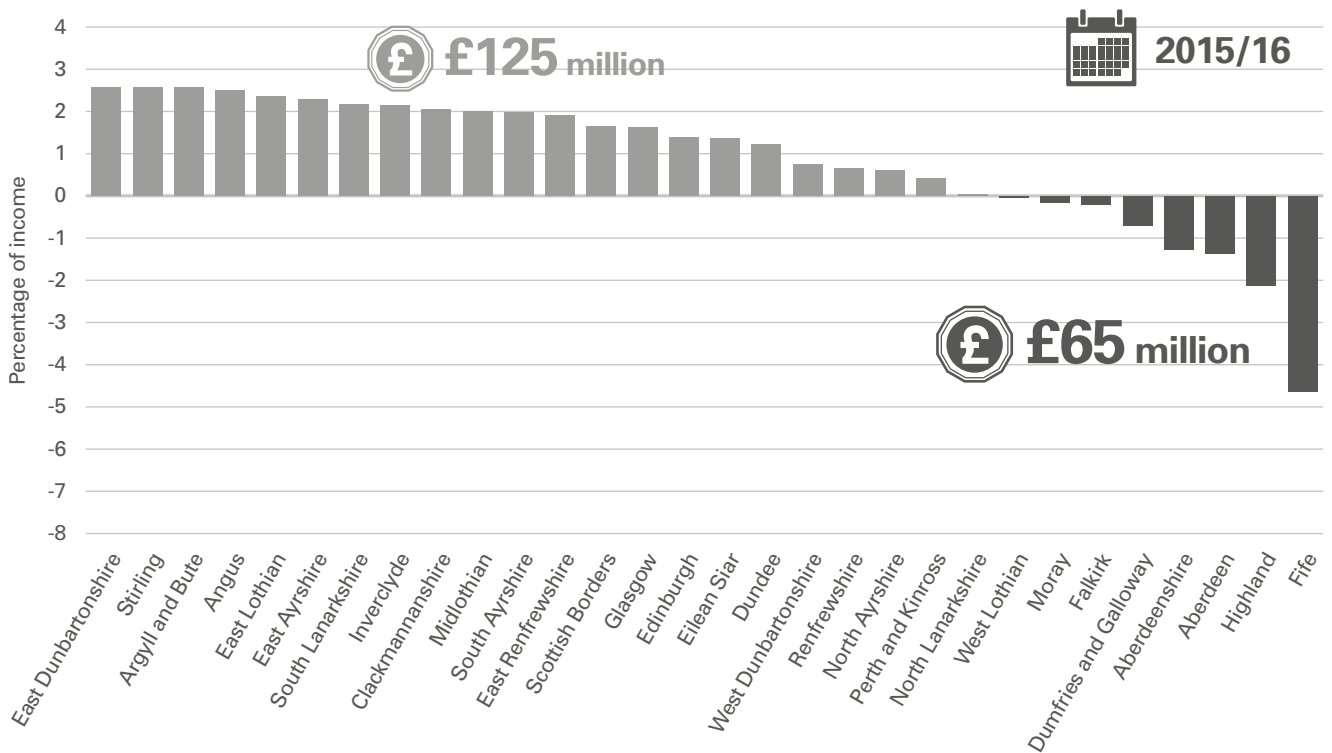
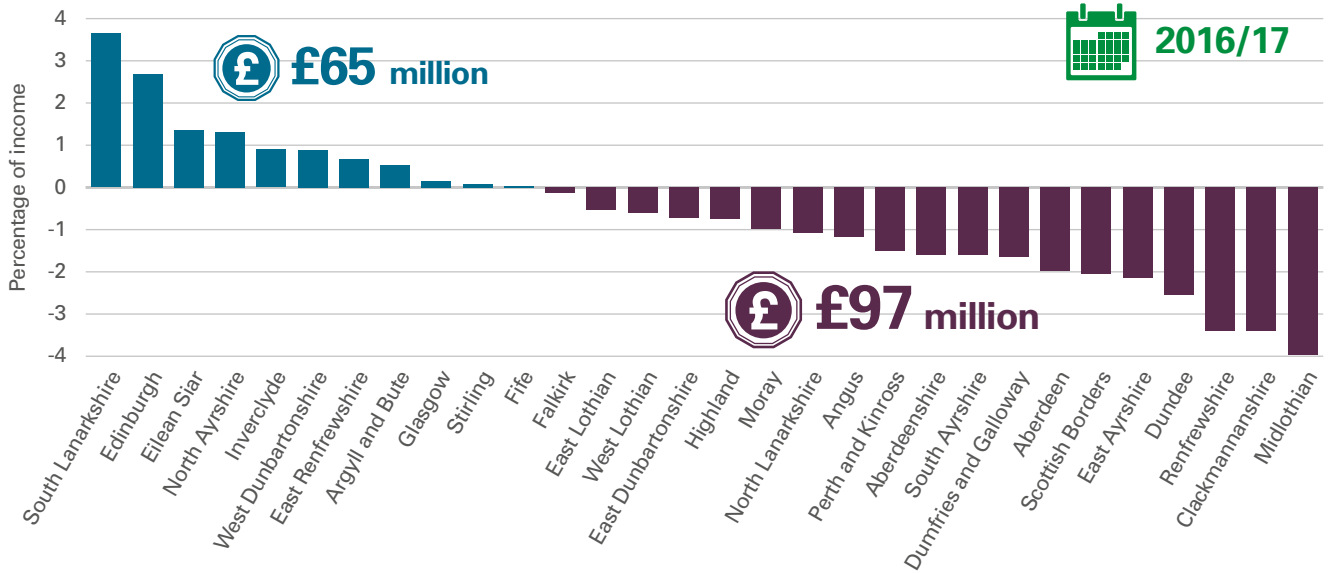


Are staff severances in line with the council's workforce plan?

Exhibit 9

Changes in revenue reserves (excluding HRA), 2015/16 and 2016/17

Many more councils drew on revenue reserves in 2016/17 compared with 2015/16.



Notes:

- 1. Due to issues with the scale on this exhibit Orkney and Shetland are excluded (paragraph 9).
- 2. In 2016/17, Renfrewshire moved money from revenue to capital reserves.

Source: Audited accounts 2015/16 and 2016/17

Exhibit 10

Exit packages, 2011/12 to 2016/17

The number and average cost of exit packages both fell in 2016/17.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Total number of packages	4,070	2,407	2,373	1,933	2,660	2,195	15,642
Total cost of packages Cash terms £000	148,750	109,068	92,640	74,935	97,231	78,125	600,750
Total cost of packages Real terms £000	160,868	115,528	96,535	76,955	99,172	78,125	627,184
Average cost per package Real terms £	39,525	47,997	40,681	39,811	37,227	35,592	40,096

Note: Real terms comparisons are based on 2016/17 prices.

Source: Annual accounts 2016/17

Councils use of reserves and service expenditure was often quite different from that originally planned

40. In 2016/17, as many councils used more reserves than they had originally planned as used less ([Exhibit 11, page 24](#)). It is not always clear from management commentaries why the actual use of reserves differed from that planned.

41. There can be a range of reasons why councils need to draw more heavily on their reserves than planned. It can be the result of poor budget-setting and/or budgetary control. For example, councils may need to use reserves to balance budgets where savings have not been achieved. The failure to deliver savings might be due to councils underestimating the time required for change programmes to deliver benefits. As budgets come under greater pressure from funding reductions, cost pressures and increasing demand, it is critical that councils understand the risks of using reserves in an unplanned way in relation to future savings and long-term financial sustainability.

42. Auditors identified that some councils failed to deliver their savings plans in 2016/17. Auditors also highlighted that some budgets did not properly reflect patterns of previous actual expenditure and that councils should consider rebasing their budgets where they consistently underspend. One such area is underspending on financing costs, where slippage on capital programmes leads to less borrowing and lower interest payments. Built-in budget contingencies partly explain budget underspends but councils need to explain this more clearly.

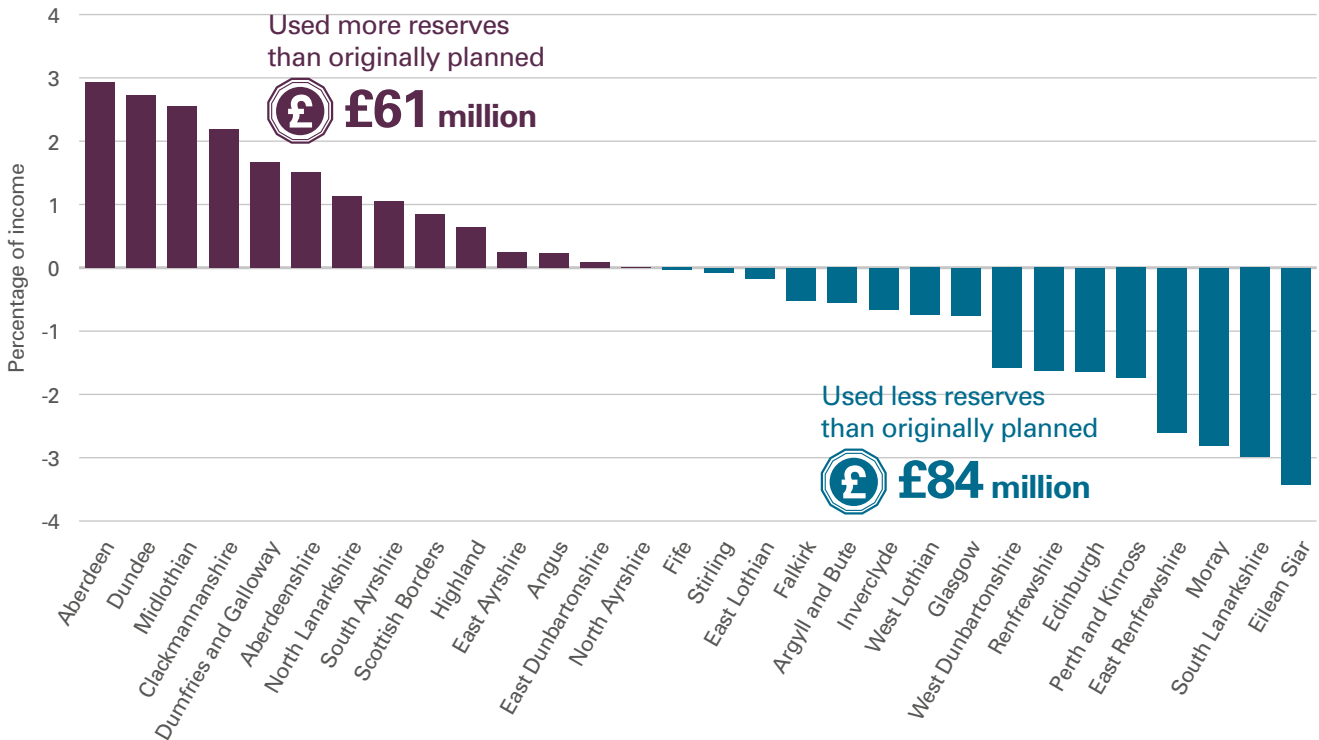


How does the council ensure that council staff have the capacity to delivery transformational change?

What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?

Exhibit 11

Difference between planned and actual use of General Fund reserves as a proportion of income, 2016/17
 The difference between planned and actual use of reserves for some councils was more than two per cent of their total income from general revenue grants and taxation.



Note: Due to issues with the scale on this exhibit Orkney and Shetland are excluded (paragraph 9).
 Source: Audited accounts 2016/17 and auditor returns

43. Reasons often cited by councils for under and overspends against final budgets are included in [Exhibit 12 \(page 25\)](#).

44. Management commentaries in councils’ accounts tend to only identify the main reasons for over or underspends against final budgets and not why plans or budgets changed during the year. This represents an area of weakness in financial reporting that councils need to address to support more effective financial scrutiny. If significant changes are made to original budgets the reasons should be clearly reported to councillors throughout the year, as well as featuring in the management commentary accompanying the accounts at the end of the year.

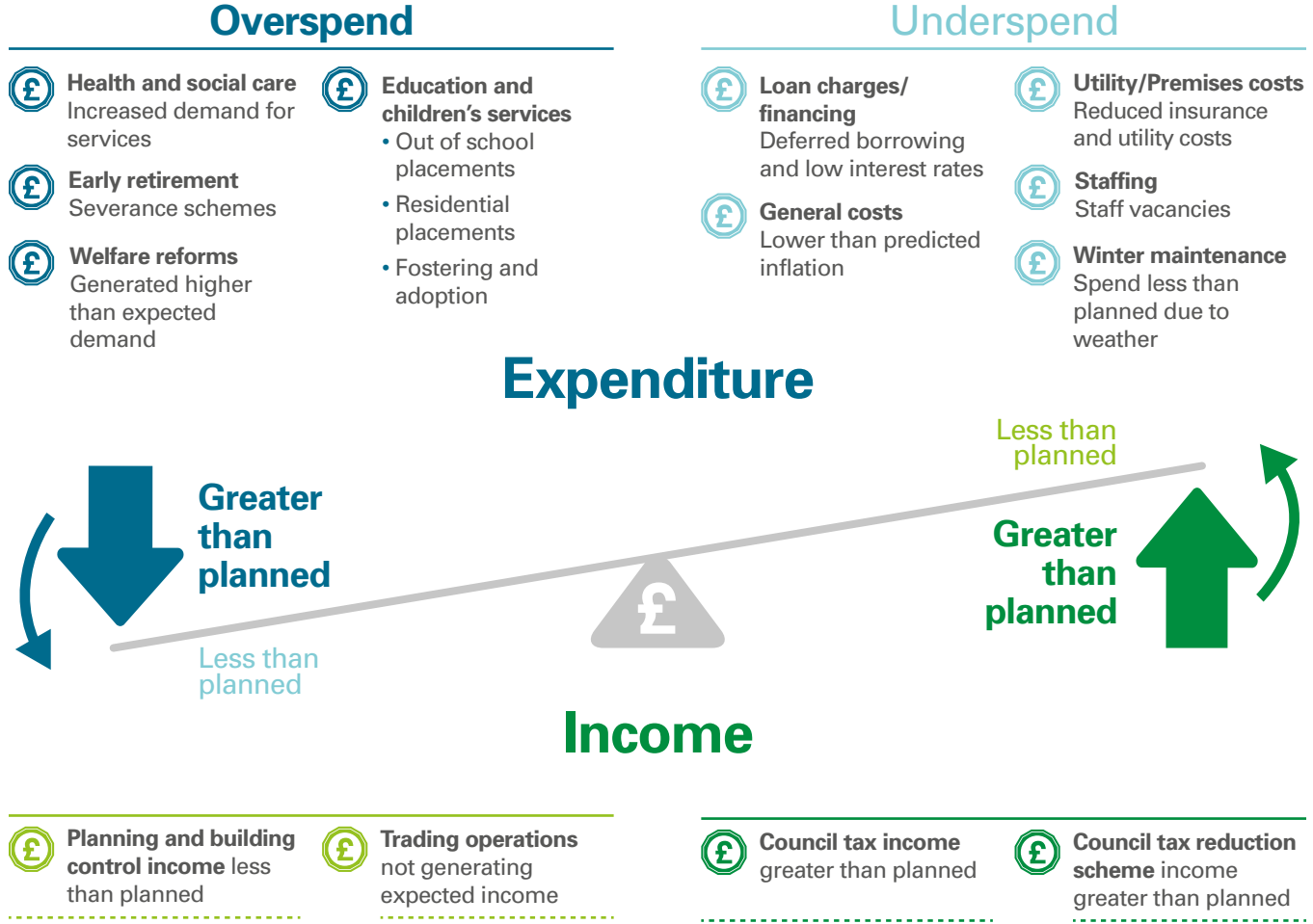


Do budget monitoring reports clearly explain performance against plans and any changes to plans?

Exhibit 12

Commonly reported reasons for budget variances, 2016/17

Demand pressures primarily drove overspends – with financing costs a key driver of underspends.



Source: Audit Scotland review of management commentaries

Levels of usable reserves vary widely and it is important that councils have clear reserves policies

45. The levels of usable reserves held by councils vary widely, as do policies on the minimum level of reserves they should hold. The General Fund reserve is the main revenue reserve available to support general council services. By the end of 2016/17, General Fund reserves, excluding Orkney and Shetland, totaled £1.1 billion. However, councils hold a number of other reserves and total usable reserves held amounted to £1.9 billion (excluding Orkney and Shetland, [paragraph 9](#)), ([Exhibit 13, page 26](#)).



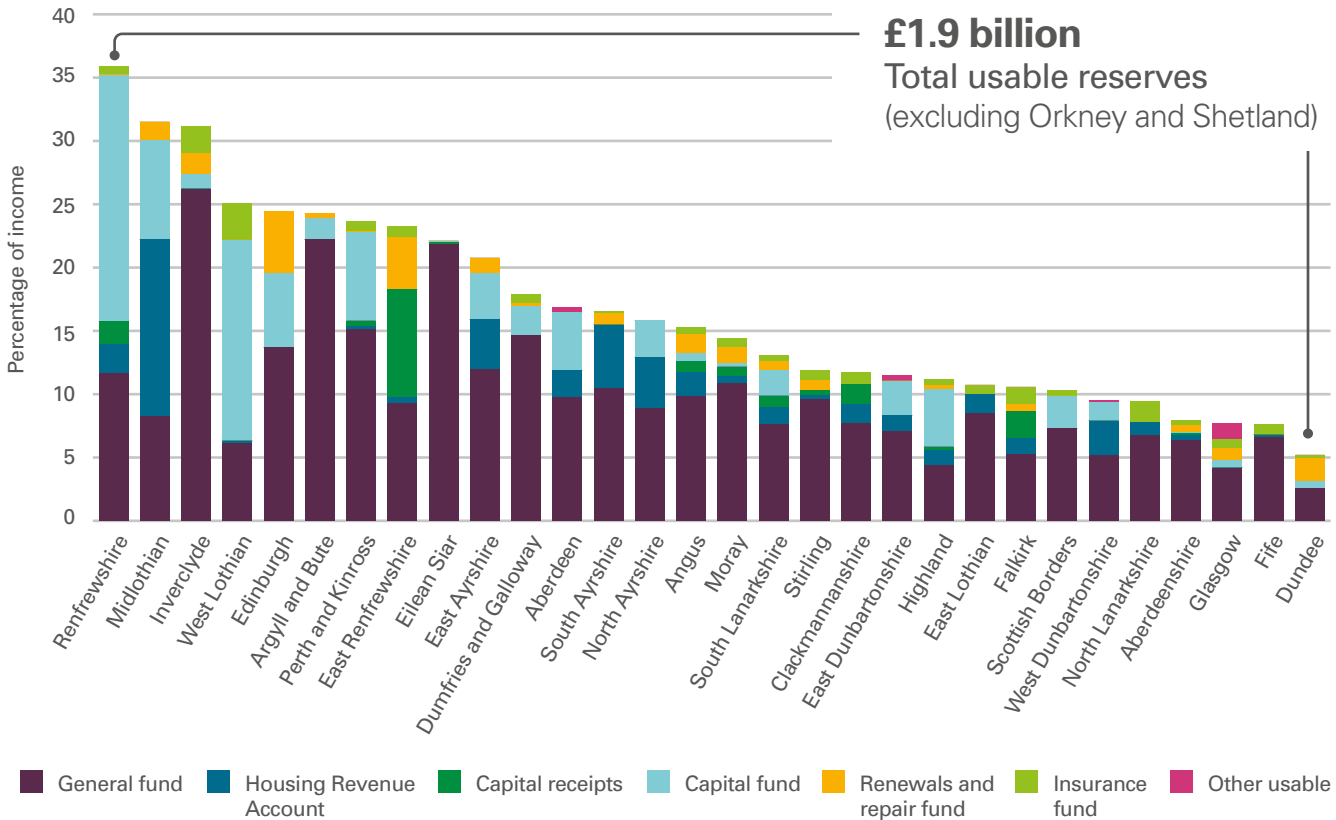
What is your councils reserves policy?

46. There is no prescribed minimal level of usable reserves. Typically councils' policies are to have a minimum uncommitted General Fund balance of between two and four per cent. Councils need to be clear about the reasons for the levels of reserves they hold to mitigate risks and support medium-term financial plans.

Exhibit 13

Council usable reserves at 31 March 2017

There are wide variations in the level of reserves as a proportion of income from general revenue grant, taxation and housing rents.



Note: Orkney and Shetland councils have reserves far in excess of those held by other councils and are excluded. We explain why this is the case in [paragraph 9](#).

Source: Annual accounts 2016/17

47. At the end of their first full operational year, IJBs held usable reserves of £96 million, representing about 1.2 per cent of their total income of £8 billion in 2016/17. Reserves vary across IJBs. Not all integration schemes permit IJBs to hold reserves. Only North Ayrshire Council recorded an overspend. This was largely due to spending on social care services ([Exhibit 14, page 27](#)).

48. It is not clear from the accounts of IJBs to what extent reserves have been built up in a planned way, have arisen as a result of underspends on IJB activities or have been earmarked for transformation activity. There is a lot of pressure on the budgets of IJBs and reserves at the end of 2016/17 are not forecast to continue in future years. Further analysis of IJB accounts will help inform specific audit work on IJBs being carried out in 2018.

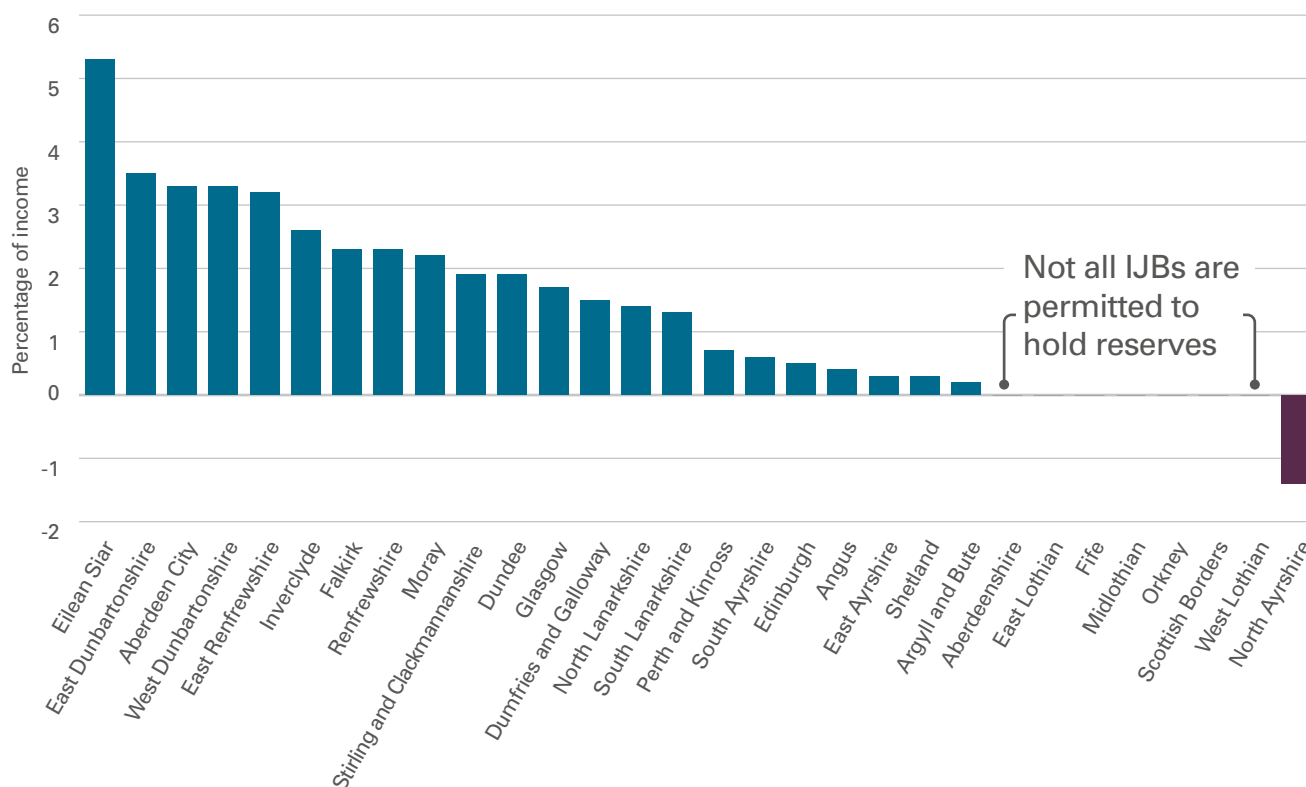


What are the different types of reserves your council holds? Do you know what these can be spent on?

Exhibit 14

IJB usable reserves as a proportion of 2016/17 income

Reserves vary across IJBs.



Note: Stirling Council and Clackmannanshire Council are members of the same IJB.

Source: Annual accounts 2016/17

Levels of debt have increased and some councils are concerned about future affordability

49. Following two years of reducing debt, councils' net debt increased in 2016/17 from £13.7 billion to £14.5 billion (excluding Orkney and Shetland). The increase in borrowing was lower than that originally planned when capital programmes were approved. This was primarily due to slippage in delivering capital programmes.

50. As with reserves, levels of debt vary widely across councils ([Exhibit 15, page 28](#)). 2016/17 saw an increase in the HRA borrowing requirement of about £140 million, with the 26 councils who provide social housing being actively involved in new council housing development. Collectively they plan to deliver about 13,000 homes by 2020/21. The cost of servicing additional HRA debt will be met from rental income.

51. The ongoing costs associated with debt reduces the amount councils have available for day-to-day service expenditure. It is therefore important that assets are effectively supporting service delivery and strategic priorities. Higher levels of debt often result in higher costs for councils but actual interest and repayment costs will depend on the type of debt councils hold and the period over which it has to be repaid.

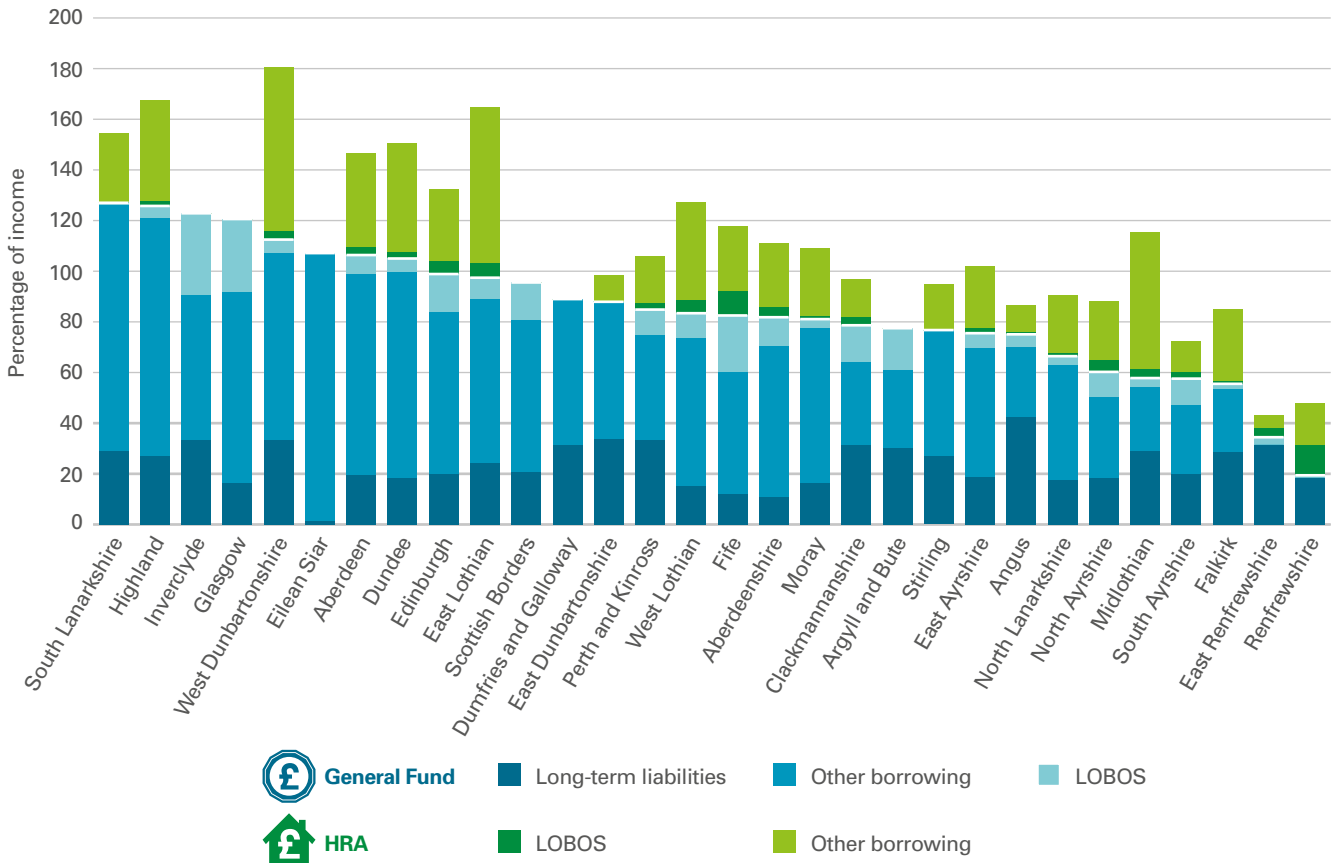


What are the levels of reserves held by your council's IJB? Are these in line with the IJB's reserve policy?

Exhibit 15

Council net external debt at 31 March 2017

Levels of debt held vary across councils as a proportion of income from general revenue grant, taxation and housing rents.



Note: Council debt has been allocated to General Fund and HRA in proportion to capital financing requirements.

Source: Annual accounts 2016/17

52. Despite debt increasing, the ongoing cost of servicing it, through the interest and repayment costs, reduced slightly in 2016/17. This in part reflects the lower interest rates available on new borrowing. It also reflects councils choosing to make lower voluntary debt repayments. On average, councils spent almost ten per cent of their income on interest and debt repayment ([Exhibit 16, page 29](#)).

53. Councils are required by regulation to consider the revenue impact of borrowing, ie its ongoing affordability. A large part of council debt has fixed interest rates which gives councils certainty about costs. However, this type of debt makes councils' assessment of longer term affordability more complex, requiring more detailed assumptions of future inflation and interest rates:



What share of your council's budget is taken up with interest payments and debt repayment?

- ‘Lender option borrower option’ loans (LOBOs) include options for the lender to increase interest rates. LOBOs account for about 11 per cent of council debt.
- PPP/PFI and indexed linked bonds include charges that increase with inflation. Projects financed using the Scottish Government’s Non-Profit Distributing (NPD) programme (which replaced the previous long standing PPP/PFI programmes) also include an element of indexation but typically at lower levels. The value for money of newer NPD projects will be examined in detail in a joint report by the Auditor General and the Accounts Commission in 2019/20.

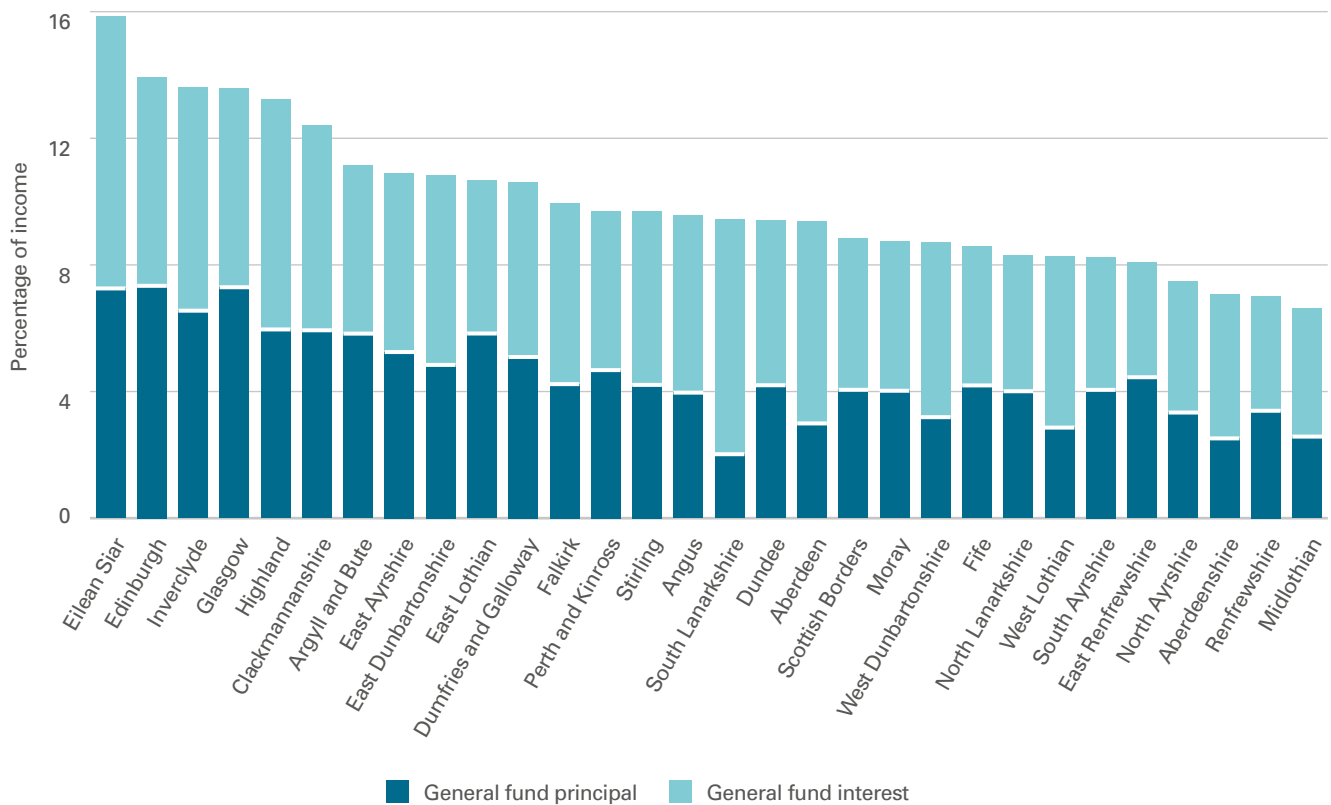


What proportion of your council's debt is linked to inflation (ie, subject to indexation)? What does that mean for longer term affordability?

Exhibit 16

Revenue cost of General Fund borrowing, 2016/17

Costs associated with debt vary across councils as a proportion of income from general revenue grants and taxation.



Source: Annual accounts 2016/17

54. Levels of debt and associated costs are set to rise in future. This is because councils have invested usable reserves in their capital programmes, something referred to as 'internal borrowing'. At the end of 2016/17 the amount of 'internal borrowing' was about £0.5 billion. Internal borrowing is usual treasury management practice for councils during periods when they would make a lower return from investing their usable reserves than it would cost them to borrow money. However, as councils increasingly rely on reserves to fund services they will need to replace internal borrowing with external borrowing, increasing their costs.

Councils continue to report significant slippage in delivering capital programmes

55. Councils spent £2.8 billion on capital projects in 2016/17, 84 per cent of their planned expenditure of £3.3 billion. Twenty-four out of 32 councils underspent against their capital budgets in both 2015/16 and 2016/17.


56. The reasons for slippage in delivering capital programmes are unclear. Management commentaries for the councils recording the largest slippage give reasons such as changes to project start dates, and one council identified weaknesses in the forward planning process. However, the consistent levels of capital slippage across the country suggest that councils are setting unrealistic budgets.

57. In our 2013 report [Major capital investments in councils](#)  we noted 'that for most major projects completed within the previous three years, councils' early estimates of the expected costs and timetable were inaccurate, and recommended that better information was made publicly available'.⁷ Our [follow-up report](#)  in 2016 suggested councils had made limited progress on this recommendation.⁸ Data for 2016/17 shows that councils still need to improve in this area.

Net pension liabilities increased for councils despite large increases in pension fund assets

58. Overall, net pension liabilities on council balance sheets were approximately £11.5 billion at the end of 2016/17, an increase of 51 per cent on the previous year. This increase was mainly due to a change in actuarial assumptions used to value future liabilities. It was a good year for Local Government Pension Scheme (LGPS) investments, which increased by almost 22 per cent.

59. Not all council pension liabilities are the responsibility of the LGPS fund. Where councils have awarded added-year pension benefits as part of severance arrangements, for both teachers and other staff, they have to meet the ongoing cost of pensions themselves. This also helps explain why the increase in council liabilities outstripped investment returns. These liabilities are not matched with any pension fund assets.

60. Public service pension scheme benefits have been reduced on a number of occasions to make the schemes more affordable. However, pension contributions have been a significant cost pressure for councils in recent years. The need for any increase in employer contributions will be determined through the results of the 2017 triennial funding valuation. The LGPS 2015 includes a cost-sharing mechanism that will limit any future increase for employers. A supplement on the [Local Government Pension Scheme](#)  is available on our website.



Has non delivery of the capital programme (ie, slippage) been significant at your council in recent years? Why?



Do you know the implications of your council's pension liabilities of staff retiring early?

Provisions and contingent liabilities can be difficult to quantify and should be kept under review

61. Where councils have a known obligation and they can quantify the cost, they are required to make a provision in their accounts. Councils held provisions of £132 million at the end of 2016/17 covering areas such as equal pay compensation claims, teachers' maternity pay, holiday pay, insurance claims and landfill site reinstatement.⁹

62. Councils are also required to disclose potential liabilities that are still contingent on future events or which cannot be quantified reliably. Fourteen councils are disclosing contingent liabilities for equal pay claims that they are defending. Other contingent liabilities identified by a number of councils include those relating to holiday pay claims and potential claims arising as a result of changes to the legislation around historic child abuse.

Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures

63. Councils have had to make difficult decisions in recent years in the light of falling resources and increasing demand for services. Councils that have a track record of effective leadership, self-evaluation, robustly addressing the financial challenges, and are implementing effective medium to long-term strategies and plans, will be in a better place than those that have avoided difficult decisions or not applied sufficient pace to making changes. That is not to say that the challenges faced by councils have necessarily been uniform. Differences in the resources available to them, the demand for services and the costs councils face as a result of their size and remoteness can also impact on their financial position ([Exhibit 17, page 32](#)).

64. The effectiveness of council leadership will be tested further in the years ahead given the increasing demand for services and likely funding scenarios that the public sector faces. Decisions made as part of budget-setting for 2017/18 together with the financial outlook are considered in [Part 1 \(page 10\)](#).

Exhibit 17**Main determinants of a council's financial position**

There are number of factors that affect a councils financial position.



Source: Audit Scotland

Part 3

Financial outlook



Key messages

- 1** The financial outlook for councils remains challenging with further real-terms reductions in funding and a range of cost and demand pressures on budgets.
- 2** In total councils approved £317 million of savings and the use of £105 million of reserves when setting budgets for 2017/18.
- 3** Some councils relying heavily on the use of reserves to fund services will need to take remedial action or they will run out of General Fund reserves within two to three years.
- 4** Robust medium-term financial strategies and savings plans are increasingly critical to the financial sustainability of councils.
- 5** Strong leadership is increasingly important and it is essential that councillors work effectively with officers, their partners and other stakeholders to identify and deliver necessary savings. It is important that councils engage with local communities when planning and delivering services and identifying savings.

the financial outlook for councils remains challenging

Council funding continues to fall as cost pressures increase

Scottish Government funding fell again in real terms for 2017/18

65. Councils received a further real-terms reduction of 2.3 per cent in their funding from the Scottish Government for 2017/18, reflecting the overall trend and direction of travel ([Exhibit 18, page 34](#)).

66. Councils' funding continues to include money targeted at delivering national policy commitments that restricts the overall flexibility in their budget setting. In 2017/18, this included £120 million provided for the school attainment fund and £88 million for maintaining pupil teacher ratios and for the teachers' induction scheme.



How is your council preparing for any further real terms reduction in Scottish Government funding?

Exhibit 18

Scottish Government revenue funding to councils

Local government funding fell in real terms in 2017/18 compared to 2016/17.

	2017-18 £000	Change on 2016-17 %
Cash terms		
NDR	2,666	-3.7 ▼
Revenue Grant	6,974	0.5
Total revenue funding	9,639	-0.7 ▼
Additional resource via IJBs	357	
	9,996	0.4 ▼
Real terms – 2016/17 prices		
NDR	2,623	-5.3 ▼
Revenue Grant	6,862	-1.1 ▼
Total revenue funding	9,485	-2.3 ▼
Additional resource via IJBs	351	
	9,836	-1.2 ▼

Source: Scottish Government Finance Circular 1/2017

Reductions in Scottish Government funding were only partly offset by the end of the council tax freeze

67. The council tax freeze ended in 2017/18. Twenty-four councils chose to increase council tax, with 21 approving the maximum three per cent permitted. Fourteen councils chose to remove the ten per cent discount on second homes, another option for increasing revenue. For some councils, additional income from second homes is not significant.

68. There were reforms to council tax banding multipliers for 2017/18 that resulted in a further £110 million of council tax due across the 32 councils. This will be available in full as additional income to be spent in the local authority area it is collected. [Exhibit 19 \(page 35\)](#) shows the additional income councils are due from council tax in 2017/18.

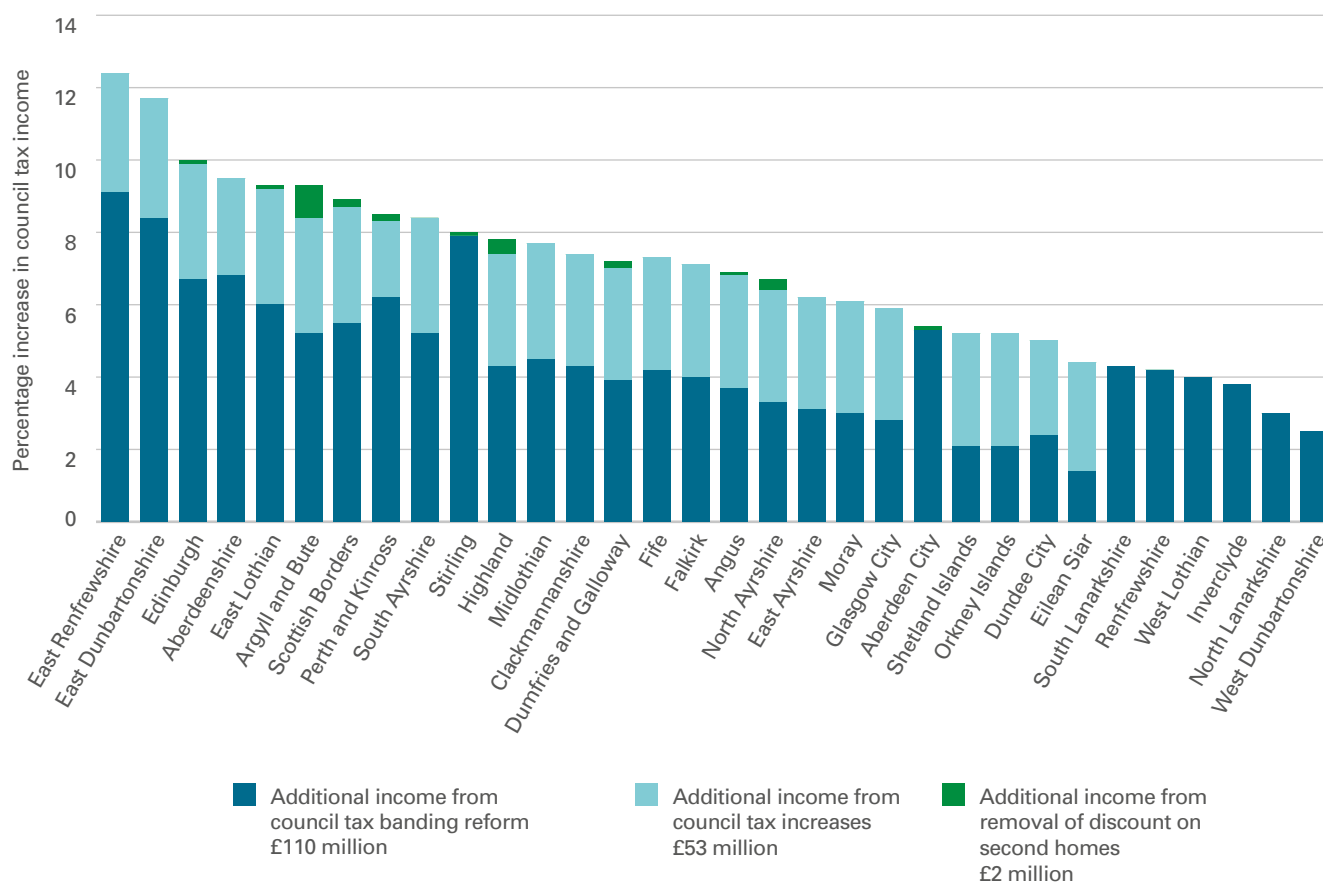


If your council plans to raise council tax, do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?

Exhibit 19

Increase in council tax by council, 2017/18

Council tax in 2017/18 has risen as a result of reforms and the end of the council tax freeze.



Note: Council tax due before any discounts are applied.

Source: Scottish Government Finance Circular 1/2017, Council tax banding information and SPICe

Delivering savings is critical for councils' financial sustainability

Councils approved savings of £317 million and the use of £105 million of reserves when setting budgets for 2017/18

69. When setting budgets for 2017/18, councils had to take into account a number of new cost pressures, including:

- the introduction of the apprenticeship levy of 0.5 per cent of pay bills above £3 million
- the requirement to meet the first full year effect of the living wage
- meeting HMRC guidelines on paying the national minimum wage for care workers when sleeping over
- non-domestic rates (NDR) revaluation.

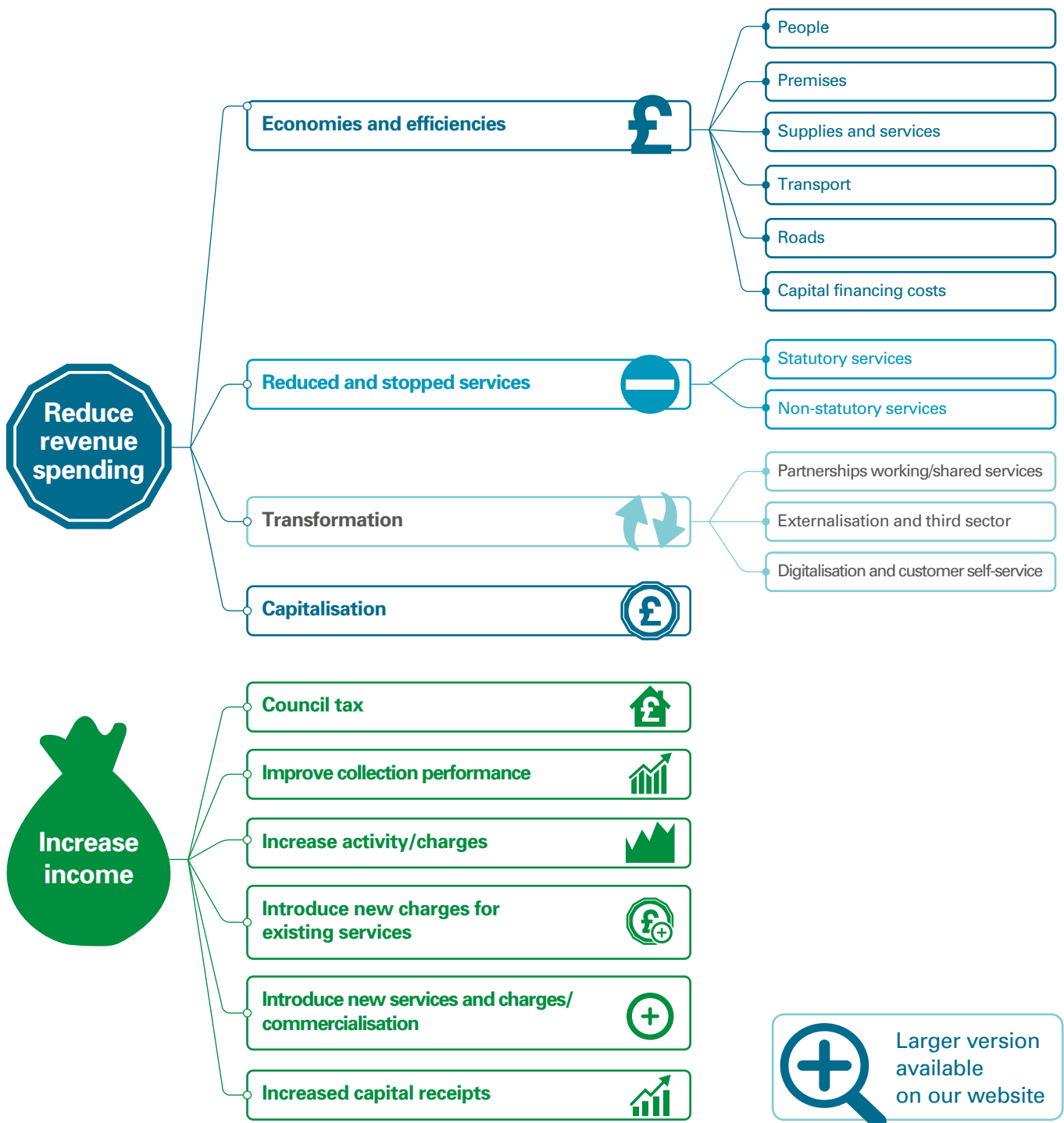


70. In balancing funding reductions and cost pressures, councils' 2017/18 budgets included approved savings of £317 million and the use of £105 million of General Fund reserves. Common measures taken by councils to close their funding gaps in 2017/18 are set out in [Exhibit 20](#). Not all initiatives to reduce expenditure are savings, some simply deferred expenditure by moving it from revenue to capital.

Does your council have a savings plan? What are the options to close future funding gaps?

Exhibit 20

Measures taken by councils to close their funding gaps in 2017/18



Source: Audit Scotland, analysis of budget setting reports 2017/18



Some councils will need to take remedial action or they will run out of General Fund reserves within two to three years

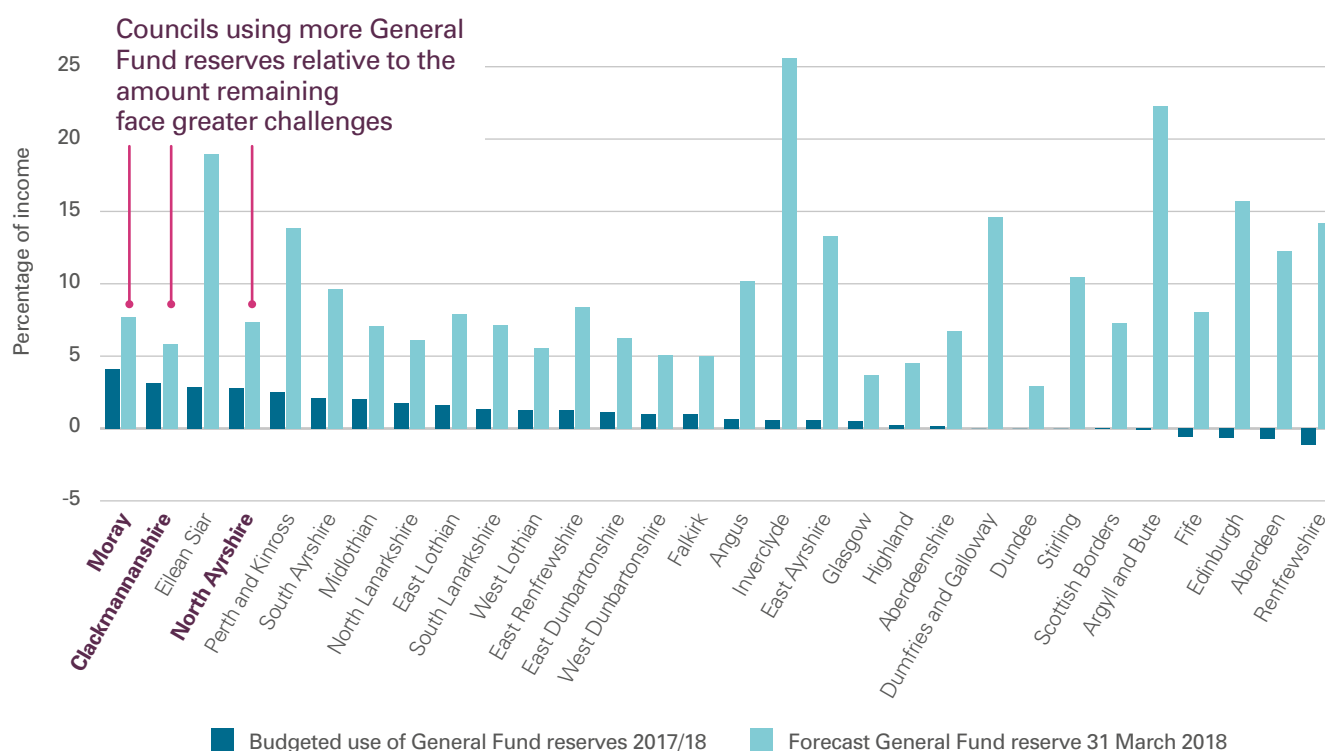
71. Some councils' plans for 2017/18 have relied more heavily than others on using reserves to bridge funding gaps. A number of these councils could have relatively low levels of General Fund reserves remaining at the end of the year ([Exhibit 21](#)).

What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?

Exhibit 21

Budgeted use and remaining levels of General Fund reserves, 2017/18

Two-thirds of councils budgeted to use reserves in 2017/18.



Source: Annual accounts and auditor funding gap returns 2017

72. Councils using reserves to support services in 2017/18 will be faced with having to identify larger savings in 2018/19 or again using reserves. However, using General Fund reserves at the current rate is not an option for some councils – Clackmannanshire, Moray and North Ayrshire councils would run out of General Fund reserves within two to three years if they continued to use them at the level planned for 2017/18.

73. Forecasts made by councils when setting their budgets for 2017/18 indicated the overall local government funding gap would increase to about £350 million in 2018/19 and to about £650 million in 2019/20.¹⁰

74. Since setting 2017/18 budgets, councils will have changed their plans for the current year and updated their forecast funding gaps for 2018/19 and beyond. A number of factors have created further potential pressures and uncertainties, for example:

- ongoing demand pressures from people living longer and population growth
- ongoing cost pressures from general inflation



What is your council's financial position? What particular challenges does it face?

- increased staffing costs from staff moving up pay scales, proposals to end the public sector pay cap and potential increases in employers' pension contributions following the LGPS triennial funding valuation
- income and rent collection potentially becoming more difficult and costly as a result of increased charges and the continued roll-out of Universal Credit
- interest rate rises
- the potential impact from changes to NDR (as outlined in [Exhibit 22](#))
- potential impacts from the process of withdrawal from the European Union.

Exhibit 22

Barclay review of non-domestic rates (NDR) 2017

The Barclay review recommended removing NDR relief for councils' ALEOs.

Councils collect NDR and pay this into a central pool, which is redistributed back to councils by the Scottish Government.

The Government established the Barclay review group in 2016 to make recommendations that would 'enhance and reform' NDR in Scotland. The review aimed to:

- better support business growth and long-term investment
- reflect changing marketplaces
- retain the same level of income (recommendations would be 'revenue neutral').

The review concluded that some form of NDR was still appropriate. The recommendations in the report focused on measures to support economic growth, improve how the system is administered and increase fairness in the system.

In seeking increased fairness, the review recommended that councils' NDR relief for ALEOs should be removed. The review recommended that legislation be changed to remove relief for ALEOs and, in the interim, that the Scottish Government should adjust its funding to recoup an estimated £45 million of ALEO funding from councils. The review recommended this is applied from April 2018.

The Scottish Government has accepted many of the points of the Barclay review, but the recommendation around ALEOs is still being considered. The Accounts Commission will examine ALEOs in more detail in a report to be published in May 2018.

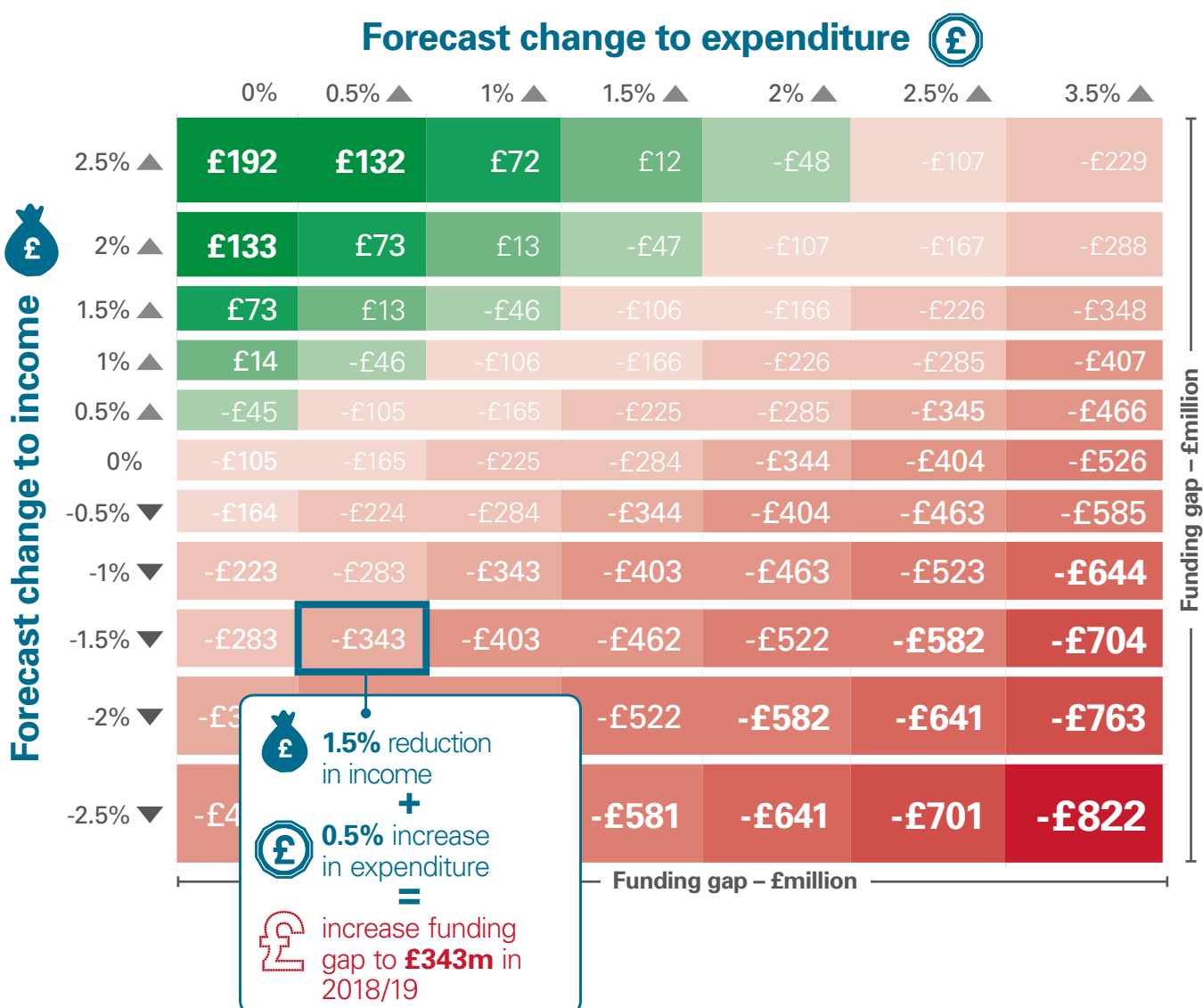
Source: Report of the Barclay Review of Non-Domestic Rates, August 2017

75. Uncertainty means that councils need to prepare for a range of possible scenarios both in terms of costs and funding and different savings options available to them. For example, if councils were to apply a further three per cent increase in council tax in 2018/19 this would raise about £68 million in additional income. In contrast, applying a one per cent increase to staff salaries would cost about £70 million. Even a small proportional increase above this as a result of lifting the public sector pay cap would have further significant costs. **Exhibit 23** shows the overall impact of various income and expenditure scenarios on the size of the total funding gap across councils for 2018/19.

Exhibit 23

Council funding gaps scenarios, 2018/19

In the absence of further savings, councils would use around £343 million in 2018/19 if expenditure were to increase by 0.5 per cent and income decrease by 1.5 per cent.



Source: Audit Scotland funding gap returns

Savings plans should be scrutinised and the impact assessed

76. CIPFA's report on building financial resilience and managing financial stress in local authorities highlighted the importance of planning for savings over at least a three-year period, and the need for robust challenging of plans as part of the scrutiny process.¹¹ In previous reports, the Accounts Commission has highlighted the need for councils to adopt this practice.

77. Regular updates on forecasts of funding gaps as savings are approved enable councillors to better understand the impact of the savings decisions they are making. However, currently only about half of councils routinely update their three-year financial forecasts as part of their annual budget-setting process.

78. To achieve effective financial management, long-term planning is essential. It is important that councils continue to consider likely funding scenarios and what this means for council services in the longer term as well as the medium term. For councils with lower levels of reserves, financial plans need to be increasingly detailed and robust. This will mean more work for officers and members in clearly identifying savings and assuring themselves that they have the capacity to deliver their intended plans.

79. It is important that savings plans are clear and that the impact on services is understood. Savings should be realistic and achievable. Where funding reductions are passed on to other bodies, such as ALEOs and IJBs, by reducing council contributions to them, it is equally important to assess the impact on service users and communities. Risks associated with income generation initiatives or arising from cuts to services should be explicit and considered by councillors as part of their scrutiny role.

80. Medium-term financial strategies should ensure that both revenue and capital budgets are aligned with corporate plans and that the revenue impact of capital expenditure is understood. Savings from service redesign and other initiatives need to be monitored effectively to ensure that plans and strategies continue to be relevant and accurate.

Longer-term affordability of capital programmes should be kept under review

81. Council capital programmes for 2017/18 are broadly in line with those for 2016/17, with General Fund budgets at about £2.6 billion and HRA budgets at about £800 million.

82. Councils are required to consider the affordability of their capital programmes and any new borrowing before approving them each year. Assessments will include consideration of:

- existing debt levels and servicing costs and how these may increase
- capital reserves available
- impact on running costs, eg reduced overall running costs arising from invest to save initiatives
- additional income streams that can be used to service borrowing



Does your council have a medium term financial strategy aligned with corporate objectives?

How does annual budget setting link to medium term financial planning?

What impact will savings have on the delivery of services? What are the potential risks?




How clearly does the council's capital programme link with the asset management plan and corporate objectives?

- additional funding available, eg Scottish Government funding for NPD projects, additional capital grants in respect of the City Deals (a recent initiative backed by UK and Scottish governments).

83. As revenue resources reduce, and the cost of some debt increases, it is becoming increasingly important for councils to keep the longer-term affordability of their borrowing under review. The need for robust business cases setting out how new capital expenditure will support corporate objectives is key. Capital finance and treasury management are areas covered by regulation and where councils also take professional advice. A key treasury management issue facing councils is the risk around interest rate rises, which makes decisions about the timing of borrowing important. If councils borrow in advance of their need they will incur additional interest costs in the short term. However, if the interest rates go up before councils borrow then they will be faced with paying higher interest rates for the term of any new borrowing. Recently a number of councils have been turning to short-term borrowing to keep their interest costs down but this strategy is not without risk and it is important that councils are clear about these in their plans and reports.

Effective leadership is increasingly important in maintaining financial sustainability

84. The Accounts Commission recognises that the financial challenges facing councils will inevitably mean councillors need to make difficult choices and take decisions that may not sit neatly with the manifestos they were elected on in May 2017. This requires effective political leadership and effective communications. It is essential that councillors work effectively with officers, council partners and other stakeholders to identify and deliver necessary savings. It is important that councils engage with local communities when planning and delivering services and identifying savings. We published a report [*Roles and working relationships in councils – Are you still getting it right?*](#)  (November 2016) to support councillors in their difficult and challenging role.

Addressing the underlying demand for services through transformation is key to longer-term sustainability

85. Given the scale of the challenge facing councils, we are of the view that the sustainability of some services will be increasingly dependent on the ability of councils and their partners to address the underlying demand for them. With health and social care integration, for example, much depends on the extent to which resources can be switched from treatment to prevention. Council transformation programmes need to identify and deliver changes of this nature over the longer term. It is important that councils give careful consideration to their capacity to support such change when making savings as part of budget setting.

86. The extent to which council transformation plans are delivering real changes to the way services are being delivered will be explored further in the second of our local government overview reports planned for publication in April 2018.



What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?



What measures in the council's corporate and transformational plans are aimed at addressing the underlying demand for services?

Endnotes




- ◀ 1 We published the first of three planned audits on health and social care integration in 2015: [Health and social care integration](#) , December 2015. Our next national audit in this area will be carried out in 2018/19. Annual audit plans and reports for each IJB are also published on [Audit Scotland's website](#) .
- ◀ 2 This excludes income received from arm's-length external organisation (ALEOs) providing services such as leisure services on behalf of the council.
- ◀ 3 *Fiscal issues facing Local Government in Scotland*, Fraser of Allander Institute, March 2017.
- ◀ 4 East Lothian Council, Highland Council (Inverness Jobcentre only), East Dunbartonshire, Midlothian Council and Inverclyde Council (no council stock – therefore no arrears).
- ◀ 5 ALEOs are separate bodies councils create to deliver services that they previously delivered in house.
- ◀ 6 *Building financial resilience: managing financial stress in local authorities*, CIPFA, June 2017.
- ◀ 7 [Major capital investment in councils](#) , Accounts Commission, March 2013.
- ◀ 8 [Major capital investment in councils: follow-up](#) , Accounts Commission, January 2016.
- ◀ 9 For more detail on councils' implementation of equal pay, see the Accounts Commission's [Equal pay in Scottish councils](#)  report.
- ◀ 10 This forecast is based on the average of available forecasts.
- ◀ 11 *Building financial resilience: managing financial stress in local authorities*, CIPFA, June 2017.

Local government in Scotland Financial overview 2016/17

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REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Resources & People Services)

9

SUBJECT: Internal Audit Report – Performance Bonds

1 PURPOSE

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

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 Performance Bonds was undertaken as part of the Audit Plan for 2017/18.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PERFORMANCE BONDS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Performance Bonds was undertaken as part of the Audit Plan for 2017/18. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- For capital projects where the value of the work exceeds £250,000, the instructions issued to tenderers by one service area require that a performance bond is submitted by the successful contractor.
- For the six performance bonds reviewed, we found that the bond amount was as per the requirements of the contract – in each case, the bond submitted to the Council was for 10% of the tender amount.

1.3 Areas with Scope for Improvement

- The Council does not have a clear policy on the use of performance bonds – the current Standing Orders/Corporate Procurement Procedures make no reference to the requirement for performance bonds. *Risk – lack of a consistent approach to mitigate the risks arising from the failure by contractors to perform their obligations under a contract.*
- In two cases reviewed, we found that contractors had failed to submit a performance bond as required by the contract conditions. In one case, the Council had sought to partly mitigate the risk by retaining an additional 10% retention up to the practical completion date, however in the other case there was no evidence of action being taken to mitigate the financial risks to the Council. *Risk – failure to mitigate the risks arising from performance failures.*
- In some cases, we found that performance bonds received by the Council had expired prior to the issue of the certificate of practical completion. *Risk – failure to ensure that adequate cover was in place for the appropriate period.*
- The central register of performance bonds being maintained by Legal was found to be incomplete – in some cases, performance bonds were not being passed to Legal by service areas for recording and safekeeping. *Risk – lack of a clear audit trail.*

1.4 Summary

Our review of Performance Bonds 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

February 2018

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PERFORMANCE BONDS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	<p>Management should review the current arrangements in place to ensure that the Council is adequately safeguarded from financial risks should a contractor fail to perform their obligations under a contract.</p> <p>Management should ensure that the outcome of the review is communicated to all service areas to ensure that a consistent approach is adopted for capital projects.</p>	Medium	Head of Council Resources	Agreed		April 2018
3.2.1	Management should ensure that contractors submit a performance bond to the Council where this is a requirement of the contract conditions.	Medium	Team Manager – Cost and Procurement	<p>Agreed – we will endeavour to ensure bonds are provided when specified. However, guidance is required for instances when a contractor cannot provide a bond due to circumstances unknown at tender stage (see recommendation 3.1.1 above).</p>		February 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should ensure that the performance bonds submitted to the Council fully comply with the requirements of the contract conditions.	Medium	Team Manager – Cost and Procurement	Agreed – future contract conditions will stress the required bond expiry.		February 2018
3.3.1	Management should ensure that an accurate and complete record is maintained of all performance bonds held by the Council.	Medium	Team Manager – Cost and Procurement	Agreed – all future bonds will be issued to Legal for registering and safekeeping.		February 2018

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 20 February 2018
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Internal Audit Report – Overtime

10

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of the internal controls surrounding Overtime was undertaken as part of the Audit Plan for 2017/18.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

EAST LOTHIAN COUNCIL – INTERNAL AUDIT OVERTIME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2017/18, a review was undertaken of Overtime. The main objective of the audit was to establish if adequate arrangements were in place for the management of overtime.

1.2 Areas where Expected Controls were Met

- The Council has in place a Management of Overtime Policy – the Policy sets out the Council’s approach to approved overtime working and provides guidance to both Managers and employees. The Policy makes provision for overtime working where it is either unavoidable or required to deal with an emergency.
- Adequate arrangements are in place within the Payroll section for checking and processing all overtime claims received and a clear audit trail exists of all overtime payments made.

1.3 Areas with Scope for Improvement

- In some service areas, employees were undertaking regular overtime, which was being paid at premium rates (time and a half). For the sample of cases examined, we found that overtime working had become part of the employee’s “normal” working pattern – overtime working was occurring consistently throughout the year and had become part of the service area’s method of operating. *Risk – overtime trends can go unidentified and unquestioned, leading to missed opportunities for cost savings.*
- In a number of cases, employees claiming overtime were undertaking administrative tasks, while in other cases overtime working was regularly being undertaken by employees on higher grades (e.g. chargehand, supervisory or managerial staff) leading to increased costs to the Council. *Risk – failure to demonstrate value for money in the scheduling, prioritising and allocation of work.*
- In some cases, we found instances of employees consistently working in excess of 48 hours per week, failing to have a break of at least 11 hours between shifts and/or working 7 days a week. *Risk – failure to ensure that the Council meets its duty of care under health and safety legislation.*
- There was a lack of adequate checking procedures in place within some service areas – in some cases, errors were noted in the overtime hours recorded on the summary sheets prepared for Payroll and in other cases employees were authorising their own overtime claim forms. *Risk – errors and irregularities may occur and remain undetected.*
- In a number of cases, there had been a failure to record the actual work undertaken while overtime hours were being claimed. *Risk – lack of a clear audit trail.*

1.4 Summary

Our review of Overtime 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

February 2018

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
OVERTIME**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	Where regular overtime working has become part of a service area's method of operation, Management should identify opportunities for change, service redesign and revised patterns of working.	Medium	Depute Chief Executives on behalf of CMT	Agreed		June 2018
5.2	For those employees currently working high levels of overtime, Management should ensure that appropriate arrangements are in place to demonstrate that the employer's duty of care is being met in line with health and safety legislation.	Medium	Depute Chief Executives on behalf of CMT	Agreed		June 2018
5.3	Management should ensure that all overtime sheets clearly record the reasons for the overtime being undertaken.	Medium	Service Manager – HR & Payroll on behalf of Service Managers	Agreed – email to be sent out to all service areas.		April 2018
5.4	Management should ensure that overtime claim forms are approved by the employee's line manager.	High	Principal Amenity Officer	Agreed – process reviewed to ensure adequate counter signature to be applied on all claims.		February 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.5	Appropriate checking mechanisms should be put in place to ensure that the summary sheets prepared by service areas for Payroll are accurate and complete.	High	Principal Amenity Officer	Agreed – additional guidance issued to admin staff and additional sampling / checking now in place.		February 2018

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – School Meals Income

11

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of the internal controls surrounding School Meals Income was undertaken as part of the Audit Plan for 2017/18.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

EAST LOTHIAN COUNCIL – INTERNAL AUDIT SCHOOL MEALS INCOME

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of School Meals Income was undertaken as part of the Audit Plan for 2017/18. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- For the sample of schools visited, we found that all school meals income received directly by the school kitchens was being processed through the cash registers in place.
- A record is held of all transactions processed through the cash registers – daily till rolls are retained by the school kitchens for audit purposes.

1.3 Areas with Scope for Improvement

- The existing procedures in place for administering school meals income require to be updated, to reflect the changes introduced to cashing up and banking processes. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of a clear audit trail for school meals paid in advance – the existing processes operating within school offices and school kitchens require review. *Risk – errors and irregularities may occur and remain undetected.*
- The current process for recording refunds requires review – in some cases, there was a lack of evidence to indicate that refunds recorded on the till rolls had been verified by a second member of staff. *Risk – errors and irregularities may arise and remain undetected.*
- There was a lack of adequate checking mechanisms in place to ensure that school kitchens were complying with the cashing up and banking procedures. *Risk – errors and irregularities may arise and remain undetected.*
- There was a lack of monitoring arrangements in place to ensure that daily iport returns were being completed for all income received – in one case, there had been a failure by the school kitchen to submit an iport return. *Risk – errors and irregularities may occur and remain undetected.*
- In one school reviewed, there had been a failure to comply with the Procedure for Unpaid Lunch Money. *Risk – failure to recover all sums due.*

1.4 Summary

Our review of School Meals Income 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

February 2018

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the procedures in place for administering school meals income are reviewed and updated.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018
3.2.1	Management should ensure that a clear audit trail exists for school meals paid in advance to the school office.	Medium	Service Manager – Education (Strategy & Operations)	Agreed – procedures to be reviewed with Business Finance		June 2018
3.2.2	Management should review the adequacy and effectiveness of the arrangements operating within school kitchens for the recording and administering of school meals paid in advance.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018
3.3.2	Management should ensure the effective operation of the cash tills – cash floats should be provided for all tills operated by the school kitchens.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018
3.3.3	Management should ensure that all refunds made are verified by a second member of staff and a clear explanation recorded for the refunds.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	Management should ensure that appropriate checking mechanisms are in place to confirm compliance with the cashing up procedures.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018
3.4.1	Management should ensure compliance with the procedures in place for preparing cash for banking. Management should ensure that in the absence of the cook supervisor, a second member of staff with appropriate training is available to undertake the banking procedures.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018
3.4.2	Management should ensure that all income prepared for banking and handed by the school kitchen to the school office is properly receipted.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018
3.5.1	Management should ensure that monitoring arrangements are in place to confirm that iport returns are completed for all relevant periods – appropriate checks should be carried out between the Monthly Trading Returns and the iport records.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1	Appropriate arrangements should be put in place to ensure compliance with the Procedure for Unpaid Lunch Money.	Medium	Service Manager – Facilities	Agreed – FMS will take this forward		June 2018

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 20 February 2018
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Internal Audit Report – Complaints Handling Procedure

12

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Council's Complaints Handling Procedure.

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 the Council's Complaints Handling Procedure was undertaken as part of the Audit Plan for 2017/18.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

EAST LOTHIAN COUNCIL – INTERNAL AUDIT COMPLAINTS HANDLING PROCEDURE

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2017/18, a review was undertaken of the arrangements in place for handling complaints received by the Council. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has a Complaints Handling Procedure in place, which was approved in August 2012 – the Procedure complies with the Model Local Authority Complaints Handling Procedure developed by the Scottish Public Services Ombudsman (SPSO). A separate Social Work Complaints Handling Procedure is in place and was implemented on 1 April 2017.
- A designated Customer Feedback Team is in place with responsibility for coordinating, investigating and reporting on all complaints received by the Council.
- For complaints received centrally (e.g. by the Contact Centre or online) a clear audit trail is maintained – all complaints are recorded on the CRM system and spreadsheets are held for each service area recording a summary of the complaint, the reason for the complaint, number of days taken to respond and the outcome.

1.3 Areas with Scope for Improvement

- The existing arrangements in place for the recording and reporting of complaints received by schools require review. *Risk – information may be incomplete or inaccurate.*
- There was a lack of adequate checking procedures in place to ensure that reports submitted to the Policy and Performance Review Committee were accurate and complete. *Risk – errors or omissions may occur and remain undetected.*
- For complex cases that had not been resolved within the specified timescales, there was a lack of evidence to indicate that extensions to timescales had been agreed with the customer. *Risk – non-compliance with the procedures in place.*
- The existing arrangements in place for reporting and publicising complaints information require review. *Risk – failure to comply with SPSO requirements.*
- At present, the annual performance report on complaints handling does not include all of the key indicators devised by the SPSO. *Risk – failure to comply with SPSO requirements.*

1.4 Summary

Our review of the arrangements in place for handling complaints received by the Council has highlighted some areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

February 2018

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
COMPLAINTS HANDLING PROCEDURE**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should review the adequacy and effectiveness of the current arrangements in place for the recording and reporting of complaints received by schools.	Medium	Service Manager – Education (Strategy & Operations)	Agreed – to be reviewed.		June 2018
3.2.3	Management should ensure that sample checks are carried out on Stage 1 complaints to ensure that these have been correctly recorded.	Medium	Team Manager – Council Support	Agreed		In Place
3.3.1	Where extensions to timescales are required, Management should ensure compliance with the Complaints Handling Procedure.	Medium	Team Manager – Council Support	Implemented in Q1 of 2017/18.		In Place
3.4.1	Management should ensure compliance with the SPSO Model Complaints Handling Procedure in respect of the reporting and publicising of complaints information.	Medium	Team Manager – Council Support	Customer Feedback web profile to be developed on new Council website.		August 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.2	Management should review the current arrangements in place to ensure that complaints information reported to the PPRC is accurate and complete.	Medium	Team Manager – Council Support	Data for reporting will be drafted by team members. Checking and validation of data will be carried out by Team Leader.		June 2018
3.4.3	To assist the Council in self-assessment, the reporting of performance and the undertaking of benchmarking activities, consideration should be given to reporting on all performance indicators devised by the SPSO.	Medium	Team Manager – Council Support	The eight SPSO performance indicators to be adopted within the Council’s reporting mechanism for Customer Feedback.		February 2018

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 20 February 2018
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Internal Audit Report – Council Tax Liability

13

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Council Tax Liability was undertaken as part of the audit plan for 2017/18.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

EAST LOTHIAN COUNCIL – INTERNAL AUDIT COUNCIL TAX – LIABILITY

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Council Tax Liability was undertaken as part of the Audit Plan for 2017/18. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place to ensure that liability for Council Tax is properly determined.
- The Capita system has been correctly set up to calculate the Council Tax charge on a daily basis in accordance with legislation.
- A clear audit trail exists for all discounts and exemptions awarded – the Capita system records the type of discount or exemption applied and the dates of entitlement.
- Adequate documentation was held to support the discounts and exemptions awarded.
- For deceased taxpayers, appropriate procedures are in place to ensure that liability for Council Tax ceases the day before the date of death and that exemptions are applied whilst awaiting probate.
- For disability band reductions awarded, the taxpayer's Council Tax charge had been correctly reduced to one band below the Assessor's valuation of the property.
- Regular reviews are undertaken of taxpayers in receipt of discounts, exemptions and disability band reductions.

1.3 Areas with Scope for Improvement

- The existing arrangements in place for inspecting empty properties require review. *Risk – exemptions awarded may be inappropriate.*
- In some instances, there had been a failure to obtain appropriate documentation to support the backdated award of disability band reductions. *Risk – lack of a clear audit trail.*
- The existing arrangements in place for assessing entitlement to disability band reductions require review. *Risk – inappropriate awards may be made.*

1.4 Summary

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

Mala Garden
Internal Audit Manager

February 2018

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Management should ensure that disability band reductions are only applied to eligible applicants – eligibility should be confirmed via a visit to the property to establish if the relevant criteria are being met.</p> <p>Management should ensure that adequate evidence is held to confirm the applicant’s disability – consideration should be given to reviewing the existing application form to include an additional section to be completed by a Registered Medical Practitioner.</p>	Medium	Council Tax Team Leader	Agreed – the procedures will be reviewed in the new financial year.		April 2018
3.4.2	Management should ensure that adequate evidence is held to support all backdated awards of disability band reduction.	Medium	Council Tax Team Leader	Agreed		April 2018
3.5.2	<p>Management should ensure that the correct category of exemption is awarded to taxpayers.</p> <p>Consideration should be given to introducing an application form for taxpayers entitled to the Prescribed Housing Support Accommodation exemption.</p>	Medium	Council Tax Team Leader	Agreed		April 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.2	Management should ensure that appropriate arrangements are in place for visiting empty properties – an assessment should be carried out to identify specific categories of empty properties that should be inspected.	Medium	Council Tax Team Leader	Agreed		April 2018

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 20 February 2018
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Internal Audit Report – National Fraud Initiative

14

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken on the 2016/17 National Fraud Initiative.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 The National Fraud Initiative (NFI) is a data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data (e.g. names, addresses, Dates of Birth, National Insurance Numbers), both within and between participating bodies, to detect fraud and overpayments.
- 3.2 East Lothian Council, along with other local authorities and public sector bodies, participates in the NFI data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Cabinet Office on behalf of Audit Scotland.
- 3.3 As part of the 2016/17 NFI exercise, the Council submitted data for the following areas:
- Housing (Current Tenants, Waiting List and Right to Buy)
 - Payroll
 - Private Supported Care Home Residents
 - Transportation (Residents Parking Permits)
 - Council Tax and Electoral Register
 - Direct Payments
 - Creditors (Standing Data and Payment History)
 - Licences (Market Trader, Taxi Driver and Personal Alcohol Licences)
 - Council Tax Reduction Scheme
- 3.4 In addition, details of insurance claimants were submitted directly by the Council's insurers, Benefits details were submitted by the DWP and Blue Badge

details were submitted directly by Northgate Public Services on behalf of the Council.

- 3.5 The output of the data matching process (i.e. reports of data matches) is returned to the Council for consideration and investigation. Data matches do not in themselves indicate fraud, but rather identify cases, which may require further investigation.
- 3.6 This report provides a summary of the outcome of the investigations undertaken for the 2016/17 NFI matches. A total of 107 reports were received in respect of East Lothian Council – the reports contained 3,152 individual matches, of which 578 were recommended matches. Internal Audit are reviewing all recommended matches, together with other additional matches that have been selected on a risk based approach.
- 3.7 As at 8 February 2018, 477 matches have been fully investigated and closed. Of the 477 matches, we found that:
- in 363 cases, no fraud or errors were identified;
 - in 109 cases, errors were identified in respect of Blue Badges and Residents Parking Permits and in each case appropriate action was taken by the Council's Transportation section to either cancel the permit/badge or to update the system with the correct information;
 - in the remaining 5 cases, overpayments of £52,515.24 were identified.
- 3.8 The overpayments of £52,515.24 related to the following:
- £5,512.82 related to payments which the Council had continued to make to a residential home after the resident's death. This amount has now been recovered from the residential home.
 - £35,023.42 related to 2 duplicate payments (£24,533.18 and £10,490.24) made to the same contractor. The contractor has acknowledged both overpayments and the Council is currently in the process of recovering these amounts.
 - £11,808 relates to a duplicate payment made to a separate contractor. The service area is currently liaising with the contractor to ensure recovery of the overpayment.
 - £171 related to input error – VAT was incorrectly posted on the Creditors system as £190.03 rather than £19.03. This resulted in the supplier being overpaid by £171 and VAT being over claimed by £171. Recovery of this amount from the supplier is currently in progress.
- 3.9 In addition to the above, the Council's Revenues section receive separate reports on Council Tax and Electoral Register matches – the matches identify cases where Single Person Discount may have been incorrectly awarded.
- 3.10 The Council Tax and Electoral Register data was initially uploaded and the matches released in January 2017. The Council resubmitted data in August 2017 as part of the NFI ReCheck process on the basis that the Electoral Register was likely to be more complete due to the General Election and the increase in people registering to vote. A summary of the work being undertaken by the Revenues section is outlined below:
- All matches are being checked and the Council Tax and Benefits systems

- updated with details of action taken.
- Checks are being undertaken on previous occupiers to eliminate those who have recently changed address.
- Letters were issued to relevant individuals – where no response was received the Single Person Discount was removed and a revised bill issued.
- In some cases, Single Person Discount was withdrawn and a new bill issued following checks to the Benefits system.

The current status of the work as at 8 February 2018 is as follows:

- 1,640 matches have been investigated and closed with no fraud or error.
- 62 matches are currently being investigated.
- 12 matches have been recorded as fraud and revised bills have been issued to persons who had previously been receiving a Single Person Discount incorrectly. The Council is currently in the process of recovering £3,266.39 in respect of persons who had previously been receiving a Single Person Discount.

3.11 All matches currently being investigated will be concluded prior to 31 March 2018.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Follow-up Reports

15

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recent follow-up work undertaken by Internal Audit.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the findings of Internal Audit's follow-up work on Direct Payments – Children's Wellbeing; Preston Lodge High School; Capital Projects (Payment Certificates) and Contracts.

3 BACKGROUND

- 3.1 Internal Audit follows up recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for four audits that were reported in 2016/17. Our findings are detailed below.

Direct Payments – Children's Wellbeing

- 3.2 Internal Audit's report on Direct Payments – Children's Wellbeing was issued in September 2016. Our follow-up review has highlighted that of the eleven recommendations made, nine have been implemented and two are outstanding (see attached). For the outstanding recommendations, we are informed by management that progress is being made with a view to full implementation by April 2018.

Preston Lodge High School

- 3.3 Internal Audit's report on Preston Lodge High School was issued in January 2017. Our follow-up review has highlighted that of the ten recommendations made, eight have been implemented and two partly implemented (see attached). For these two recommendations, we note that in one case standard documentation has been developed for the recording and monitoring of school trip income and expenditure and the school is in the process of rolling this out and in the second case, the school is considering the options available for operating the PL2000 club.

Capital Projects (Payment Certificates)

- 3.4 Internal Audit's report on Capital Projects (Payment Certificates) was issued in June 2017. Our follow-up review has highlighted that all three recommendations made have been implemented.

Contracts

- 3.3 Internal Audit's report on Contracts was issued in January 2017. Our follow-up review has highlighted that the two recommendations made have been implemented.

4 POLICY IMPLICATIONS

- 4.1 None.

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
DIRECT PAYMENTS – CHILDREN’S WELLBEING**

OUTSTANDING RECOMMENDATIONS

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.1.1	Management should ensure that the draft procedures currently being reviewed are finalised and issued to staff with operational responsibility for the administration, management and monitoring of Direct Payments.	Medium	Self Directed Support Officer	Procedures for Direct Payments are being reviewed and amended to include Children’s Services. When completed these procedures will be issued to staff with operational responsibility for the administration, management and monitoring of Direct Payments.	November 2016	April 2018
3.8.1	Management should ensure that regular reconciliations are undertaken between payments processed on Frameworki and the amounts posted to the General Ledger.	Medium	Group Service Manager, Long-term Care and Support / Team Leader - Disability	We are consulting with the Creditors Section to achieve this recommendation.	August 2016	April 2018

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PRESTON LODGE HIGH SCHOOL**

OUTSTANDING RECOMMENDATIONS

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.4.2	<u>Partly Implemented</u> Management should review the existing procedures in place for the recording and monitoring of school trip income and expenditure.	Medium	Head Teacher / School Business Manager	Agreed	May 2017	March 2018
3.10.1	<u>Partly Implemented</u> Management should ensure that the two separate bank accounts held for fund raising activities are operated under the auspices of the Parent Council.	Medium	Head Teacher / School Business Manager	Agreed	June 2017	April 2018

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Plan 2018/19

16

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2018/19.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2018/19.

3 BACKGROUND

- 3.1 The annual audit plan has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS).

- 3.2 In preparing the annual audit plan a range of factors have been taken into account, including:

- the Council Plan 2017-22 and the key actions that the Council will pursue in order to meet its objectives;
- areas highlighted by Senior Officers;
- corporate and service area risk registers;
- the Council's core financial systems;
- changes in service delivery;
- the findings from previous years' audit work;
- the need to incorporate flexibility for reactive/investigatory work.

- 3.3 Internal Audit's primary role is to independently review internal control systems within the Council. Internal Audit will evaluate the adequacy and effectiveness of controls in responding to risks within the Council's governance, operations and information systems, regarding the:
- 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.
- 3.4 The Internal Audit Manager is required to give an opinion on the Council's control environment in the annual Controls Assurance Statement and the audit work carried out will contribute to this opinion.
- 3.5 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit, which is comprised of the Internal Audit Manager, three Senior Auditors and one Senior Audit Assistant.
- 3.6 The resources available have been applied to individual audits and a detailed operational plan has been produced for 2018/19 (see Appendix A).
- 3.7 Internal Audit will adopt a risk based approach to audit assignments as the principal means of providing assurance on the adequacy, reliability and effectiveness of internal controls. Testing of controls will be carried out on a sample basis. A standard sample size is used for financial systems audits and the samples are selected to provide coverage for the full financial year.
- 3.8 For each individual audit, a detailed audit report is prepared for the relevant Depute Chief Executive. Copies of the audit report are provided to the Chief Executive, Head of Service, External Audit and to members of the Audit and Governance Committee.
- 3.9 All audit reports will highlight areas where expected controls have been met and areas where there is scope for improvement. A detailed action plan will be attached to each report listing all recommendations made and recording management responses to the recommendations.
- 3.10 Follow-up audits will be carried out to review the implementation of the recommendations made.

AUDIT COVERAGE

Financial and Non-Financial Audits

- 3.11 Internal Audit will review the Council's systems to provide assurance on the adequacy and effectiveness of internal controls. The audit plan includes a range of financial and non-financial audits.

Statutory Audits

- 3.12 Internal Audit undertakes audit work in respect of specific grant awards made to the Council by the Scottish Government, to ensure compliance with grant conditions.

Best Value Audit

- 3.13 Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.

Investigations

- 3.14 Time has been allocated to carry out work on the National Fraud Initiative.

Integration Joint Board

- 3.15 The Committee is asked to note that in 2018/19 internal audit services to the East Lothian Integration Joint Board will be provided by East Lothian Council's Internal Audit team.

- 3.16 For 2018/19, time has been allocated to carry out audit work for the Integration Joint Board.

INTERNAL AUDIT PERFORMANCE INDICATORS

- 3.17 Internal Audit will report on the completion of the annual audit plan, the percentage of audit recommendations accepted by Management and the percentage of audit staff with CCAB accounting qualifications.

OTHER FACTORS

- 3.18 The Committee should note that reactive work may impact heavily on the Internal Audit Unit's ability to complete the audit plan. Contingency days are built in for 2018/19 in the investigations section, but by its nature reactive work is difficult to predict.
- 3.19 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2018/19.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

INTERNAL AUDIT PLAN

2018/19

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AUDIT PLAN 2018/19

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
FINANCIAL AND NON-FINANCIAL AUDITS			
Bank Reconciliations	We will check to ensure that appropriate and effective systems of control are in place for the Council's bank accounts.	High	6
Creditors	We will review the procedures in place for processing supplier invoices for payment and we will check to ensure that adequate arrangements are in place for the prevention and detection of duplicate payments.	High	6
NDR – Liability	We will continue our audit work on Non-Domestic Rates (NDR) – in 2018/19, we will review the arrangements in place for determining NDR liability.	Medium	6
Council Tax	We will continue our audit work on Council Tax – for 2018/19, our review will focus on the procedures in place for the recovery of Council Tax arrears.	Medium	6
VAT	For all payments processed by the Council, we will examine the arrangements in place to ensure that VAT is correctly accounted for.	Medium	6
Adult Services – Payments on Schedule	We will review payments on schedule processed through the Mosaic system – our audit will focus on the arrangements in place for the recovery of credit balances.	Medium	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Adult Services – Transport	We will review the transport arrangements within Adult Services – as part of the review we will assess if the arrangements in place for securing transport are cost effective and well managed.	Medium	5
Planning Enforcement	We will check to ensure that planning enforcement is being carried out in accordance with legislation and Council policy.	Medium	5
IT Systems Access	We will review the IT access controls/access rights in place for all the Council's main systems.	High	5
Fixed Assets	We will review the systems in place for maintaining and updating the Council's Fixed Asset Register.	Medium	5
Following the Public Pound	We will review the monitoring arrangements in place for a sample of organisations receiving partnership funding from the Council in 2018/19.	Medium	5
Trade Waste Income	We will review the arrangements in place for the billing and collection of trade waste income.	Medium	5
Contracts	As part of our annual review of procurement, we will examine a sample of contracts to ensure compliance with the Council's Corporate Procurement Procedures.	Medium	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Building Standards	We will examine the arrangements in place for the processing of applications received for building warrants, including the collection of income due to the Council.	Medium	6
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	Medium	5
Adult Services – Residential Care	We will review the arrangements in place for the assessment and charging of clients in residential care.	Medium	6
Business Grants and Loans	We will review the arrangements in place for the awarding of grants and loans to businesses within East Lothian.	Medium	5
Disclosure Checks	We will review the disclosure checking arrangements in place for members of staff and volunteers working with children and/or protected adults.	Medium	5
Conflicts of Interest	We will examine the arrangements in place for the disclosure of potential conflicts of interest by members of staff.	Medium	5
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	–	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
STATUTORY AUDITS			
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is required to provide a statement of compliance with grant conditions on an annual basis.	Medium	4
BEST VALUE AUDIT			
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	Medium	5
INVESTIGATIONS			
National Fraud Initiative	Time has been allocated for coordinating and submitting data for the 2018/19 National Fraud Initiative (NFI) exercise.	Medium	6
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	10
Whistleblowing	We will investigate concerns raised under the Council's Whistleblowing Policy.	High	6
OTHER AUDIT WORK			
Integration Joint Board	Time has been allocated for work that will be undertaken by Internal Audit for the East Lothian Integration Joint Board (IJB). A separate audit plan will be prepared which will be presented to the IJB Audit and Risk Committee for approval.	Medium	24

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Review of Previous Year's Work	Internal Audit will review the outcome of our previous year's work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	Medium	10
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	Medium	1
Community Councils and Management Committees	<p>Community Councils – Internal Audit provide advice and support to Community Councils.</p> <p>Management Committees – Internal Audit will independently examine the annual accounts of Management Committees where applicable.</p>	Medium	4
Advice and Consultancy	<p>Consultation on New Systems – for new systems implemented, Internal Audit will provide advice on internal control matters.</p> <p>Tender Evaluations – attendance at tender openings and evaluations where requested by service areas.</p> <p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing service areas with financial information about companies and offering advice where applicable.</p> <p>Consultancy – providing advice and consultancy on a range of internal control issues.</p>	Medium	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
TRAINING			
Training	An adequate allocation of budget resources and time will be given to maintaining and improving the knowledge base and quality of the staff resource. This includes time for staff to undertake continuous professional development (CPD) and to acquire skills and knowledge required to undertake specialist audit assignments.	–	6
Annual Self Assessment	Time has been allocated for internal assessment of the internal audit function against the Public Sector Internal Audit Standards (PSIAS).	–	2

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 February 2018

BY: Depute Chief Executive (Resources & People Services)

17

SUBJECT: Internal Audit Progress Report 2017/18

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2017/18.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2017/18.

3 BACKGROUND

- 3.1 This report is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.
- 3.2 The progress made to date is outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None.

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 February 2018

INTERNAL AUDIT PROGRESS REPORT 2017/18

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Non-Residential Charging	We will examine the arrangements in place for the assessment and charging of clients receiving non-residential care.	September 2017	Completed
Counter Fraud Arrangements	We will examine the counter fraud arrangements operating within the Council with a view to ensuring that these are robust.	September 2017	Completed
Taxicard Scheme	We will examine the arrangements in place for the Council's Taxicard Scheme, which provides subsidised taxi travel for people with severe and permanent physical disability who do not have regular access to private motorised transport.	September 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.	September 2017	Completed
Training	We will examine the effectiveness of the controls surrounding training and development activity across the Council including attendance at conferences.	September 2017	Completed
Homelessness	We will review the procurement and payment arrangements in place for accommodation provided to homeless clients.	November 2017	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
ALEOs	We will review the governance arrangements operating within an Arms Length External Organisation.	November 2017	Completed
Review of Complaints Procedure	We will review the procedures in place for the handling of complaints received by the Council.	November 2017	Completed
School Meals Income	We will examine the arrangements in place for the collection, recording and banking of school meals income.	November 2017	Completed
Performance Bonds	We will review the processes in place within the Council for the use of performance bonds.	November 2017	Completed
Review of Overtime	We will review the adequacy and effectiveness of the monitoring arrangements in place for those employees receiving overtime on a regular basis.	February 2018	Completed
National Fraud Initiative	Time has been allocated for co-ordinating and reviewing data matches identified following the 2016/17 National Fraud Initiative exercise.	February 2018	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.	February 2018	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Internal Audit Plan 2018/19	Internal Audit will present the detailed operational Audit Plan for 2018/19 for approval to the Audit and Governance Committee.	February 2018	Completed
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2018	Completed
Council Tax – Liability	We will review the arrangements in place for determining Council Tax liability.	June 2018	Completed
Common Repairs	We will review the systems and processes in place for dealing with common repairs projects where a statutory notice has been issued by the Council and the Council is required to enforce the notice.	February 2018	In Progress
Housing Rent Arrears	We will examine the processes and controls in place for the recovery of housing rent arrears.	February 2018	
Throughcare and Aftercare	We will review the arrangements in place for supporting young people looked after by East Lothian Council who are about to leave care or have recently left care.	February 2018	
Social Care Fund	We will review the arrangements in place within Adult Services for monitoring the use of the Social Care Fund.	February 2018	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Non-Domestic Rates	An audit of Non-Domestic Rates (NDR) will be carried out. The review will focus on the procedures in place for the Billing and Collection of NDR.	June 2018	In Progress
Debtors	A review of the systems and processes in place for raising debtor invoices will be carried out to ensure that sundry income due to the Council is properly identified, collected and accounted for.	June 2018	In Progress
Procurement of Goods and Services – Property Maintenance	We will review the arrangements in place within the Council’s Property Maintenance Section for the procurement of goods and services.	June 2018	
Care at Home Payments	We will review the internal controls in place for payments made to care at home providers used by the Council.	June 2018	
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.	June 2018	
Annual Internal Audit Report 2017/18	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2017/18, as required by the Public Sector Internal Audit Standards.	June 2018	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Controls Assurance Statement 2017/18	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 2017 to 31 March 2018.	June 2018	
Learning and Development	We will review the arrangements in place for community learning and development and the links to the Area Partnerships/Managers.	June 2018	