



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

**TUESDAY 20 FEBRUARY 2018  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

**1**

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**Committee Members Present:**

Councillor J Henderson (Convener)  
Councillor S Currie  
Councillor F Dugdale  
Councillor J Findlay  
Councillor K Mackie  
Councillor K McLeod  
Councillor B Small  
Councillor J Williamson

**Council Officials Present:**

Mr A McCrorie, Depute Chief Executive – Resources and People Services  
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services  
Mr D Proudfoot, Head of Development  
Mr J Lamond, Head of Council Resources  
Mr T Shearer, Head of Infrastructure, Communities & Partnerships  
Mr P Vestri, Service Manager – Corporate Policy & Improvement  
Ms M Garden, Internal Audit Manager  
Mr S Allan, Senior Auditor  
Mr C Grilli, Service Manager – Legal & Procurement  
Mr J Coutts, Service Development & Support Manager  
Ms S Fortune, Service Manager – Business Finance  
Mrs K MacNeill, Service Manager – Licensing, Admin & Democratic Services  
Mr K Christie, Service Manager – Revenues & Welfare Support  
Ms S Hunter, Council Tax Team Leader  
Ms H Tiffin, Team leader – Customer Feedback  
Mr R Baty, Team Leader - Business Development  
Mr S Kennedy, Emergency Planning and Risk Officer  
Ms J Mackay, Media Manager

**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 28 NOVEMBER 2017**

The minutes of the Audit and Governance Committee meeting held on 28 November 2017 were approved as a true record.

The Committee agreed to take Item 3 next.

**3. 2017/18 ANNUAL AUDIT PLAN**

A report was submitted by Audit Scotland setting out the terms of the 2018/19 Annual Audit Plan.

Carol Foster, Audit Scotland, presented the report and provided an overview of the audit plan including the key risk areas which would require specific audit testing. She outlined the timing and scope of the annual audit and reminded Members that the Council would be one of six local authorities to be subject to a separate Best Value Audit in 2017/18.

Responding to questions from Councillor Small Ms Foster confirmed that the auditors were continuing to review the risks highlighted in health and social care. Esther Scoburgh added that discussions had taken place with officers and assurances had been given that efficiencies were still being considered. She said she was content with the position at the time of drafting the audit plan report.

Councillor Currie asked what reliance could be placed on assurances given at the end of Quarter 2 if, historically, such assurances had been shown not to reflect the year end position. Ms Scoburgh advised that the auditors looked at the position across the year, as well as the assurances given at various stages, before coming to a view. She said that part of the Best Value audit would be to look at trends in more depth. For the current year, she was content with the assurances given and with the efforts being undertaken.

The Convener stated that the materiality of this point was so important that she would like to ensure that the Committee was provided with meaningful reporting at an early stage.

In response to questions from Councillor McLeod, Ms Foster provided further information on journal testing and Ms Scoburgh outlined the group components of the accounts. She also confirmed that it would be for the Council to take on board the recommendations made in the audit report or to provide an adequate response as to why they did not do so.

Councillor Currie referred to his previous point about the value of assurances given during the financial year. He also referred to the sum of £1m which had been added to the Adult Wellbeing budget in 2016/17. He said that if this sum required to be repaid then this would further diminish the Council's ability to deal with future pressures year on year.

Jim Lamond, Head of Council Resources, clarified that the £1m added to the Adult Wellbeing budget had not been a loan. It had been given on the basis of the Quarter 2 report to give support and recognition to the fact that the efficiencies plan had not been delivered in the timescale expected.

The Convener referred to the section of the audit plan outlining arrangements for the Best Value audit and emphasised that outcomes and performance should be clearly defined and should include associated costs and risks.

Ms Scoburgh confirmed that this would be included as part of the Best Value audit and that the evidence gathering would include interviews with Councillors.

## **Decision**

The Committee agreed to note the contents of the report.

## **2. MUSSELBURGH JOINT RACING COMMITTEE - UPDATE**

Carlo Grilli, Service Manager – Legal & Procurement, provided an update on the review of governance arrangements for the Musselburgh Joint Racing Committee. He advised Members that the review report was presented to Council on 19 December 2017 and a further report would be presented to Council at its meeting on 27 February 2018 seeking approval of interim governance arrangements. While he acknowledged the recent interplay in the media, Mr Grilli stated that the report to Council would be considered in private.

In response to questions from Councillor Currie, Mr Grilli confirmed that the report to Council would be private. He also stated that he would have no objection to the independent governance review report being scrutinised by this Committee. He added that he would consider how much of the information could be made public as he was mindful of the level of interest in this issue.

The Convener thanked Mr Grilli and asked Members to note the update.

## **4. DEVELOPMENT RISK REGISTER**

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

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 Development Risk Register contained 1 Very High risk, 6 High risks, 10 Medium risks and 14 Low risks. As per the Council's Risk Strategy only the Very High and High risks were being reported to the Committee.

In response to questions from Members Douglas Proudfoot, Head of Development, advised that the private rent sector was suffering in the same way as the social rent sector from the introduction of Universal Credit and its impact on the ability to collect rents.

James Coutts, Service Development & Support Manager, stated that under the terms of Universal Credit sums for rent were paid to tenants rather than directly to landlords.

In addition, some landlords were uncomfortable with the recent change to legislation which had given tenants greater rights.

Mr Proudfoot advised Members that these risks were kept under constant review and an action plan had been prepared and presented to Cabinet which included reviews of policy and links with the delivery of affordable housing. Mr Kennedy added that although the review date was stated as March 2019 the continuous review process meant that, if necessary, risks could be updated before that date.

Councillor Williamson asked about the involvement of Orchard & Shipman. Mr Proudfoot confirmed that they were no longer managing the contract which had been brought in-house pending a review of temporary accommodation provision.

Mr Proudfoot responded to further questions from Members stating that the Council had a statutory duty to look at the whole housing market and take what action it could to ensure as broad a range of options as possible were available for tenants. He acknowledged that acquisitions could be an invaluable tool in supplementing housing supply. He also offered assurances that the few solid fuel systems left in Council tenancies were serviced regularly and replaced as and when circumstances allowed.

Councillor Currie hoped it would be possible to track the number of landlord registrations over the year and, if there was a reduction, to understand why this was the case. He was concerned that a reduction in the availability of private sector rents for those on Universal Credit and an overall increase in the cost of private rents would have a major impact in East Lothian and may lead to an increase in homelessness.

Mr Proudfoot advised that there was a three year obligation for landlords following registration but he acknowledged the Councillor's concerns.

Councillor Small said he took the risks very seriously – both financial and reputational – and that they may need to be monitored more closely. Although he accepted officers' assurances about the review process he asked that the Committee be kept fully informed of developments on this issue.

Mr Proudfoot referred to a report on homelessness which was being presented to the Policy & Performance Review Committee (PPRC) the following day. He said that the control measures and action plan were reviewed regularly and he would be happy to bring updates to this Committee or the PPRC.

The Convener thanked Mr Proudfoot and expressed the hope that officers would continue to work closely with the Committee to keep these matters under review. She also asked about the implementation of the new mobile working platform and Mr Proudfoot confirmed that this was on target.

## **Decision**

The Committee agreed to note the contents of the Development 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 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.

## **5. INFRASTRUCTURE RISK REGISTER**

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

Mr Kennedy presented the report referring to the general background provided in his introduction to the previous item. He advised Members that the Infrastructure risk register currently included 10 High risks, 49 Medium risks and 14 Low risks.

In response to questions from Members Tom Shearer, Head of Infrastructure, Communities and Partnerships, provided further information on the Community Pay Back scheme to repair gravestones. He said that the Council was acutely aware of the constraints on space at Inveresk Cemetery and discussions were underway on identifying suitable land for expansion.

Replying to further questions, Mr Shearer advised that regular inspections were undertaken on dangerous buildings and the Council had powers to enforce repair work or to carry out the work themselves and then bill the property owner. He assured Members that the enforcement process was robust. Mr Proudfoot added that many of the buildings had deteriorated through age and where there were issues of public safety appropriate notices would be erected by Building Standards officers.

Mr Shearer also confirmed the appointment of a new Building Standard Surveyor and indicated that consideration was being given to the appointment of Graduate Interns to fill the remaining vacancies.

Councillor Small urged officers to ensure that the work on gathering current asset data remained on target as this would be important to the review of the Council's asset base which had been included in the budget for 2018/19.

Mr Shearer confirmed that work was in hand and the timescale for completion remained April 2018.

### **Decision**

The Committee agreed to note the contents of the Infrastructure 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 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.

## **6. 2017/18 COUNCIL IMPROVEMENT PLAN MONITORING REPORT**

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) to present the 2017/18 Council Improvement Plan monitoring report to the Audit and Governance Committee.

Paolo Vestri, Service Manager – Corporate Policy & Improvement, presented the report informing Members that the ten action points in the Plan were drawn mainly from the Corporate Governance self-evaluation exercise reported to the Committee in June 2017. He said that the six month monitoring report outlined the progress made and that, of the ten actions, six had been completed and the remaining four were on target to be completed by April/May 2018.

Responding to questions from Members, Mr Vestri provided further information on the development of a single regulatory charter and the timing of the completion of the actions contained in the Plan. Mr Lamond confirmed that feedback from the 100 Day Review process would be prepared and circulated to Members as soon as possible.

### **Decision**

The Committee agreed to note the progress in achieving the Council Improvement Plan as detailed in the monitoring report.

## **7. EAST LoTHIAN LAND LTD**

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Audit and Governance Committee of the work undertaken by East Lothian Land Ltd in 2016/17.

Richard Baty, Business Development Manager, presented the report outlining the background to East Lothian Land Ltd and providing details of projects considered and delivered in 2016/17.

Councillor Currie asked how proactive the company was in identifying potential sites for commercial use. He referred to his experiences at Planning Committee which seemed to suggest that there was generally little interest in developing sites for commercial use rather than housing.

Mr Baty advised that six years ago a review was undertaken of all land identified for employment use. Approaches had been made for the purchase of these sites but all offers were declined. He added that a business survey was undertaken every two years and there was a high demand for economic units. However, if the land was owned by a developer it was likely to end up as housing.

Councillor Small suggested that the company should be looking to expand. He said that examples such as East Lothian Land Ltd were key to driving forward other income streams and that the Council should be as supportive as possible within existing financial constraints.

Councillor Currie expressed frustration that despite the original intention of planning approvals, and due to an apparent lack of interest from businesses, significant amounts of land identified for commercial use was eventually used for housing. He agreed that East Lothian Land Ltd should have the opportunity to expand and to secure and develop land for employment use.

## Decision

The Committee agreed to note the contents of the report.

### **8. LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2016/17 (ACCOUNTS COMMISSION, NOVEMBER 2017)**

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) 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*'.

Mr Vestri presented the report explaining the background to the production of the Audit Scotland report and outlining the key findings and recommendations. He also drew Members' attention to the Council's response to the recommendations and its financial position compared to other local authorities across the country.

Members asked a variety of questions and Mr Lamond provided further information on funds allocated from General Reserves. He confirmed that the Council had taken full advantage of low interest rates for borrowing within the terms of its financial strategy, and that it had benefited from the higher base for Council Tax. He also commented on the difficulties associated with the increase in both the young and old populations within the county.

Ms Scoburgh responded to a question on the role of the Audit & Governance Committee in relation to the Integration Joint Board (IJB). She advised Members that the auditors worked closely with the IJB's chief officers who themselves liaise closely with NHS Lothian. She said she was aware of timing issues in relation to budget-setting but that the information was made available at key points. She accepted that this was an ongoing challenge upon which the auditors would continue to advise the IJB but that addressing this may take time.

Mr Lamond also acknowledged the complexities and timing differences and said that the Council and NHS Lothian were trying to mitigate them as far as possible. He said that officers met regularly at both operational and senior management levels and updates were provided throughout the year.

The Convener said she would welcome the Committee's inclusion in this subject and that it should become part of the Committee's scrutiny process to avoid issues being missed.

Councillor Currie commented on the fact that the report was looking at the previous year and many of the issues highlighted had already been dealt with. However, he said it was a useful report which clearly demonstrated the challenges facing East Lothian in terms of growth in both the young and old population. He referred to future stresses and the need for the Council to take a longer term view and balance investing in housing and incurring additional debt, with the need to effectively manage the risks to avoid any impact on the delivery of statutory services.

Councillor Small observed that there were many positives to be taken from the report but that it had also identified issues that needed to be addressed. He said that the report should give the Committee confidence that the Council was headed in the right direction and he agreed with Councillor Currie that they should be taking a longer term

view. However, he questioned where the Committee should fit in relation to scrutinising issues such as the transformational aspects of efficiency savings.

Councillor Dugdale commended the report for its clarity in showing where East Lothian sat in relation to other local authorities. She also appreciated the contributions made by Members during the discussion.

### **Decision**

The Committee agreed to:

- 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 to 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.

## **9. INTERNAL AUDIT REPORT – PERFORMANCE BONDS**

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

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.

Responding to questions from Members, Mr Allan advised that the audit team had reviewed 11 contracts over £250,000, of which 8 had required a bond. Of the 8 contracts, 6 bonds were in place and in 2 cases no bonds had been submitted. He also confirmed that it was management's intention to have a clear policy in place by April 2018.

### **Decision**

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

## **10. INTERNAL AUDIT REPORT – OVERTIME**

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

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.

In response to questions from Councillor Williamson, Ms Garden confirmed that the audit had looked at overtime claims across the Council rather than focusing on particular areas.



Councillor Small said that this report fitted into one of the issues discussed at the recent Council budget-setting meeting. He noted that there were some worrying aspects identified in the audit and he said it would be useful to look at this issue in terms of the wider content of employment terms and conditions.

Councillor Currie was pleased to see that the irregularities relating to authorisation of overtime had been addressed. He questioned the consistently high use of overtime in some areas, and he looked forward to seeing if the implementation of the recommendations in the action plan resulted in a more effective use of overtime.

The Convener echoed these remarks and expressed the hope that the Committee would have the opportunity to review this issue again in the near future.

### **Decision**

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

## **11. INTERNAL AUDIT REPORT – SCHOOL MEALS INCOME**

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

Ms Garden presented the report. She summarised the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan.

Responding to questions from Members, Ms Garden explained that the audit related to primary schools (P4 – P7) income from school meals totalling approximately £360,000 per annum and that the team had selected 3 schools for review – Dunbar, Kings Meadow (Haddington) and Longniddry. Expanding on one of the issues highlighted in the report, she advised that one of the schools was not following the correct procedure for recovering money on unpaid lunches but that this had been addressed.

### **Decision**

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

## **12. INTERNAL AUDIT REPORT – COMPLAINTS HANDLING PROCEDURE**

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

Mr Allan presented the report outlining some of the key findings including areas where controls were met and areas with scope for improvement. He drew Members' attention to the recommendations contained in the Action Plan which had been agreed by Management.

Councillor Small noted that the financial implications in the report were stated as none. He asked if, historically, there had ever been an occasion where a complaint had not been handled appropriately and a financial settlement had been made. Mr Lamond confirmed that there had been instances, although very few, where small compensatory payments had been made. Referring to the financial resource implications section of the report, he advised that this related to any decisions contained within the recommendations of the report.

Councillor McLeod referred to the Internal Audit Progress report which indicated that the audit had been completed in November 2017. Mr Allan replied that the audit work had been undertaken in October 2017 and the report had initially been planned for submission to the Committee's November meeting but had missed this deadline.

### **Decision**

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

### **13. INTERNAL AUDIT REPORT – COUNCIL TAX LIABILITY**

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

Ms Garden 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 response to questions from Councillor Currie, Mr Lamond confirmed that the actions agreed by management would be undertaken within existing budgets.

Kenny Christie, Service Manager – Revenues & Welfare Support, said that a balance had to be struck in terms of deciding which empty properties to visit and, at present, his team undertook a visiting rate of approximately 10%. Shona Hunter, Council Tax Team Leader, explained that much of the work was office based and where conflicting information was received about a property this would result in a visit.

Replying to a question from Councillor Small, Ms Garden confirmed that she was, on the whole, very pleased with the systems that were in place.

### **Decision**

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

### **14. INTERNAL AUDIT REPORT - NATIONAL FRAUD INITIATIVE**

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the work undertaken on the 2016/17 National Fraud Initiative.

Mr Allan presented the report, outlining the background and scope of the data matching exercise and reminding Members that data matches did not in themselves indicate

fraud but rather identified cases which may require further investigation. He advised that of the matches received, 578 were recommended matches and that additional matches were also selected for review. He further stated that as at 8 February 2018 477 matches had been investigated and in 363 cases no fraud or errors had been detected. He outlined some of the results of the other investigations, including errors and overpayments, and stated that investigations into the remaining matches would be concluded prior to 31 March 2018.

Mr Allan explained that in addition to these matches, the Council's Revenues section received a separate report on Council Tax and Electoral Roll matches identifying where Single Person Discount may have been incorrectly awarded.

Mr Grilli responded to a question from Councillor Small explaining the legal position for recovery of duplicate payments to contractors.

Mr Allan responded to further questions from Members on matches relating to residential homes, duplicate payments to contractors and the renewal of blue badges.

Ms Garden observed that although 109 cases out of 477 appeared significant, many of these related to timing and updating of systems. She also advised Members that the audit team intended to look more closely at the issue of duplicate payments as part of the 2018/19 audit plan to provide additional assurance.

#### **Decision**

The Committee agreed to note the contents of the report.

### **15. 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 for 2016/17 regarding Direct Payments – Children's Wellbeing; Preston Lodge High School; Capital Projects (Payment Certificates) and Contracts. He advised Members that all of the recommendations resulting from the audits on Capital Projects (Payment Certificates) and Contracts had been fully implemented. Of the remaining two audits, the majority of recommendations had been implemented but a few were still outstanding.

In reply to a question from Councillor Williamson, Mr Allan explained that reasons were given in each case for the delays in implementation and that revised dates for completion have been provided.

#### **Decision**

The Committee agreed to 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.

**16. INTERNAL AUDIT PLAN 2018/19**

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of Internal Audit’s operational plan for 2018/19.

Ms Garden presented the report outlining the factors taken into account when preparing the annual audit plan, the procedures for undertaking reviews, the audit coverage, arrangements in place for the East Lothian Integration Joint Board (IJB) and internal audit performance indicators.

Responding to questions from Members, Ms Garden explained the approach taken when drawing up the audit plan and the risk level attached to particular audits. She confirmed that the team had sufficient resources to manage their work for the IJB, which was shared with NHS Lothian’s internal audit team.

Councillor Small observed that the Area Partnerships were responsible for significant sums of money and should perhaps be included in the audit plan for 2018/19. The Convener agreed to discuss this further with Ms Garden and the Depute Chief Executive.

**Decision**

The Committee approved the Audit Plan for 2018/19.

**17. 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 2017/18 annual audit plan.

**Decision**

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

Signed .....

Councillor Jane Henderson  
Convener of the Audit and Governance Committee

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

**SUBJECT:** Musselburgh Racecourse - Update

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**2**

**1 PURPOSE**

- 1.1 To provide an update to the Committee on Musselburgh Racecourse.

**2 RECOMMENDATIONS**

- 2.1 That the Audit and Governance Committee notes the current position and progress following the Independent Governance Review by Pinsent Masons LLP.

**3 BACKGROUND**

- 3.1 In July 2017 the British Horseracing Association ('BHA') agreed to grant an extension to the racing licence subject to undertaking a governance review.
- 3.2 In October 2017 the Council and Lothians Racing Syndicate Limited ('LRS') jointly appointed Pinsent Masons LLP to undertake a governance review. This review was completed in December 2017. The review raised concerns about the constitution of the Musselburgh Joint Racing Committee ('MJRC') due to the constitution of the Committee not having a two thirds majority in favour of the Council. This meant that the LRS had one too many representatives on the MJRC and in terms of the Minute of Agreement.
- 3.3 In order to allow the Council and the LRS to resolve this position the BHA agreed in December 2017 to extend the Horseracing Licence until 7 April 2018, with the next race meeting due on 2 May 2018.

- 3.4 Council approved an interim solution by replacing the Musselburgh Joint Racing Committee with the Musselburgh Racing Associated Committee ('MRAC') which was constituted in accordance with the advice provided in the independent governance review. At the time the Minute of Agreement between East Lothian Council and Lothians Racing Syndicate Limited and recorded in the Books of Council and Session on 10 December 2015 ('Minute of Agreement') remained unchanged. This was in conflict with the new scheme of administration and required to be either terminated or adjusted so that it was in line with the Council's scheme of administration.
- 3.5 The Council and the LRS were unable to agree terms to allow the Minute of Agreement to be adjusted in time for the deadline set by the BHA and accordingly the BHA on the 7 April 2018 did not agree to extend the licence further. Constructive discussions remained ongoing between the parties and agreement on terms was reached so that on 25 April 2018 the Minute of Agreement was amended in accordance with the Scheme of Administration for the MRAC. The BHA were then willing to extend the racing licence until 15 October 2018 and no racing fixtures have been missed.
- 3.6 Following the extension of the licence a working group was established by the Council to consider and recommend the best operating model for the racecourse. This working group consists of Councillors, Council Officers, LRS and racecourse staff. In arriving at a determination by this working group Pinsent Masons LLP are providing detailed legal advice together with specialist knowledge of the racing industry. The intention is for the determination of the working group to be reported prior to the meeting of the Council on 26 June 2018.

#### **4 POLICY IMPLICATIONS**

- 4.1 There are no policy implications relating to this report

#### **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 – N/A
- 6.2 Personnel – N/A
- 6.3 Other – N/A

## **7 BACKGROUND PAPERS**

- 7.1 Minute of Council on 19 December 2017 (Private Report)
- 7.2 Minute of Council on 27 February 2018 (Private Report)
- 7.3 Members' Library Report, Governance Review – Musselburgh Racecourse. Members' Library Service Ref: 37/18. March 2018 Bulletin.
- 7.4 Minute of Council on 24 April 2018

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|----------------------|---------------------------------------|
| <b>AUTHOR'S NAME</b> | Carlo Grilli                          |
| <b>DESIGNATION</b>   | Service Manager – Legal & Procurement |
| <b>CONTACT INFO</b>  | ext 7770                              |
| <b>DATE</b>          | 4 June 2018                           |





Jim Lamond  
Head of Council Resources  
East Lothian Council  
John Muir House  
Haddington  
EH41 3HA

4 June 2018

3

Dear Jim

**East Lothian Council**  
**Review of internal controls in key financial systems - 2017/18**

1. Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that East Lothian Council:
  - has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulation.

**Overall conclusion**

2. On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

**System coverage**

3. The following table summarises the key systems that we have tested in our interim audit for financial year 2017/18:

| Key System               | Audit coverage                        |
|--------------------------|---------------------------------------|
| Payroll                  | √                                     |
| General Ledger           | √                                     |
| Trade Payables           | √                                     |
| Trade Receivables        | √                                     |
| Council Tax              | √ (including internal audit reliance) |
| Non Domestic Rates       | √ (including internal audit reliance) |
| Housing Rents            | √                                     |
| Cash Receipting and Bank | √                                     |

## Key findings

4. Our audit testing identified several areas where existing controls could be improved in relation to employee validation, retention of documentation for checks on updates to payroll standing data, changes to supplier bank details and revenues systems IT access.
5. **Employee Validation** - In our 2016/17 Interim Audit Report we reported that there were no arrangements in place to periodically confirm the existence of employees on the payroll. The council responded that compensating controls were in place including monthly financial monitoring discussions held with budget holders and the production of monthly starter/leaver reports circulated to managers.

The effectiveness of this control could be further enhanced by requiring budget holders to formally confirm the accuracy of the staffing lists provided to them as part of the monthly budget financial monitoring process.

**Management Resolution:** Officers have agreed that budget holders will be required to confirm the accuracy of the staffing lists provided to them as part of the budget monitoring process on an annual basis.

6. **Payroll Standing Data** - Key payroll system standing data, for example tax bands/thresholds and annual pay increases, are updated on an annual basis and checked by the Payroll team to confirm that the data has been updated correctly. Evidence of these checks has not been retained so it was not possible for audit to confirm that this completed for the 2017/18 financial year.

**Management Resolution:** Officers have agreed that evidence of checks to payroll system standing data updates during each financial year will be retained until the completion of the annual audit process.

7. **Changes to Supplier Bank Details** - Our 2016/17 Interim Audit Report reported that documentary evidence of the checks performed by the council prior to processing requests to change supplier bank details, could not be provided.

In 2017/18, we attempted to repeat the test for a sample of changes to supplier bank details processed during the year. Due to changes following a system upgrade in September 2017, the Council could only provide a report of changes processed up to August 2017. We were therefore unable to re-perform checks on changes made from September 2017 to March 2018. If the council is not able to produce reports of all changes to supplier bank details, there is a risk that fraudulent or incorrect changes could be processed without being detected.

**Management Resolution:** Officers have agreed to investigate this issue further with IT and the system supplier to identify an appropriate solution.

8. **Revenues Systems IT access** - Our 2016/17 Interim Audit Report reported that authorised 'User Access Request' forms for access to revenues systems (including council tax, Benefits, NDR and income management) were not held for a small number of system users. For 2017/18, we planned to place reliance on work performed by Internal Audit to obtain assurance in this area.

Internal Audit completed testing for a sample of users with access to the NDR system during 2017/18 and they also found a small number of cases that authorised User Access Request forms were not held for all users tested.

**Management Resolution:** Internal Audit have reported their findings separately and agreed an action plan with management.

### **Internal audit**

9. We have placed reliance on the work of internal audit in 2017/18. We found internal audit work to be well documented and supported by appropriate evidence. Therefore, we placed reliance on their findings and thereby avoided unnecessary duplication of effort.

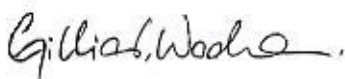
### **Risk identification**

10. The issues identified in preparing this management letter are only those which have come to our attention during our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to East Lothian Council. We would stress however, that an effective system of internal control is an essential part of the efficient management of any organisation.

### **Acknowledgement**

11. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during our interim audit from staff at East Lothian Council is gratefully acknowledged.

Yours sincerely



Gillian Woolman

Cc (email):

Sarah Fortune, Service Manager Business Finance

Liz Denovan, Corporate Finance Manager

Mala Garden, Internal Audit Manager

Fiona Currie, Committees Officer - Democratic Services



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

**SUBJECT:** Annual Treasury Management Review 2017/18

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**4**

**1 PURPOSE**

- 1.1 To update the Committee on Treasury Management activity during 2017/18.

**2 RECOMMENDATIONS**

- 2.1 Members are asked to note the report.

**3 BACKGROUND**

- 3.1 The Council is required by regulations issued under the Local Government Scotland Act 2003 to produce an Annual Treasury Management Review.
- 3.2 The attached review updates Members on the Treasury Management activity during 2017/18.

**4 POLICY IMPLICATIONS**

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

**5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 Treasury Management Strategy 2017/18 to 2019/20 – East Lothian Council 28 March 2017.

|                      |                             |
|----------------------|-----------------------------|
| <b>AUTHOR'S NAME</b> | Liz Denovan                 |
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| <b>DATE</b>          | 30 May 2018                 |

# **Annual Treasury Management Review**

## **2017/18**

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East Lothian Council  
June 2018

## ABBREVIATIONS USED IN THIS REPORT

- CE** Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research
- CFR** Capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness
- CIPFA** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management
- CPI** Consumer price inflation – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.
- ECB** European Central Bank - the central bank for the Eurozone
- EU** European Union
- EZ** Eurozone -those countries in the EU which use the euro as their currency
- Fed** The Federal Reserve, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.
- FOMC** The Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.
- GDP** Gross domestic product – a measure of the growth and total size of the economy
- G7** The group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.
- Gilts** Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a yield and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); yields therefore change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.
- HRA** Housing revenue account
- IMF** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties
- LAS** Link Asset Services, Treasury solutions – the council's treasury management advisers



- LIBID** The London Interbank Bid Rate is a bid rate; the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).
- MPC** The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.
- MRP** Minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority)
- PFI** Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority
- PWLB** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure
- QE** Quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, like government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation up to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation up to target.  
Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation, and economic growth, and increases in inflation, are threatening to gather too much momentum if action is not taken to 'cool' the economy.
- RPI** The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main difference between RPI and CPI is in the way that housing costs are treated. RPI is often higher than CPI.
- TMSS** The annual treasury management strategy statement report that all local authorities are required to submit for approval by the full council before the start of each financial year
- VRP** A voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition)

# Annual Treasury Management Review 2017/18

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## 1. Introduction

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2017/18 the minimum reporting requirements were that members of the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 28/03/2017)
- a mid-year (minimum) treasury update report (Audit & Governance 28/11/2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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

The Council confirms that it has complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Audit and Governance Committee, with the annual strategy approved by Council. Member training on treasury management issues was undertaken on 24/04/2018 in order to support members' scrutiny role.

## 2. The Economy and Interest Rates

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases.

Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September 2017 indicated that the MPC was likely to raise Bank Rate very soon. The 2 November 2017 MPC quarterly inflation report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February 2018 MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had

previously been expected. Market expectations for increases in Bank Rate therefore, shifted considerably during the second half of 2017/18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

**PWLB borrowing rates** increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

### 3. Overall Treasury Position as at 31 March 2018

At the beginning and the end of 2017/18 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

| TABLE 1                         | 31 March 2017 Principal | Rate/ Return | Average Life yrs | 31 March 2018 Principal | Rate/ Return | Average Life yrs |
|---------------------------------|-------------------------|--------------|------------------|-------------------------|--------------|------------------|
| <b>Total debt</b>               | <b>£ 344m</b>           | <b>4%</b>    | <b>24.4</b>      | <b>£ 358m</b>           | <b>4%</b>    | <b>24.6</b>      |
| <b>CFR</b>                      | <b>£ 387m</b>           |              |                  | <b>£ 388m</b>           |              |                  |
| <b>Over / (under) borrowing</b> | <b>£ (43)m</b>          |              |                  | <b>£ (30)m</b>          |              |                  |
| <b>Total investments</b>        | <b>£ 10m</b>            |              |                  | <b>£ 9.5m</b>           |              |                  |
| <b>Net debt</b>                 | <b>£ 334m</b>           |              |                  | <b>£ 348m</b>           |              |                  |

### 4. The Strategy for 2017/18

The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31<sup>st</sup> March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

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

During 2017/18, longer term PWLB rates were relatively volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

## 5. The Borrowing Requirement and Debt

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

|                           | 31 March<br>2017<br>Actual | 31 March<br>2018<br>Budget | 31 March<br>2018<br>Actual |
|---------------------------|----------------------------|----------------------------|----------------------------|
| CFR General Services (£m) | 218                        | 223                        | 209                        |
| CFR HRA (£m)              | 169                        | 184                        | 179                        |
| <b>Total CFR (£m)</b>     | <b>387</b>                 | <b>407</b>                 | <b>388</b>                 |

The General Services capital programme was significantly re-profiled during the 2017/18 financial year to align with the updated projected housing land audit figures. This resulted in the reduction in the CFR of General Services of £13M.

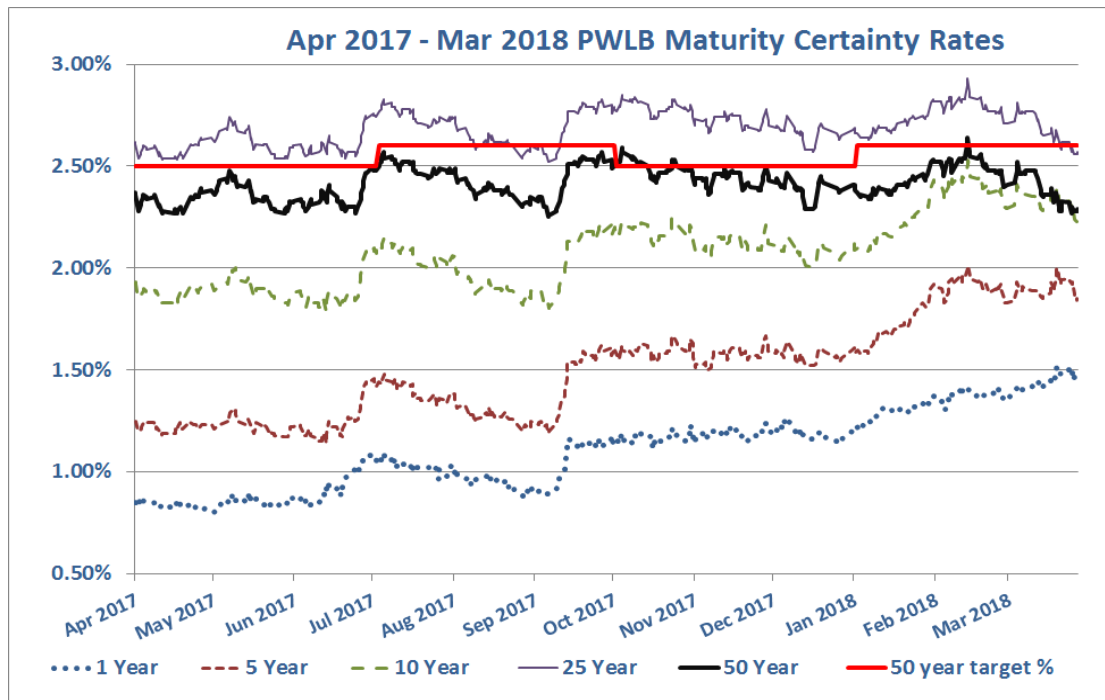
The Capital Financing Requirement of the HRA reduced due to additional asset sales being received during the 2016/17 financial year.

## 6. Borrowing Rates in 2017/18

### **PWLB certainty maturity borrowing rates**

As depicted in the graph and tables below and in Appendix 2, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



## 7. Borrowing Activity for 2017/18

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

| Lender | Principal | Type                | Interest Rate | Maturity | Date       |
|--------|-----------|---------------------|---------------|----------|------------|
| PWLB   | £5m       | Fixed interest rate | 2.31%         | 50 years | 21/12/2017 |
| PWLB   | £4m       | Fixed interest rate | 2.38%         | 10 years | 15/03/2018 |
| PWLB   | £5m       | Fixed interest rate | 2.45%         | 11 years | 15/03/2018 |
| PWLB   | £8m       | Fixed interest rate | 2.48%         | 48 years | 15/03/2018 |

This compares with a budget assumption of borrowing at an interest rate of between 2.60% and 2.80%.

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

| Lender | Principal | Type                | Interest Rate | Maturity | Date       |
|--------|-----------|---------------------|---------------|----------|------------|
| PWLB   | £0.662m   | Fixed interest rate | 8.50%         | 22 years | 21/04/2017 |
| PWLB   | £5m       | Fixed interest rate | 4.02%         | 8 years  | 24/09/2017 |

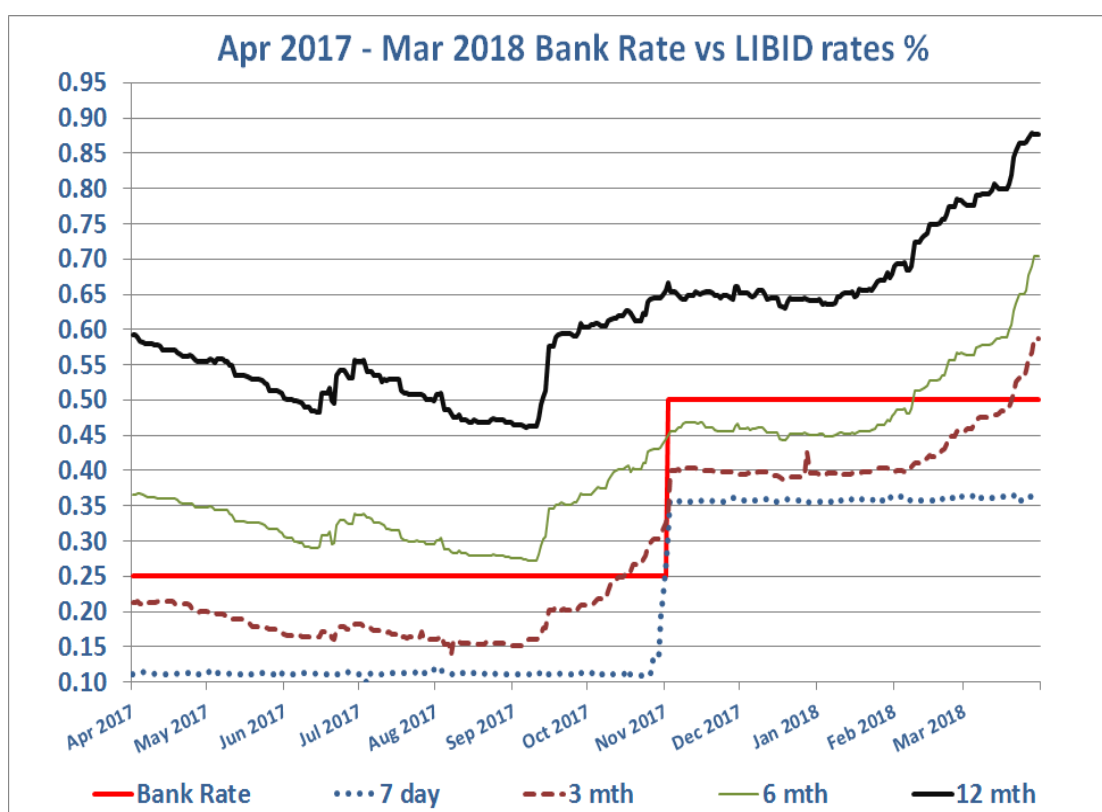
### Rescheduling

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

## 8. Investment Rates in 2017/18

Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years.

Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.



## 9. Investment Activity for 2017/18

**Investment Policy** – the Council's investment policy is governed by Scottish Government investment regulations which have been implemented in the annual investment strategy approved by the Council on 28 March 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

### Investments held by the Council

The Council had minimal investment balances during the year as it sought to minimise its debt costs i.e. the Council temporarily used its reserves instead of external borrowing during 2017/18. It did, however, have the following loans to third parties which fall within the scope of the Councils Approved Investment Strategy:

| Loan                             | Balance at 31/3/2017 |
|----------------------------------|----------------------|
| East Lothian Housing Association | £9.429m              |
| Dunbar Fisherman's Association   | £0.020m              |

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

| Fund Manager      | Investments Held March 2017 | Investments Held March 2018 | Return  | Benchmark |
|-------------------|-----------------------------|-----------------------------|---------|-----------|
| Charitable Trusts | £3.289m                     | £3.296m                     | 3.5%    | 2.0 %     |
| Common Good Funds | £3.363m                     | £3.368m                     | 3.4%    | 2.0%      |
| Total             | £6.652m                     | £6.664m                     | £0.012m |           |

## 10. Other Issues

### 1. Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy. This will form part of the annual strategy documents prepared in advance of the 2019/20 financial year.

## **2. Markets in Financial Instruments Directive II (MiFID II)**

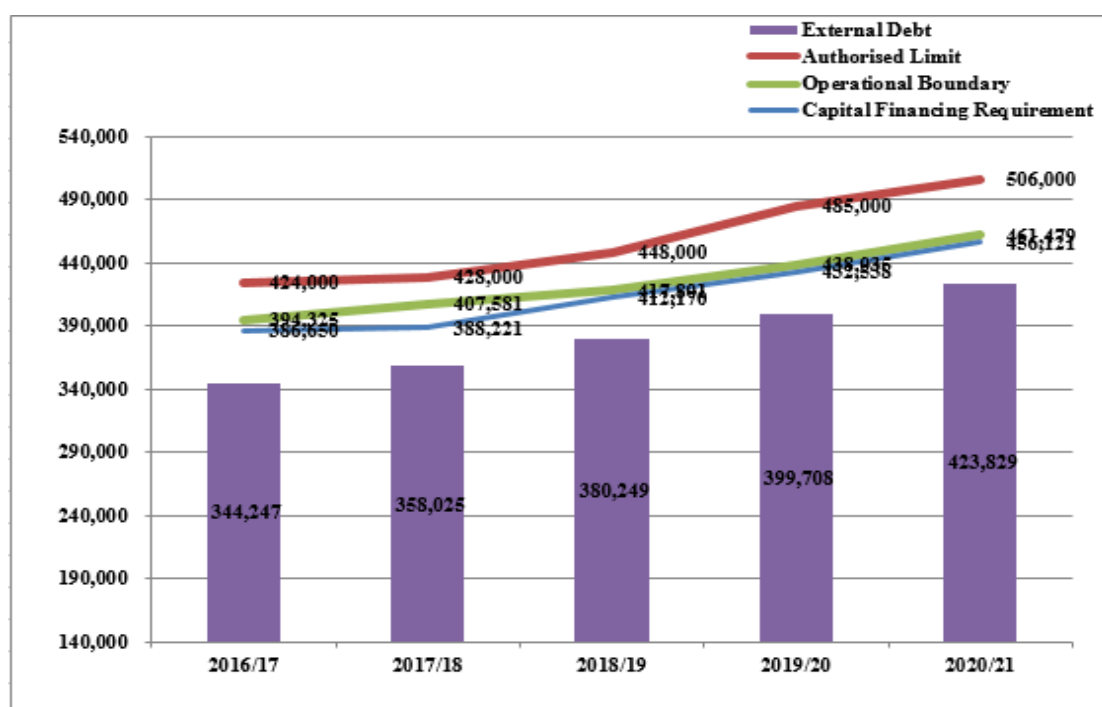
The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Council apart from having to fill in forms sent by each institution dealing with this Council and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.



## Appendix 1: Prudential and treasury indicators

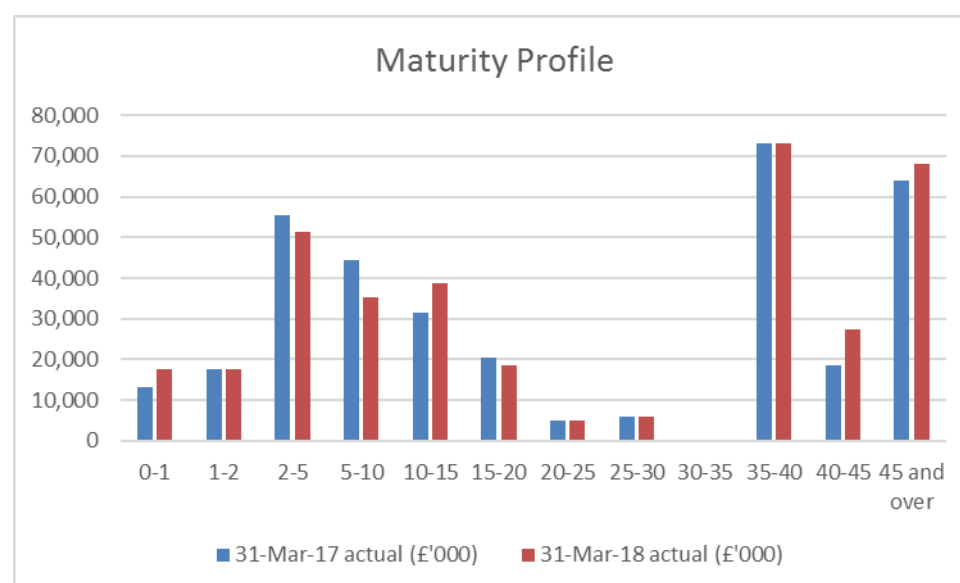
| <b>1. PRUDENTIAL INDICATORS</b>                       | <b>2016/17</b> | <b>2017/18</b> | <b>2017/18</b> |
|---|----------------|----------------|----------------|
| <b>Extract from budget</b>                            | <b>actual</b>  | <b>budget</b>  | <b>actual</b>  |
|   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   |
| <b>Capital Expenditure</b>                            |                |                |                |
| General Services                                      | £ 18,559       | £ 47,963       | £ 29,536       |
| HRA   | £ 23,343       | £ 23,421       | £ 21,077       |
| TOTAL   | £ 41,902       | £ 71,384       | £ 50,613       |
| <b>Ratio of financing costs to net revenue stream</b> |                |                |                |
| General Services                                      | 8.53%          | 8.57%          | 8.41%          |
| HRA   | 34.79%         | 33.18%         | 32.16%         |
| <b>Gross borrowing requirement General Services</b>   |                |                |                |
| brought forward 1 April                               | £223,694       | £219,913       | £217,559       |
| carried forward 31 March                              | £217,559       | £223,312       | £209,570       |
| in year borrowing requirement                         | £ (6,135)      | £ 3,399        | £ (7,989)      |
| <b>Gross borrowing requirement HRA</b>                |                |                |                |
| brought forward 1 April                               | £161,364       | £174,412       | £169,092       |
| carried forward 31 March                              | £169,092       | £184,269       | £178,652       |
| in year borrowing requirement                         | £ 7,728        | £ 9,857        | £ 9,560        |
| <b>CFR</b>  |                |                |                |
| General Services                                      | £217,559       | £223,312       | £209,570       |
| HRA   | £169,092       | £184,269       | £178,652       |
| TOTAL   | £386,651       | £407,581       | £388,222       |
| <b>Annual change in Capital Financing Requirement</b> |                |                |                |
| General Services                                      | £ (6,135)      | £ 3,399        | £ (7,989)      |
| HRA   | £ 7,728        | £ 9,857        | £ 9,560        |
| TOTAL   | £ 1,593        | £ 13,256       | £ 1,571        |
| <b>Impact of capital investment decisions (£)</b>     |                |                |                |
| General Services – Debt per Band D Equivalent         | £ 4,958        | £ 4,688        | £ 4,442        |
| HRA – Debt per dwelling                               | £ 19,550       | £ 21,182       | £20,539        |

| 2. TREASURY MANAGEMENT INDICATORS  | 2016/17  | 2017/18  | 2017/18  |
|--|----------|----------|----------|
|  | actual   | budget   | actual   |
|  | £'000    | £'000    | £'000    |
| <b>Authorised Limit for external debt -</b>  |          |          |          |
| borrowing  | £419,000 | £442,000 | £423,000 |
| other long term liabilities  | £ 51,000 | £ 40,000 | £ 40,000 |
| TOTAL  | £470,000 | £482,000 | £463,000 |
| <b>Operational Boundary for external debt -</b>  |          |          |          |
| borrowing  | £398,508 | £407,581 | £388,221 |
| other long term liabilities (PPP & Leases)   | £ 41,306 | £ 39,723 | £ 39,723 |
| TOTAL  | £439,814 | £447,304 | £427,944 |
| <b>Actual external debt</b>  | £344,247 | £366,780 | £358,025 |
| <b>Gross Debt (Including PPP &amp; Leases)</b>   | £385,565 | £405,490 | £396,734 |
| <b>Upper limit for fixed interest rate exposure</b>  |          |          |          |
| Net principal re fixed rate borrowing  | 100%     | 100 %    | 100 %    |
| <b>Upper limit for variable rate exposure</b>  |          |          |          |
| Net principal re variable rate borrowing   | 40 %     | 40 %     | 40 %     |
| <b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b> | £0       | £0       | £0       |



The maturity structure of the debt portfolio was as follows:

|                                | 31 March 2017<br>actual | 31 March 2018<br>actual |
|--------------------------------|-------------------------|-------------------------|
| Under 12 months                | £16.11m                 | £17.57m                 |
| 12 months and within 24 months | £17.57m                 | £17.60m                 |
| 24 months and within 5 years   | £55.64m                 | £51.29m                 |
| 5 years and within 10 years    | £44.35m                 | £35.24m                 |
| 10 years and within 15 years   | £31.56m                 | £38.98m                 |
| 15 years and within 20 years   | £20.53m                 | £18.38m                 |
| 20 years and within 25 years   | £5.00m                  | £5.00m                  |
| 25 years and within 30 years   | £5.90m                  | £5.90m                  |
| 30 years and within 35 years   | £0m                     | £0m                     |
| 35 years and within 40 years   | £73.00m                 | £73.00m                 |
| 40 years and within 45 years   | £18.50m                 | £27.40m                 |
| 45 years and within 50 years   | £63.90m                 | £68.00m                 |



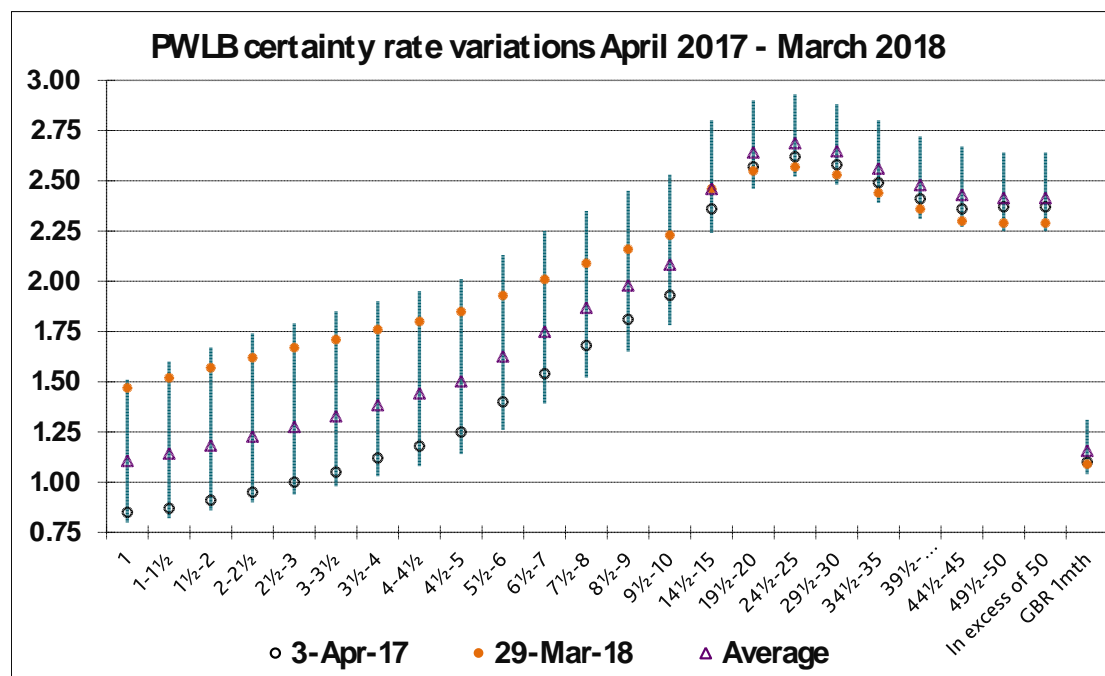
| Loans Fund (£m) | 31 March<br>2017<br>Actual | 31 March<br>2018<br>Budget | 31 March<br>2018<br>Actual |
|-----------------|----------------------------|----------------------------|----------------------------|
| Opening balance | 385                        | 394                        | 387                        |
| Add advances    | 16                         | 28                         | 16                         |
| Less repayments | 14                         | 15                         | 15                         |
| Closing balance | 387                        | 407                        | <b>388</b>                 |

| Loans Fund - General Services (£m) | 31 March<br>2017<br>Actual | 31 March<br>2018<br>Budget | 31 March<br>2018<br>Actual |
|------------------------------------|----------------------------|----------------------------|----------------------------|
| Opening balance                    | 224                        | 220                        | 218                        |
| Add advances                       | 5                          | 15                         | 3                          |
| Less repayments                    | 11                         | 12                         | 12                         |
| Closing balance                    | 218                        | 223                        | <b>209</b>                 |

| Loans Fund - HRA (£m) | 31 March<br>2017<br>Actual | 31 March<br>2018<br>Budget | 31 March<br>2018<br>Actual |
|-----------------------|----------------------------|----------------------------|----------------------------|
| Opening balance       | 161                        | 174                        | 169                        |
| Add advances          | 11                         | 13                         | 13                         |
| Less repayments       | 3                          | 3                          | 3                          |
| Closing balance       | 169                        | 184                        | <b>179</b>                 |

## Appendix 2: Borrowing and investment rates

### PWLB borrowing rates



|           | 1          | 1-1.5      | 2.5-3      | 3.5-4      | 4.5-5      | 9.5-10     | 24.5-25    | 49.5-50    | 1 month variable |
|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------------|
| 3/4/17    | 0.850%     | 0.870%     | 1.000%     | 1.120%     | 1.250%     | 1.930%     | 2.620%     | 2.370%     | 1.100%           |
| 29/3/18   | 1.470%     | 1.520%     | 1.670%     | 1.760%     | 1.850%     | 2.230%     | 2.570%     | 2.290%     | 1.090%           |
| High      | 1.510%     | 1.600%     | 1.790%     | 1.900%     | 2.010%     | 2.530%     | 2.930%     | 2.640%     | 1.310%           |
| Low       | 0.800%     | 0.820%     | 0.940%     | 1.030%     | 1.140%     | 1.780%     | 2.520%     | 2.250%     | 1.040%           |
| Average   | 1.107%     | 1.143%     | 1.276%     | 1.384%     | 1.503%     | 2.083%     | 2.688%     | 2.415%     | 1.157%           |
| Spread    | 0.710%     | 0.780%     | 0.850%     | 0.870%     | 0.870%     | 0.750%     | 0.410%     | 0.390%     | 0.270%           |
| High date | 21/03/2018 | 21/03/2018 | 21/03/2018 | 21/03/2018 | 15/02/2018 | 15/02/2018 | 15/02/2018 | 15/02/2018 | 21/03/2018       |
| Low date  | 03/05/2017 | 03/05/2017 | 30/05/2017 | 15/06/2017 | 15/06/2017 | 15/06/2017 | 08/09/2017 | 08/09/2017 | 04/04/2017       |

|         | 1 Year     | 5 Year     | 10 Year    | 25 Year    | 50 Year    |
|---------|------------|------------|------------|------------|------------|
| 1/4/17  | 0.85%      | 1.25%      | 1.93%      | 2.62%      | 2.37%      |
| 31/3/18 | 1.47%      | 1.85%      | 2.23%      | 2.57%      | 2.29%      |
| Low     | 0.80%      | 1.14%      | 1.78%      | 2.52%      | 2.25%      |
| Date    | 03/05/2017 | 15/06/2017 | 15/06/2017 | 08/09/2017 | 08/09/2017 |
| High    | 1.51%      | 2.01%      | 2.53%      | 2.93%      | 2.64%      |
| Date    | 21/03/2018 | 15/02/2018 | 15/02/2018 | 15/02/2018 | 15/02/2018 |
| Average | 1.11%      | 1.50%      | 2.08%      | 2.69%      | 2.41%      |

## 1. Money market investment rates 2017/18

|           | 7 day   | 1 month | 3 month | 6 month | 1 year  |
|-----------|---------|---------|---------|---------|---------|
| 1/4/17    | 0.111   | 0.132   | 0.212   | 0.366   | 0.593   |
| 31/3/18   | 0.364   | 0.386   | 0.587   | 0.704   | 0.878   |
| High      | 0.366   | 0.390   | 0.587   | 0.704   | 0.879   |
| Low       | 0.099   | 0.122   | 0.140   | 0.273   | 0.461   |
| Average   | 0.215   | 0.233   | 0.286   | 0.401   | 0.606   |
| Spread    | 0.267   | 0.268   | 0.447   | 0.432   | 0.418   |
| High date | 27/2/18 | 22/3/18 | 29/3/18 | 29/3/18 | 28/3/18 |
| Low date  | 4/7/17  | 10/8/17 | 7/8/17  | 7/9/17  | 6/9/17  |

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

**SUBJECT:** 2018 Corporate Governance Self-evaluation/ Annual Governance Statement

**5**

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## **1 PURPOSE**

- 1.1 To advise Audit & Governance Committee of the outcome of the 2018 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement for presentation to Audit & Governance Committee.

## **2 RECOMMENDATIONS**

- 2.1 Committee is asked to consider and comment on the self-evaluation (Appendix 1) and to approve the summary (paras 3.3 – 3.4) for inclusion in the Annual Governance Statement that will form part of the Council's 2017/18 Annual Accounts.
- 2.2 Committee is asked to note that the improvement actions identified through the Corporate Governance Self-evaluation will be incorporated into the 2018/19 Council Improvement Plan along with any actions arising from the Best Value Assurance Report which will be published by Audit Scotland in October 2018..

## **3 BACKGROUND**

- 3.1 Cabinet (11 May 2010) approved the adoption of a Code of Corporate Good Governance based on the six principles of good governance and the self-evaluation model set out in the CIPFA/ SOLACE *Guidance on Delivering Good Governance in Local Government*.
- 3.2 The Council Management Team has undertaken the self-evaluation of the Corporate Governance, reviewing the documentary evidence and practice around each of the six supporting principles and requirements of

the corporate governance code. The outcome of the 2018 self-evaluation is detailed in Appendix 1.

- 3.3 The 2018 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six principles. The reports of the Council's external auditors and inspectors (for example, the Local Area Network's Local Scrutiny Plan 2018/19, which is to be reported to Council on 26 June 2018) provide assurance about the strength of the council's governance arrangements.
- 3.4 The Council Management Team's Corporate Governance self-evaluation has identified eight areas of development and improvement, which build on existing good practice and improvement action already being implemented in order to ensure the Council's progress through continuous improvement. These are:
- Implement the Workforce Plan (5.2.1)
  - Promote and publicise the Workforce Plan and key elements of the plan such as the Staff Deal to all staff (1.1.1)
  - Develop a small set of key indicators that will be used to measure the delivery of the Council Plan (1.1.2)
  - Review the format of the Annual Performance Report / 'State of the Council' report (1.1.4)
  - Publish the new Consultation and Engagement Strategy and provide further advice and support to Council and services in using the results of consultation and engagement activities to inform policy development and service improvements (1.2.1)
  - Implement the revised Performance Management / Continuous Improvement Framework (2.3.3)
  - Implement the recommendations of the review of the Musselburgh Racecourse (2.3.6)
  - Agree and implement an Improvement Plan based on the recommendations of the Best Value Assurance Review (4.1.1)
- 3.5 Members are asked to note that Audit Scotland are carrying out a Best Value Assurance review of the Council as part of its rolling programme of reviewing all Councils over a four year period. The report of this review is to be presented to the Accounts Commission in October 2018. It is expected that the review will include recommendations.
- 3.6 The actions arising from the Best Value Assurance Report will be incorporated into the 2018/19 Council Improvement Plan along with the improvement actions arising from the Corporate Governance Self-evaluation as detailed above.



#### **4 POLICY IMPLICATIONS**

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

#### **5 INTEGRATED IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

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

#### **7 BACKGROUND PAPERS**

- 7.1 Appendix 1: Corporate Governance Self-evaluation, April 2017

|                      |   |
|----------------------|---|
| <b>AUTHOR'S NAME</b> | Paolo Vestri                                      |
| <b>DESIGNATION</b>   | Service Manager: Corporate Policy and Improvement |
| <b>CONTACT INFO</b>  | pvestri@eastlothian.gov.uk<br>01620 827320        |
| <b>DATE</b>          | 1 June 2018                                       |



## APPENDIX 1: CORPORATE GOVERNANCE SELF-EVALUATION: May 2018

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

| Supporting Principle & Code Requirements   | Documentary Evidence   | 2017 Update and Improvement Points   | Update and 2018 Improvement Points  |
|--|--|--|---|
| <b>1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose, vision and its intended outcome for citizens and service users</b> |  |  |   |
| 1.1.1 Develop and promote the authority's purpose and vision   | <ul style="list-style-type: none"> <li>• 2020 Vision</li> <li>• Council Plan 2012-2017</li> <li>• Council Improvement Plan</li> <li>• Single Outcome Agreement (SOA)</li> <li>• HGIOC Self Evaluations</li> <li>• Communications of corporate objectives across services</li> <li>• Incorporation of objectives and outcomes in Service Planning guidance</li> <li>• Corporate Induction Pack and training course</li> <li>• Three-year Financial Strategy</li> <li>• One Council Workshops</li> <li>• The 2017 Employee Engagement Survey showed 91% of staff agreed "I know how my job / individual objectives contribute to the Council's objectives"</li> <li>• Council vision and objectives of each service linked to Council Plan objectives are a key element of staff PRDs</li> </ul> | <p>One Council Workshops which were run in autumn 2016 and continued to be well received by staff</p> <p>The Council Intranet was refreshed and a staff e-zine – Inform – was launched in early 2017.</p> <p>The 2016 Employee survey showed high level of support for using the East Lothian Way as basis or the Council values. These values have been communicated through Inform.</p> <p>It is recognised that further work is required to promote the Council's vision to, and engage positively with, staff</p> <p>Action<br/>Further develop staff communications and engagement, building on positive programmes such as the One Council Workshops</p> | <p>Communications with staff has continued to be a priority. Inform – the staff e-zine – has been well received and is being used to provide staff with information and key messages about council priorities, news items, council staff, healthy working lives and partnerships</p> <p>Publicity about the Council Plan and the East Lothian Way has been distributed across all main council premises</p> <p>A new programme of One Council Workshops will be start in autumn 2018</p> <p>The Council's purpose and vision are at the heart of the new Workforce Plan</p> <p><b>Action</b><br/><b>Promote and publicise the Workforce Plan and key elements of the plan such as the Staff Deal to all staff</b></p> |

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| <p>1.1.2 Review on a regular basis the authority's vision for East Lothian and its implications for the authority's governance arrangements</p> | <ul style="list-style-type: none"> <li>• Corporate Governance Code and self-evaluation framework adopted in May 2010</li> <li>• Report on Council's vision, priorities and policies (Council, 22<sup>nd</sup> Feb 2011)</li> <li>• Council Plan 2012-2017</li> <li>• Council Plan reviewed in October 2014 and October 2015</li> <li>• Chief Officers/ Council Management Team re-structured March 2012 and in July 2013</li> <li>• Senior Management level restructured in Nov 2013</li> <li>• Draft Council Plan 2017-2022</li> <li>• Strategic Assessment to inform new context of new Council Plan and new East Lothian Plan</li> <li>• Establishment of East Lothian Partnership Leadership group</li> </ul> | <p>The Draft Council Plan 2017-2022, which was approved by Council in Feb 2017, is based on the Council vision and existing strategic priorities.</p> <p>Work has commenced on finalising the 2017-2022 Council Plan</p> <p>2017 Residents Survey (March 2017) showed overwhelming approval ratings for the Council objectives and priorities</p> <p>Action</p> <p>Adopt a 2017-2022 Council Plan</p> | <p>The 2017-2022 Council Plan was adopted in June 2017. This is based on the vision: of an even more prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy, that enables our people and communities to flourish.</p> <p>The Plan continues with the four themes from the previous plan – Growing our Economy; Growing our people; Growing our communities; and Growing our Capacity. It has seven key goals.</p> <p>The delivery of the Plan will be monitored by the Council Management Team and reported to members via the Annual Report.</p> <p>Action</p> <p>Develop a small set of key indicators that will be used to measure the delivery of the Council Plan</p> |
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| <p>1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners</p> | <ul style="list-style-type: none"> <li>• SOA 2013</li> <li>• East Lothian Partnership structure and remit and roles of partnerships</li> <li>• East Lothian Partnership self-evaluation carried out in Dec 2014</li> <li>• New Children’s Strategic Partnership established in 2014</li> <li>• Agreements between East Lothian Council and partners</li> <li>• Shared Services agreement with Midlothian Council continuing through Joint Liaison Group</li> <li>• Local Policing Plan</li> <li>• Local Fire and Rescue Plan</li> <li>• Children and young People’s Services Plan 2016-2019</li> <li>• Integration Joint Board Strategic Plan</li> <li>• Six Area Partnerships Area Plans</li> <li>• Joint Asset Management Planning Group</li> <li>• Edinburgh and South East Scotland City Region Deal</li> <li>• Strategic Assessment to inform new context of new Council Plan and new East Lothian Plan</li> <li>• Establishment of East Lothian Partnership Leadership group</li> </ul> | <p>Review of East Lothian Plan (Single Outcome Agreement) has commenced with view to agreement on a small number of key strategic objectives for the East Lothian Partnership. Agreement on new governance for the Partnership will follow</p> <p>Community Justice Outcome Improvement Plan approved and new Community Justice Partnership to be established by the East Lothian Partnership to ensure effective governance on Community Justice matters</p> <p>Continued progress has been made in developing the City Region Deal – final agreement on funding from UK and Scottish Governments has been delayed partly due to elections</p> <p>Action</p> <p>Support the East Lothian Partnership to prepare and adopt a new East Lothian Plan (meeting its statutory duty to prepare a Local Outcome Improvement Plan) and review the East Lothian Partnership governance structure</p> | <p>The East Lothian Plan 2017-2027 (our Local Outcome Improvement Plan) was approved by the East Lothian Partnership in September 2017. The new Plan is based on three themes: Prosperous, Community-minded, and Fair with seven outcomes.</p> <p>The governance structure of the East Lothian partnership was reviewed and a new structure put in place in March 2018; incorporating a revised Community Justice Partnership, the Children’s Strategic Partnership, a new Connected Economy Group; a Governance Group and the East Lothian Partnership Forum.</p> <p>No further action required</p> |
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| <p>1.1.4 Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance</p> | <ul style="list-style-type: none"> <li>• Annual Accounts</li> <li>• Annual Performance Reports</li> <li>• SOA Annual Report</li> <li>• Local Government Benchmarking Framework report to PPR Co.</li> <li>• Unaudited Annual Accounts reported to Audit &amp; Governance Co in June and to Council in August</li> </ul> | <p>2015/16 Annual Performance report was published in October 2016</p> <p>2016/17 report will be published in June 2017</p> <p>Unaudited accounts will be presented in June 2017</p> <p>No further action required</p> | <p>The Council's 2016/17 Annual Performance Report was presented in two parts – Annual Performance Indicators and East Lothian Council Annual Report.</p> <p><b>Action</b><br/> <b>Review the format of the Annual Performance Report / 'State of the Council' report</b></p> |
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## 1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning

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| <p>1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available</p> | <ul style="list-style-type: none"> <li>• HGIOC, Business Plans and Improvement Plans</li> <li>• SOA Annual Report</li> <li>• Key Performance Indicators including local Government Benchmarking Framework indicators</li> <li>• PPR Co reporting and members' performance briefings</li> <li>• Complaints and compliments feedback</li> <li>• Independent inspection reports</li> <li>• Chief Social Work Officer's Annual Report</li> <li>• Service users' surveys</li> <li>• Citizens' Panel</li> <li>• Tenants' scrutiny activity including estate inspections, mystery shopping, surveys and focus groups</li> <li>• East Lothian and Profiles</li> <li>• Young People's Viewpoint and Education surveys</li> <li>• 2017 Residents Survey</li> <li>• Guide to Community Participation Opportunities</li> </ul> | <p>The Citizens' Panel has been refreshed and continues to be surveyed at least twice a year</p> <p>One Residents Review was carried out in 2016. Further Reviews planned for 2017</p> <p>A Residents Survey with over 1,500 respondents carried out in March 2017</p> <p>The Council's Consultation and Engagement strategy is being reviewed in line with new duties under the Community Empowerment Act</p> <p>Action</p> <p>Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements relating to 'Participation Requests'</p> | <p>The Council's Consultation and Engagement Strategy has been revised.</p> <p>The Council undertook an extensive budget consultation exercise in December 2017 which helped to inform budget decisions</p> <p>A comprehensive guide to Community Participation Opportunities has been published on the Council website, including details of the implications of the Community Empowerment Act and how the Council will meet statutory requirements relating to 'participation requests' and 'Community Asset Transfer' requests.</p> <p><b>Action</b><br/> <b>Publish the new Consultation and Engagement Strategy and provide further advice and support to Council and services in using the results of consultation and engagement activities to inform policy development and service improvements</b></p> |
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| <p>1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery</p>  | <ul style="list-style-type: none"> <li>• PPR Co reporting on key Performance Indicators, the Local Government Benchmarking Framework and customer feedback</li> <li>• HGIOC and service improvement plans incorporated into Service Plans</li> <li>• Significant case reviews in Social Work</li> <li>• Social Work Appeals Sub-Co</li> <li>• Social Work Complaints Review Co</li> <li>• Reporting of customer complaints and feedback</li> <li>• Whistleblowing Policy</li> <li>• External audits and inspection reports</li> <li>• Responding to issues raised by elected members</li> </ul> | <p>Council continues to monitor the Local Government Benchmarking Framework and participates in Improvement Service sponsored benchmarking activity</p> <p>Council Management Team reviews quarterly Performance Indicator report to identify any areas of poor performance that may require intervention/ action</p> <p>Council Management Team is carrying out 'peer review' sessions with every Service</p> <p>Action</p> <p>Review the Council's key performance indicators and targets</p> | <p>The Council's key Performance Indicators and targets were reviewed by the Council Management Team and the Policy performance and Review Committee. The new set of KPIs was approved by PPR Co in September 2018.</p> <p>Action</p> <p>Develop a set of key indicators that will be used to measure the delivery of the Council Plan</p> |
| <p><b>1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</b></p>   |   |   |  |
| <p>1.3.1 Decide how value for money (VFM) is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions</p> | <ul style="list-style-type: none"> <li>• Procurement Strategy</li> <li>• Performance Management framework</li> <li>• PPR Co reporting</li> <li>• Audit &amp; Governance Co reporting</li> <li>• Citizens' Panel</li> <li>• Customer feedback / surveys</li> <li>• Consultation and Engagement Strategy</li> <li>• Procurement Improvement Plan and Procurement Capability Assessment</li> <li>• Integrated Impact Assessment includes environmental impact</li> </ul>   | <p>No specific Best Value Review was carried out in 2016/17. However, the Transformation programme team is to undertake a series of reviews or services</p> <p>The Council is preparing for an Audit Scotland Best Value Assessment in 2018/19 including self assessment against 18 Best Value Toolkits</p> <p>The Council's auditors will report on value for money as part of the annual audit</p> <p>No further action required</p>  | <p>No further action required</p>  |



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

| Supporting Principle & Code Requirements  | Documentary Evidence  | 2017 Update and Improvement Points  | Update and 2018 Improvement Points  |
|---|---|---|---|
| <b>2.1 Ensuring effective leadership throughout the authority and being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function</b>  |   |   |   |
| 2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of Senior Officers  | <ul style="list-style-type: none"> <li>• Scheme of Delegation</li> <li>• Member/ officer protocol</li> <li>• CPD pilot for elected members</li> <li>• Review of Impact of Multi-Member Wards and Officer Member Relations carried out in 2011</li> <li>• Induction programme for new elected members</li> <li>• Improvement Service Notebooks for new elected members</li> <li>• Guide to Scrutiny for elected members</li> <li>• Roles and Responsibilities for Elected members</li> </ul> | <p>A comprehensive induction programme was organised for new and returning elected members following the May 2017 council election. Elements of the programme were mandatory for new members and some for all members. The programme included advice on the roles and responsibilities of members and senior officers</p> <p>No further action required</p> | <p>The Standards Commission published an Advice Note for Councillors on Distinguishing between their Strategic Role and Operational Work in May 2018. This has been circulated to all elected members and senior officers</p> <p>No further action required</p> |
| <b>2.2 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard</b>   |   |   |   |
| 2.2.1 Determine a Scheme of Delegation and reserve powers within constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required | <ul style="list-style-type: none"> <li>• Scheme of Delegation</li> <li>• Policies such as HR policies include delegation of powers to officers</li> </ul>   | <p>Standing Orders and the Schemes of Administration and Delegation have been reviewed and revised</p> <p>No further action required</p>  | <p>The Council's Standing Orders and Schemes of Delegation and Administration are reviewed regularly and amended as required</p> <p>No further action required</p>  |

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| <p>2.2.2 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management within the Scheme of Delegation</p>  | <ul style="list-style-type: none"> <li>• Chief Executive’s job description</li> <li>• Appraisal of Chief Executive</li> <li>• Peer review by Executive Directors</li> <li>• Scheme of Delegation</li> <li>• Members Library reports record decisions taken under delegated powers</li> </ul>  | <p>No further action required</p> | <p>As above<br/>No further action required</p> |
| <p>2.2.3 Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained</p>  | <ul style="list-style-type: none"> <li>• Member/ officer protocol within Council Standing Orders</li> <li>• Regular meetings between Chief Executive and Council Leader</li> <li>• Annual appraisal for Chief Executive with Leader and Depute Leader</li> <li>• New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council</li> <li>• Chief Executive and Council Leader jointly represent the Council at various forums</li> </ul> | <p>No further action required</p> | <p>As 2.2.1<br/>No further action required</p> |
| <p>2.2.4 Make a Senior Officer (the Section 95 Officer) responsible to the authority for ensuring appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control</p> | <ul style="list-style-type: none"> <li>• Section 95 Officer</li> <li>• Annual Accounts and Statement of Internal Financial Control</li> <li>• Internal and external audit reports</li> <li>• Three year Financial Strategy approved by Council</li> <li>• Treasury Management Strategy approved by Council</li> </ul>   | <p>No further action required</p> | <p>As 2.2.1<br/>No further action required</p> |

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| <p>2.2.5 Make a senior officer (the Monitoring Officer; and for social work services the Chief Social Work Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</p> | <ul style="list-style-type: none"> <li>• Monitoring Officer</li> <li>• Chief Social Work Officer</li> <li>• Internal audit reports</li> <li>• CSWO Annual Report</li> <li>• Scottish Government guidance on the role of CSWO and registered social workers</li> </ul>  | <p>No further action required</p>               | <p>As 2.2.1<br/>No further action required</p> |
| <p><b>2.3 Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of each other</b></p>   |  |   |  |
| <p>2.3.1 Develop protocols to ensure effective communication between Members and Officers in their respective roles</p>  | <ul style="list-style-type: none"> <li>• Member/ officer protocol within Council Standing orders</li> <li>• New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council</li> <li>• Regular Joint Senior Officers and Members group meetings</li> </ul>           | <p>See 2.1.1<br/>No further action required</p> | <p>No further action required</p>              |
| <p>2.3.2 Ensure that an established scheme for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place</p>   | <ul style="list-style-type: none"> <li>• The Council follows the recommendations made by the Scottish Local Authorities Remuneration Committee</li> <li>• Chief Executives' scheme of remuneration</li> <li>• Registers of Interest for Members and Chief Officials</li> <li>• Auditors reviewed the outcome of the review of senior officers</li> </ul> | <p>No further action required</p>               | <p>No further action required</p>              |

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| <p>2.3.3 Ensure that effective mechanisms exist to monitor service delivery</p>  | <ul style="list-style-type: none"> <li>• Performance Management / Improvement framework</li> <li>• Performance website includes details of key performance indicators</li> <li>• Members' quarterly briefings and reports to PPR Committee</li> <li>• HGIOC</li> <li>• Service Plans and Corporate Improvement Plan</li> <li>• Independent inspections</li> <li>• Assurance and Improvement Plan agreed with Local Area Network</li> </ul>   | <p>See 1.3.1</p>           | <p>See 1.2.2</p> <p>The Council's Performance Management / Continuous Improvement Framework is being revised to ensure that the focus on improving performance in service delivery is maintained</p> <p><b>Action</b><br/> <b>Implement the revised Performance management / Continuous Improvement Framework</b></p> |
| <p>2.3.4 Ensure that the authority's vision, corporate plans, priorities and targets are developed, through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</p> | <ul style="list-style-type: none"> <li>• New Council Plan based on draft approved in Jan 2012 and administration party manifestos</li> <li>• Single Outcome Agreement</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• Council's vision, Plan and priorities are communicated to the Senior Management Team, including Head Teachers</li> <li>• Consultation around Main Issues Report and Local Development Plan</li> <li>• 2017 Residents Survey</li> </ul> | <p>See 1.1.2 and 1.2.1</p> | <p>See 1.1.2 and 1.2.1</p>  |

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| <p>2.3.5 When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority</p>   | <ul style="list-style-type: none"> <li>• Scheme of Administration, including Scheme of Delegation and Councillors' Code of Conduct</li> <li>• Memorandums and Articles of arms length companies</li> <li>• Induction programme for new elected members</li> <li>• Improvement Service Notebooks for new elected members</li> <li>• Advice provided to members on partnerships and outside bodies (e.g. Enjoy Leisure and Musselburgh Joint Racecourse Committee)</li> <li>• 2017 members' induction programme</li> </ul> | <p>The members' Induction Programme has included sessions which highlight their roles in partnerships and arms lengths organisations and an introductory session with key partners</p> <p>No further action required</p> | <p>See 2.1.1</p>  |
| <p>2.3.6 When working in partnership, ensure that there is clarity about the legal status of the partnership; ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisations to partner decisions</p> | <ul style="list-style-type: none"> <li>• As above</li> <li>• Partnership Funding Strategy</li> <li>• East Lothian Partnership Improvement Plan</li> <li>• Service Level Agreements increasingly used when funding outside organisations</li> <li>• Procurement Improvement Plan</li> <li>• Adult and Children's Services Commissioning strategies</li> <li>• Health and Social Care Integration scheme approved by Council</li> </ul>  | <p>No further action required</p>  | <p>The legal status of the Musselburgh Joint Racecourse Committee was reviewed and new interim governance arrangements put in place. A further review is being carried out</p> <p><b>Action</b><br/> <b>Implement the recommendations of the review of the Musselburgh Racecourse</b></p> |

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

| Supporting Principle & Code Requirements   | Documentary Evidence  | 2017 Update and Improvement Points   | Update and 2018 Improvement Points                           |
|--|---|--|--|
| <b>3.1 Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</b> |   |  |  |
| 3.1.1 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect                         | <ul style="list-style-type: none"> <li>• Scheme of Administration, including Councillors' Code of Conduct</li> <li>• Various mechanisms used to inform council staff and the public of council decisions and policies</li> <li>• Customer Excellence</li> <li>• East Lothian Way</li> <li>• Service based Joint Consultative Committees have been established</li> <li>• Annual Employee Engagement Survey and feedback to staff</li> <li>• All FOI responses are published on the Council's website</li> <li>• Whistleblowing Policy</li> <li>• Workforce Plan 2018-2022</li> <li>• 2017 employee engagement survey results</li> </ul> | <p>See 1.1.1</p> <p>The members' induction programme has highlighted the members the Code of Practice principles which are aligned to the Council's values which are being promoted to all staff</p> <p>Action</p> <p>Further develop staff communications and engagement, building on positive programmes such as the One Council Workshops</p> | <p>See 1.1.1 and 2.1.1</p> <p>No further action required</p> |

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

| <b>3.2 Ensuring that organisational values are put into practice and are effective</b>   |  |  |  |
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| 3.2.1 Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicating these with Members, staff, the community and partners | <ul style="list-style-type: none"> <li>• East Lothian Way</li> <li>• Council Plan 2012-2017</li> <li>• SOA and Community Plan</li> <li>• Customer Excellence</li> <li>• Transformational Leadership Programme</li> <li>• Performance Review &amp; Development Scheme for employees</li> <li>• Corporate Induction Pack and Course for Managers</li> <li>• Code of Conduct and Disciplinary Procedures for all employees</li> <li>• Workforce Plan 2018-2022</li> <li>• Staff e-zine</li> </ul> | See 1.1.1  | See 1.1.1<br>No further action   |
| 3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice                       | <ul style="list-style-type: none"> <li>• Standing Orders including Councillors' Code of Conduct</li> <li>• Gifts and Hospitality policy</li> </ul>   | No further action required   | No further action required   |
| 3.2.3 Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority  | <ul style="list-style-type: none"> <li>• Standing Orders</li> <li>• East Lothian Way</li> <li>• Roll out of PRD for all employees</li> <li>• Annual Employee Engagement Survey</li> <li>• Draft Council Plan 2017-2022</li> </ul>  | See 1.1.1<br>An Ideas Bank has been launched as means of generating ideas and providing feedback to staff on these ideas<br>No further action required | The Ideas Bank has been a useful vehicle for generating ideas, some of which have been progressed and acted on<br>The Workforce Plan 2018-2022 is based on the Council's shared values<br>No further action required |



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

| Supporting Principle & Code Requirements  | Documentary Evidence  | 2017 Update and Improvement Points   | Update and 2018 Improvement Points   |
|---|---|--|--|
| <b>4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</b>  |   |  |  |
| 4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible | <ul style="list-style-type: none"> <li>• Scheme of Administration</li> <li>• Audit &amp; Governance Committee</li> <li>• PPR Committee</li> <li>• Reviews of the use of Scrutiny Guide by Audit &amp; Governance and PPR Committees</li> <li>• Local Area Network and external auditors review the Council's scrutiny activity</li> <li>• Police, Fire &amp; Rescue and Community Scrutiny Committee</li> <li>• Accounts Commission reports are considered by the Audit &amp; Governance Committee</li> </ul> | <p>The Guide to Scrutiny for elected members has been reviewed and will be considered by the members of the scrutiny committees</p> <p>The Council's Key Performance Indicators are being reviewed and will be considered by the PPR Committee</p> <p>The Council will be subject of a Best Value Assessment by Audit Scotland in 2018/19.</p> <p>No further action required</p> | <p>See 1.1.4, 1.2.2 and 2.3.3</p> <p>Audit Scotland has carried out the Best Value Assurance Review of the Council. The results of the BVAR will be published in October 2018</p> <p><b>Action</b><br/> <b>Agree and implement an Improvement Plan based on the recommendations of the Best Value Assurance Review</b></p> |
| 4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based                       | <ul style="list-style-type: none"> <li>• Scheme of Administration including Scheme of Delegation</li> <li>• Members Library Service and Bulletin to report delegated decisions</li> <li>• E-gov provides access to all reports and minutes</li> </ul>   | No further action required   | No further action required   |

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| <p>4.1.3 Put in place arrangements to safeguard Members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice</p>  | <ul style="list-style-type: none"> <li>• Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Registers and Declarations of Interest</li> <li>• Monitoring Officer</li> <li>• Recruitment and Selection procedures and training</li> <li>• Discipline and Grievance Procedures</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality policy</li> <li>• Procurement Strategy</li> </ul> | <p>See 2.1.1<br/>No further action required</p> | <p>See 2.1.1<br/>No further action required</p> |
| <p>4.1.4 Develop and maintain an effective Audit Committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee</p> | <ul style="list-style-type: none"> <li>• Standing Orders and Scheme of Administration</li> <li>• Audit &amp; Governance Committee, chaired by member of the Opposition and with no Cabinet members</li> <li>• Elected members Scrutiny Guide</li> <li>• Assurance and Improvement Plan agreed with Local Area Network</li> <li>• Quarterly briefing on performance indicators</li> </ul>  | <p>No further action required</p>               | <p>No further action required</p>               |
| <p>4.1.5 Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints</p>  | <ul style="list-style-type: none"> <li>• Complaints / Feedback policy</li> <li>• Publicity about complaints procedures</li> <li>• Six-monthly report on complaints and feedback made to PPR Committee</li> </ul>  | <p>No further action required</p>               | <p>No further action required</p>               |

| <b>4.2 Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs</b>                                   |  |   |   |
|---|--|---|---|
| 4.2.1 Ensure that those making decisions are provided with information that is fit for purpose - relevant, timely and gives clear explanations of technical issues and their implications | <ul style="list-style-type: none"> <li>• Format of Council, Cabinet, Audit &amp; Governance Co, PPR Co and East Lothian Partnership reports</li> <li>• Calendar of meetings and timely preparation of agendas and papers</li> <li>• Three-year Financial Strategy</li> <li>• Advice in preparing annual budget</li> <li>• Performance website and quarterly briefing for elected members</li> </ul>                | <p>The East Lothian Profile has been updated. Analysis of new challenges and opportunities informed the development of the Draft Council Plan</p> <p>No further action required</p> | <p>Updated ward profiles and snapshots have been produced and are being used to inform the development of Locality/ Area Plans</p> <p>The development of key performance indicators for the Council Plan and the East Lothian Plan is based on evidence from a range of sources</p> <p>No further action required</p> |
| 4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately            | <ul style="list-style-type: none"> <li>• Agendas and papers for Council, Cabinet, Audit &amp; Governance Co, PPR Co and Community Planning Board</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work Officer provide advice on legal or financial implications as required</li> </ul>   | No further action required  | No further action required  |
| <b>4.3 Ensuring that an effective risk management system is in place</b>  |  |   |   |
| 4.3.1 Ensure that risk management is embedded into the culture of the authority, with Members and Managers at all levels recognising that risk management is part of their jobs           | <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Management Groups</li> <li>• Role of Audit &amp; Governance Co</li> <li>• Corporate and Service Risk Registers approved by Cabinet or Audit &amp; Governance Committee</li> <li>• Service Plans reflect corporate and service risks</li> <li>• Full suite of Health &amp; Safety policies and management arrangements</li> </ul> | No further action required  | <p>Training in risk management will be provided for senior officers and elected members in 2018/19</p> <p>No further action required</p>  |

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| <p>4.3.2 Ensure that arrangements are in place for whistleblowing to which staff and all those contracting with the authority have access</p>  | <ul style="list-style-type: none"> <li>• Standing Orders including Codes of Conduct</li> <li>• Whistleblowing Policy</li> </ul>  | <p>No further action required</p>  | <p>No further action required</p>   |
| <p><b>4.4 Using the authority's legal powers to the full benefit of the citizens and communities in their areas.</b></p>   |  |  |   |
| <p>4.4.1 Actively recognise the limits of lawful activity placed on the authority by, for example, the ultra vires doctrine, but also strive to utilise powers to the full benefit of East Lothian's communities.</p> <p>The Council will comply with the Scottish Regulators' Strategic Code of Practice</p>              | <ul style="list-style-type: none"> <li>• Senior officers and elected members have a good understanding of statutory powers</li> <li>• Standing Orders detail statutory powers under which senior officers operate</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice</li> <li>• Internal and external Audit reports</li> <li>• Environmental Health Service Charter and Service Plan</li> </ul> | <p>The Environmental Health Service Charter and Service Plan includes the objective to comply with the Scottish Regulators' Strategic Code of Practice</p> <p>Action</p> <p>Develop a regulatory services charter covering all services that provide regulatory services to business</p> | <p>A regulatory services charter covering all services that provide regulatory services to business</p> <p>No further action required</p> |
| <p>4.4.2 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law</p>  | <ul style="list-style-type: none"> <li>• Scheme of Administration including Scheme of Delegation</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice</li> <li>• Internal and external Audit reports</li> </ul>   | <p>See 2.1.1</p> <p>No further action required</p>   | <p>See 2.1.1</p> <p>No further action required</p>  |
| <p>4.4.3 Observe all specific legislative requirements placed upon the authority, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into the authority's procedures and decision making processes</p> | <ul style="list-style-type: none"> <li>• Standing Orders</li> <li>• Quasi judicial committees and sub-committees</li> <li>• Monitoring Officer, s95 Officer and Chief Social Work Officer provide appropriate advice</li> <li>• Legal advice provided to elected members to support decision-making</li> </ul>   | <p>No further action required</p>  | <p>No further action required</p>   |

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

| Supporting Principle & Code Requirements  | Documentary Evidence   | 2017 Update and Improvement Points   | Update and 2018 Improvement Points |
|---|--|--|------------------------------------|
| <b>5.1 Make sure that Members and Officers have the skills, knowledge, experience and resources they need to perform their roles well.</b>  |  |  |                                    |
| 5.1.1 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis   | <ul style="list-style-type: none"> <li>• Induction programme for officers, CPD and training opportunities for staff</li> <li>• Piloted CPD for members</li> <li>• Performance Review and Development for all employees</li> <li>• Corporate Learning</li> <li>• E-Learning / LearnNet on ELnet</li> <li>• Induction programme for new elected members</li> <li>• Induction Notebooks on Elnet</li> <li>• Programme of briefing sessions for elected members</li> </ul> | <p>See 2.1.1</p> <p>The new employees' induction programme has been reviewed and revised</p> <p>No further action required</p>                       | No further action required         |
| 5.1.2 Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority | <ul style="list-style-type: none"> <li>• Job descriptions for statutory officers</li> <li>• Networking and development opportunities for statutory officers through professional associations</li> <li>• Role of statutory officers recognised in Scheme of Administration</li> <li>• People Strategy</li> <li>• Workforce Development Strategy and Plan</li> </ul>  | <p>See 2.2.1</p> <p>Members' induction programme included information about the role of the Statutory Officers</p> <p>No further action required</p> | No further action required         |

| <b>5.2 Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group</b>  |  |  |  |
|---|--|--|--|
| <p>5.2.1 Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively</p>   | <ul style="list-style-type: none"> <li>• Performance Review and Development all employees</li> <li>• Guide to Scrutiny and Review published and scrutiny training provided for elected members</li> <li>• Elected members' Performance Briefings to encourage scrutiny of performance information</li> <li>• Workforce Plan 2018-2022</li> </ul> | <p>A Council Workforce Plan, incorporating the Workforce Development Plan is being prepared</p> <p>Elected members' development needs will be reviewed following the completion of the induction programme</p> <p>Actions</p> <p>Prepare and adopt a Workforce Development Plan, incorporating a Workforce Development Plan</p> <p>Review elected members' development needs and provide an ongoing training and development programme</p> | <p>A Workforce Plan 2018-2022 has been agreed includes several key actions relating to training and development of staff and managers</p> <p><b>Action</b><br/><b>Implement the Workforce Plan</b></p> |
| <p>5.2.2 Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed</p>   | <p>As above</p>  | <p>As above</p>  | <p>As above</p>  |
| <p>5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan, which might, for example aim to address any training or development needs</p> | <ul style="list-style-type: none"> <li>• CPD pilot for elected members</li> <li>• Elected Members' Code of Conduct &amp; complaints about performance</li> </ul>   | <p>As above</p>  | <p>A training needs survey of elected members has been carried out and the results will inform members' future training and development</p> <p>No further action</p>                                   |

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

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

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

| Supporting Principle & Code Requirements  | Documentary Evidence  | 2017 Update and Improvement Points   | Update and 2018 Improvement Points |
|---|---|--|------------------------------------|
| <p><b>6.1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</b></p> |   |  |                                    |
| <p>6.1.1 Make clear to all staff and the community to whom the authority's leadership are accountable and for what</p>  | <ul style="list-style-type: none"> <li>• Draft Council Plan 2017- 2022, SOA, Corporate Improvement Plan, Service and Business Plans</li> <li>• Information on Council structure available on Council website</li> <li>• Annual Performance Reports</li> <li>• Living newspaper</li> </ul>   | <p>No further action required</p>  | <p>No further action required</p>  |
| <p>6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required</p>  | <ul style="list-style-type: none"> <li>• Various forums for engaging with stakeholders including the East Lothian Partnership, Area Partnerships, East Lothian Tenants and Residents Panel, Community Councils and Parents Councils, STRIVE (the Third Sector Interface)</li> <li>• Consultation and Engagement Strategy</li> <li>• New governance arrangements for the East Lothian Partnership</li> </ul> | <p>The outcomes of the STRIVE review are being implemented with new appointment arrangements being agree with East Lothian Partnership</p> <p>The governance arrangements for the East Lothian Partnership are being reviewed alongside the development of the new East Lothian Plan</p> <p>No further action required</p> | <p>See 1.1.3</p>                   |
| <p>6.1.3 Produce an annual report on the activity of the scrutiny function</p>  | <ul style="list-style-type: none"> <li>• Annual Performance Reports</li> <li>• Internal and external Audit Plans reviewed</li> <li>• Quarterly performance information published on-line</li> <li>• Internal controls assurance statement</li> </ul>  | <p>The 2016/17 Annual Performance Report is being presented to the PPR Committee in June 2017</p> <p>An annual report on the activity of the scrutiny function will be incorporated into the Annual Public Performance report</p> <p>No further action required</p>  | <p>See 1.1.4</p>                   |



| <b>6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership or by commissioning</b>  |  |   |                            |
|--|--|---|----------------------------|
| 6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively  | <ul style="list-style-type: none"> <li>• Communications Strategy</li> <li>• Community Planning Community Engagement Strategy</li> <li>• People's Voice, the Community Planning Engagement Strategy includes monitoring framework</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• Complaints procedures and monitoring reports</li> </ul> | <p>See 1.2.1<br/>Action</p> <p>Promote the Council's consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act's statutory requirements relating to 'Participation Requests'</p>       | See 1.2.1                  |
| 6.2.2 Hold meetings in public unless there are good reasons for confidentiality  | <ul style="list-style-type: none"> <li>• Council meetings are held in public</li> <li>• Agendas, papers and minutes are published on the Council's website</li> </ul>  | No further action required  | No further action required |
| 6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands | <ul style="list-style-type: none"> <li>• Equality and Diversity Network</li> <li>• Community Planning Community Engagement Strategy</li> <li>• Community Councils</li> <li>• Local Area Forums</li> <li>• ELTRP</li> <li>• Citizens' Panel</li> <li>• Consultation and Engagement Strategy</li> <li>• 2017 Residents' Survey</li> </ul>  | <p>See 1.2.1</p> <p>The Health &amp; Social Care Partnership has engaged with service users and carers in developing a service model and specification for commissioning £20m care at home services for adults and older people</p> <p>No further action required</p> | See 1.2.1                  |
| 6.2.4 Establish clear policy on the types of issues the authority will meaningfully consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result  | <ul style="list-style-type: none"> <li>• Community Planning Community Engagement Strategy</li> <li>• ELTRP</li> <li>• Community Councils consulted on planning matters</li> <li>• Consultation and Engagement Strategy</li> </ul>  | See 1.2.1 and 6.2.1   | See 1.2.1                  |

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| <p>6.2.5 Publish an annual performance plan giving information on the authority's vision, strategy, plans and finances well as information about incomes, achievements and satisfaction of service users in the previous period</p>   | <ul style="list-style-type: none"> <li>• Annual Performance Reports</li> <li>• Annual Accounts</li> <li>• Performance Management Framework – Improvement to Excellence</li> </ul>   | <p>See 6.1.3</p>                  | <p>See 1.1.4</p>   |
| <p>6.2.6 Ensure that the authority as a whole is open and accessible to the community, service users and its staff, and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</p> | <ul style="list-style-type: none"> <li>• Compliance with the Freedom of Information Act and Data Protection Act</li> <li>• Council meetings held in public</li> <li>• Agendas for meetings, minutes and reports published on the Council website</li> <li>• Living newspaper</li> <li>• Star Awards Public Nominations</li> <li>• Petitions Committee</li> <li>• Performance website</li> </ul> | <p>No further action required</p> | <p>No further action required</p>  |
| <p><b>6.3 Making best use of human resources by taking an active and planned approach to meet responsibility to staff</b></p>   |   |                                   |  |
| <p>6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making</p>   | <ul style="list-style-type: none"> <li>• People Strategy</li> <li>• JCC and JC Groups</li> <li>• Employee and JTU Consultations</li> <li>• Annual Budget Review and Development Discussions for JTU</li> <li>• Employee Engagement Survey</li> <li>• Annual Working Together Forum</li> <li>• Staff involved in HGIOC</li> </ul>  | <p>No further action required</p> | <p>Staff and Trade Unions were consulted on the draft Workforce Plan and will continue to be engaged and consulted on the development of the actions in the Plan</p> <p>No further action required</p> |

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

**SUBJECT:** East Lothian Investments Ltd 2017/18

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2017/18.

**2 RECOMMENDATIONS**

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

**3 BACKGROUND**

- 3.1 East Lothian Investments Ltd (ELI), formerly East Lothian Economic Development Company (SC187674) - was formed in April 2001 by East Lothian Council (ELC) following the disaggregation of the Lothian Enterprise Board (LEB).
- 3.2 The aforementioned disaggregation resulted in the transfer of equity stakes in 5 East Lothian companies which, under local authority governance rules, ELC could not accept hence the requirement to form a company to take ownership of the shareholding.
- 3.3 ELI Ltd developed and implemented exit strategies for the investments and used the funds generated as an instrument for the development of the business base and therefore economy of East Lothian.
- 3.4 This instrument took the form of interest free loans to start-ups/ businesses based within the county of East Lothian. The current ceiling for loans is £25,000 repayable over a maximum of 60 months with an arrangement fee of 5% of loan award to cover company overheads.

- 3.5 The company has a board of 5 directors comprising of the Leader of the Council, Economic Development spokesperson, and three private industry sector representatives.
- 3.6 The board act on a “*Pro Bono*” basis and do not receive payment.

### **Governance**

- 3.7 Following the credit crisis of 2008 all lenders of credit were required to apply to the Financial Conduct Authority (FCA) for approval to lend. This replaced the previous credit license arrangement.
- 3.8 A Compliance Monitoring Document (CMD), regulatory business plan and a suite of policies including a new application process were developed for ELI. The FCA approved the application in June 2016 and the company is now fully authorised and regulated by the FCA.
- 3.9 The Economic Development & Strategic Investments (EDSI) Business Development manager, is the FCA approved person as well as the Company Secretary and manager of the company. The manager is supported by the EDSI Business Development assistant.
- 3.10 The Business Development manager and assistant undertake the work under their current ELC job remits.
- 3.11 Board meetings are held on a regular basis linked to the level of loan applications. The CMD and relevant policies are reviewed and updated at each board meeting as per FCA requirements. Decisions made to award loans, the level of award and repayment period are taken by a majority with the Chair having the casting vote on any tied decision.
- 3.12 Minutes of board meetings are taken and approved at subsequent board meeting by the chair.
- 3.13 East Lothian Investments Ltd 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.
- 3.14 As per FCA requirements ELI is required to report annually on the following: - Complaints return, Financial Data, Lenders and Volumes.
- 3.15 The company has an interest bearing and chequing account with the Royal Bank of Scotland. This is currently under review.
- 3.16 Legal advice is provided by Addleshaw Goddard (Formerly HBJ Gately), Edinburgh.

### **Overall lending**

- 3.17 Since formation ELI has awarded 319 loans to the value of £2,820,604 which has levered in private funds of £16,384,637.
- 3.18 784 new jobs have been created and 1,471 jobs have been protected.

3.19 Loans are unsecured but for limited companies personal guarantees may be taken if the board requests

3.20 The level of bad debts written off stands currently at 2.82%.

#### **2017/18 Lending Activity**

3.21 29 applications for funding were received - 23 were approved, with 21 drawing down the loan offer to the value of £386,500 which levered in private funds of £3,408,480.

3.22 163 new jobs are projected to be created and 124 jobs will be protected.

3.23 Sectors awarded:-

- Business services – 7
- Energy provision – 1
- Property development – 1
- Retail – 4
- Food and drink – 3
- Health – 2
- Hospitality – 4
- Manufacture – 1

3.24 The loan book has currently 58 active loans.

3.25 Due to the level of demand for funding the programme is currently suspended due to lack of funds.

## **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 and Business Development assistant.

6.3 Other – none.

## 7 BACKGROUND PAPERS

7.1 None

|                      |   |
|----------------------|---|
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| <b>DATE</b>          | 21 May 2018   |

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

7

**SUBJECT:** Local Government in Scotland: Challenges and Performance 2018 (Accounts Commission, April 2018)

---

## **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: Challenges and Performance 2018'*.

## **2 RECOMMENDATIONS**

- 2.1 The Committee should:

- Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, Local Government in Scotland: Challenges and Performance 2018;
- use the recommendations in the Accounts Commission report and the questions it poses for elected members to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

## **3 BACKGROUND**

- 3.1 Each year the Accounts Commission produces an overview of issues that have arisen from the local authority audits conducted by Audit Scotland. The report is in two parts. The first one was a financial overview which was published in November 2017 (reported to Audit & Governance Committee, 20<sup>th</sup> Feb 2018). The second report is, 'Challenges and Performance 2018' was published in April 2018 (Appendix 1). The report is meant to assist

councils in identifying and planning for pressures that they may face in the coming year.

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

- The current and future challenges facing councils
- Councils' response to the challenges
- The impact on council services.

### **Challenges**

3.3 The report identifies three key challenges for Scottish councils:

- Councils are operating in an increasingly complex and uncertain landscape
- Scottish Government funding has fallen in real terms in recent years and it is more difficult to make savings in some areas
- Population change affects demand for service and council funding.

3.4 The increasingly complex and uncertain landscape under which councils are operating is highlighted in Exhibit 1 of the report, which lists twelve UK and Scottish legislative and policy changes including, withdrawal from the European Union, integration of health and social care, education reform, the expansion of early learning and childcare and the review of Local Governance. The challenges posed by these changes were reflected in the 2017 Council Plan.

3.5 In relation to funding, the report highlights that whilst revenue funding from the Scottish Government to local government increased in real terms by 0.2% between 2017/18 to 2018/19, there has been a real terms fall of 9.6% between 2010/11 and 2018/19.

3.6 The report concludes that, "The reductions in funding from the Scottish Government present councils with a major challenge to continue to make savings and deliver services at current levels." The report also points out that, "At the same time councils face increasing spending obligations through UK and Scottish government policy priorities for which they do not always receive additional funding."

3.7 The third challenge, relates to population changes. Exhibit 4 in the report highlights that the population projections made by the National records for Scotland in 2014 show that East Lothian's population will grow by 18% between 2014 – 2039. The implications of this growth in population for East Lothian Council including the requirement for new schools and increasing demand for care services for vulnerable and older people have been well documented in the Council Plan and the Council's Financial Strategy and were reflected in the Council's revenue and capital budgets.



## ***Responses to the challenges***

- 3.8 The report identifies three main ways in which councils are responding to the challenges they face:
- Use of reserves and delivering savings
  - A range of approaches to reduce spending and increase income
  - Transformation
- 3.9 The report highlights that councils are increasingly using their reserves to meet funding gaps and balance their budgets. In 2016/17, 19 councils drew on their reserves and thirteen of these councils used more reserves than they had planned. In 2016/17 East Lothian Council used £2.5m of reserves (compared to a positive net contribution of £5.7m made to reserves in the previous year). The Council's Financial Strategy 2018-2023 sets out its position with regards to maintaining adequate reserves and the strategy for using these reserves.
- 3.10 Audit Scotland suggests that councils should have medium and long-term financial plans in place to ensure financial sustainability. The Council prepared a 5 year Financial Prospects report which set out forecasts for of the Council's anticipated cost pressures and changes to funding over the medium term. This in turn, informed the development of the five-year financial strategy, and associated budgets including; three-year revenue budget and five-year capital budget and HRA to ensure that the Council has appropriate and sustainable financial plans.
- 3.11 The report states that achieving savings while continuing to deliver services requires a mixed approach, including, "reducing workforces and services, taking measures to increase income, and digitising services; along with more transformational changes to service delivery or stopping some services altogether." It suggests that whilst councils have been reducing their workforces, workforce planning by councils generally has been poor.
- 3.12 The report also highlights that transformation is increasingly important to councils and that this needs to be properly scoped and resources to delivering the desired savings from digital and new models of service delivery and commercialisation.
- 3.13 East Lothian Council has adopted a mixed approach to achieving the savings required to meet the funding challenges it faces, including efficient workforce management. The Council is adopting a Workforce Plan (Cabinet 12<sup>th</sup> June 2018) which addresses the concerns about poor workforce planning flagged up in the report.
- 3.14 The Council has embarked on an ambitious Transformation Programme which includes reviewing services and exploring alternative service delivery models and new ways of working, supporting the Council's Digital Strategy, increasing income from existing charges and considering new charges for discretionary services. Delivery of the programme is being

supported by a transformation team including a Programme Manager, Project Managers, a Commercial Development Officer and support staff, which funded from the Cost Reduction Fund.

### ***Impact on council services***

- 3.15 The Accounts Commission report highlights that despite funding reductions a number of national indicators of performance continue to improve, although there is considerable variation between councils. The report makes reference to, and analyses various indicators including the Local Government Benchmarking Framework (LGBF) and comparison over time between spend and performance in some service areas.
- 3.16 The report concludes that there is some evidence that spending reductions and increasing demand are impacting on some services with public satisfaction levels as measured through the Scottish Household Survey falling over the last few years.
- 3.17 East Lothian's annual and LGBF performance indicators show as mixed picture with improving, static and worsening performance. Detailed reports on the annual 2017/18 indicators and the 2016/17 LGBF indicators are due to be considered by Policy Performance and Review Committee (20<sup>th</sup> June 2018) which will analyse the data and trends. The reports will and provide an opportunity for elected members to assess both overall performance and performance in specific service areas.

### ***Recommendations***

- 3.18 The Accounts Commission has made a range of recommendations based on the report's findings and conclusion. Councils should ensure they are continuously improving their work in key areas by:
- Looking to the future:
    - continuing to improve understanding on how the landscape within which their council operates may change, by considering its demographics, the public spending environment and policy changes
    - using this information to inform council priorities
    - developing long-term financial and scenario planning that takes these factors into account and considers the impact on all their services and their users
    - considering how to make the most of new technology, for example streamlining processes and communicating differently with service users
  - Working with communities - so that they are actively involved in decision-making, know the effect decisions are expected to have on

services and communities and see the impact of community empowerment

- Focusing on the delivery of priority outcomes through:
  - working with communities to understand their needs
  - establishing effective cross-party relationships to work together and make the sometimes difficult decisions needed to achieve the council's priorities
  - clearly linking budgets to plans and outcomes
- Establishing robust change strategies and developing realistic plans for transforming services, which incorporate:
  - effective leadership and good governance arrangements
  - robust options appraisal
  - strong financial management
  - properly scoped and resourced plans
- Ensuring change strategies are supported by:
  - realistic savings plans with long-term implications and mitigation against unintended impact on other services and communities
  - effective workforce planning to retain and recruit people with the right skills to deliver sustainable future services
  - income generation plans
  - workforce and member support, training and development
- Evaluating and reporting:
  - the impact that significant budget reductions, savings, workforce changes and service redesign are expected to have and have had on service delivery and quality
  - using the data collected and monitored to report publicly on the quality of services, as well as user satisfaction with those services.

3.19 The Council already has policies and frameworks in place that should ensure it meets the Accounts Commission's in these areas, including:

- Carrying out strategic assessments, scenario planning and horizon scanning that help to inform the development of strategic plans such as the Council Plan, the Financial strategy and the Workforce Plan
- An extensive range of opportunities for communities and individuals to get involved and make their voice heard such as Area Partnerships,

Community Councils, Tenants and Residents Associations, Parent Councils and the Citizens Panel

- Effective leadership and good governance arrangements which are evaluated annually through the Corporate Governance Self-evaluation
- A robust continuous improvement framework ('From Improvement to Excellence') which sets out the various processes in place to ensure best value and continuous improvement including self-evaluation and performance monitoring and reporting.

3.20 As has been reported to members the Council is the subject of a Best Value Assurance Review in 2018. The review will consider many of the issues raised by these recommendations. The report of the review, which will be published in October, will contain the Accounts Commission's assessment of how well the council is meeting the challenges and recommendations set out in the Challenges and Performance 2018 report.

#### **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: Challenges and Performance 2018' will assist the Council to recognise the challenges that it faces in achieving Best Value in the future.

#### **5 INTEGRATED IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial – none.

6.2 Personnel – none.

6.3 Other – none.

#### **7 BACKGROUND PAPERS**

7.1 'Local Government in Scotland: Challenges and Performance 2018', Accounts Commission, April 2018

|                      |   |
|----------------------|---|
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Local government in Scotland

# Challenges and performance 2018



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
April 2018


## The Accounts Commission

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

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

Our work includes:

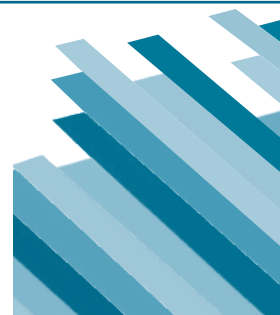
- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils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

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

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



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## Links

-  PDF download
-  Web link

## Exhibit data

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

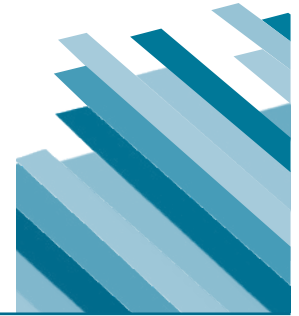



These question mark icons appear throughout this report and represent questions for councillors.

## Audit team

The core audit team consisted of: Carol Calder, Sally Thompson, Claire Richards, Ashleigh Madjitey and Ruth Azzam, with support from other colleagues and under the direction of Ronnie Nicol.

# Chair's introduction



This year's local government overview report, *Local government in Scotland: Challenges and performance 2018*, complements the Commission's [Local government in Scotland: Financial overview 2016/17](#)  published in November 2017. This overview focuses on the wider challenges and issues facing councils as well as their performance and the impact of reduced financial resources.

Councils continue to face challenges on a number of fronts, not least the challenge of continuing to deliver a wide range of services to local communities with reducing budgets. Councils have done much to reduce spend and at the same time continue to deliver services for their local communities. Transformational change is increasingly important to councils as they seek to improve local outcomes with less money. Implementing successful transformation is not easy and audit work shows progress across the 32 councils is mixed. The scale of the challenge means the pace of change needs to improve in some councils. Successful transformation requires robust planning, clear and coherent leadership and suitably skilled staff. Some councils may need to invest in the short term to save in the long term.

Another challenge is the changing landscape in which councils operate. These changes introduce significant uncertainty as well as increasing complexity. For example, the UK's decision to leave the European Union could have a significant impact on Scotland's councils, but the detail of this is not known. Both Scottish Government's review of education and of local governance could have a significant impact on the role councils play, but again the details are not yet evident. Similarly, the creation of economic partnerships could impact on each council's role in the important area of economic regeneration and growth.

The Accounts Commission recognises the difficulties such uncertainty and pressure bring to councils and the added challenge these represent for medium and long-term planning. However, these same uncertainties mean that planning has never been more important. Robust plans that project how council outcomes and priorities will be delivered and funded within reducing budgets are essential to ensure the sustainability of services for the public.

Last year was the first full operational year for Integration Joint Boards. This represented a major shift for local government and it is clear that councils, and their IJB partners, have a significant task in providing social care and support for those in need.

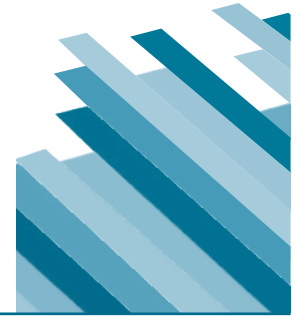
The impact of increasing social care demands from an ageing population on council budgets is clear and means a higher proportion of council money being spent on social care services. This has reduced the amount councils have to spend on other areas and going forward, this has the potential to cause tensions between local and national priorities and risk the viability of some services.

Good work is being done across local government, and there is much councils can learn and share with each other. Looking ahead, councillors and senior management, working closely with their communities, will continue to be faced with difficult decisions on where limited resources should be allocated. It is now more important than ever that these decisions are taken in a planned and coordinated way, and that the impact of decisions on communities and outcomes is transparent and understood.

I hope you find this overview useful, and would welcome any feedback you may have.

**Graham Sharp**  
Chair of the Accounts Commission

# Summary



## Key messages

- 1** Local government in Scotland continues to operate in a complex and changing environment that involves increasing levels of uncertainty. While details of the terms for the UK's withdrawal from the European Union are not yet clear, there will likely be significant and profound implications for our 32 councils. Meanwhile, the Scottish Government remains committed to a significant pace of public sector reform, with some major changes for local government at key stages of implementation. These events are taking place in the overall context of substantial reductions in public spending alongside increasing demand for many local public services.
- 2** Developing new ways of working – or transformational change – is now an essential part of the agenda for councils as they respond to these challenges. Delivering savings is becoming increasingly critical, with forecast funding gaps higher than current levels of reserves for some councils. Where councils have properly scoped, resourced and managed their transformational work, they are more likely to successfully deliver sustainable service change. Cohesive, decisive leadership is required that brings officers, councillors and their communities together to address the major challenges councils face.
- 3** Councils are engaging with the increasingly difficult task of managing the competing priorities of reducing costs and maintaining services for an ageing population. Under current arrangements, some councils can expect to see government funding fall further than others as their total population declines while their older population grows and demand for key services, such as social care, increases. Councils are also implementing significant policy and legislative changes, some of which increase expectations on, or the duties of, councils and many will have additional resource implications. The detail of what these changes will mean is not yet clear in some cases.
- 4** Councils have done a considerable amount to manage the impact of continued budget reductions, and national indicators suggest they have maintained or improved performance in a number of areas. However, there is also evidence that budget cuts are having an impact on services, and customer satisfaction levels have fallen. Some services are not keeping up with demand and there is a risk that quality is being affected. Smaller services, which often include important regulatory functions, have borne the brunt of funding reductions although the impact of this on these services is not always made

clear. In making difficult choices, councils need to continue to work with communities to understand the impact of reduced spending on services and communities and to clearly report this to the public.

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## Recommendations



While councils have done much to reduce spend, deliver services differently and work with their communities, financial and population pressures are likely to continue. Effective leadership and robust planning is more important than ever to ensure council services remain sustainable.

### **Councils should ensure they are continuously improving their work in key areas by:**

- looking to the future:
  - continuing to improve understanding on how the landscape within which their council operates may change, by considering its demographics, the public spending environment and policy changes
  - using this information to inform council priorities
  - developing long-term financial and scenario planning that takes these factors into account and considers the impact on all their services and their users
  - considering how to make the most of new technology, for example streamlining processes and communicating differently with service users
- working with communities - so that they are actively involved in decision-making, know the effect decisions are expected to have on services and communities and see the impact of community empowerment
- focusing on the delivery of priority outcomes through:
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  - properly scoped and resourced plans

- ensuring change strategies are supported by:
    - realistic savings plans with long-term implications and mitigation against unintended impact on other services and communities
    - effective workforce planning to retain and recruit people with the right skills to deliver sustainable future services
    - income generation plans
    - workforce and member support, training and development
  - evaluating and reporting:
    - the impact that significant budget reductions, savings, workforce changes and service redesign are expected to have and have had on service delivery and quality
    - using the data collected and monitored to report publicly on the quality of services, as well as user satisfaction with those services.
- 

## About this report

**1.** This report provides a high level, independent view of the challenges facing councils in Scotland, how councils are responding to these challenges and how service performance has been affected. It draws on findings from [Local Government in Scotland: Financial Overview 2016/17](#) , local government audit work in 2017 (including annual audits, Best Value Assurance reports and national performance audits) and published performance data. All national and individual council audit reports are available on our [website](#) .


**2.** The report is not intended to be a comprehensive review of all issues facing councils. It highlights key challenges councils face and looks at some of the main ways councils are responding to increasing demand and reduced funding. Where specific examples of council activities or circumstances are referenced, the implication is not that the named councils are the only ones engaging in these activities or experiencing these circumstances. The report is intended to inform the public and its representatives and, in particular, local government councillors and senior council officers to support them in their complex and demanding roles. It covers three areas:

- [Part 1](#), the current and future challenges facing councils.
- [Part 2](#), how councils are responding to these challenges.
- [Part 3](#), the impact on performance in key service areas and public satisfaction.

**3.** The 2017 local government elections resulted in many new councillors and changes to the political make-up of councils. To help councillors, we have produced the following supplements to accompany this report.

- A scrutiny tool for councillors – this has example questions that councillors could ask to help them understand their council's position, scrutinise performance and assist in making difficult decisions. Councillors should feel

they fully understand, and are satisfied with, the answers to the questions that are most relevant to them in their role within the council.

- [An interactive online tool](#)  which contains performance information for individual councils. It is designed to allow councillors, officers and members of the public to better understand how their council is performing compared to others.

**4.** Where possible we have used financial information from Scottish Local Government Statistics as these provide a breakdown of spending by service. Where this has not been possible we have used figures from councils' annual accounts. We refer to real-term changes in the report, meaning that financial figures are adjusted for inflation. Our analysis of local government funding adjusts figures into 2018/19 prices to reflect the current year. Where the report focuses on council performance in 2016/17, figures have been adjusted to 2016/17 prices.

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# Part 1

## The challenges for councils

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### Key messages

- 1** Councils are operating in a complex, changing and increasingly uncertain environment. The sector faces potentially significant change from the UK's decision to leave the European Union. The review of local governance announced by the Scottish Government and COSLA aims to give people more say in local decision-making, and may have a significant impact on councils.
- 2** Council revenue funding from the Scottish Government has fallen in real terms by 9.6 per cent between 2010/11 and 2018/19. This has presented councils with a major challenge in delivering services and making savings. However, some national policies, and ongoing spending commitments such as pension and debt costs, mean there are limitations on where councils can make savings. Smaller service areas, which often include important regulatory functions, have seen the biggest budget reductions, while education and social care services take up a growing proportion of council spend.
- 3** Scotland's population is getting older, leading to increased demand for social care services and fewer working age people to fund public services. Population change brings different challenges to different councils and also has financial implications. Under current arrangements, some councils can expect to see Scottish Government funding fall further than others as their total population declines, while their older population grows and demand for services increases.
- 4** New legislation involves councils developing fresh approaches to community empowerment. There are some examples of good work taking place, including new ways in which councils consult with, listen to and work with local people and communities. However, they are still at the early stages of realising the ambitions of the Community Empowerment Act and there are signs that these approaches do not reach everyone. In 2016, only 23 per cent of adults agreed that they can influence decisions affecting their local area.<sup>1</sup>

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### Councils are operating in an increasingly complex and uncertain landscape

- 5.** Councils provide a wide range of important services for local residents and communities. Increasingly councils are working in partnership with other public, private and third sector organisations as they work to find the best way to deliver services in the future.





6. In recent years, the role of Scotland's councils and the services they provide have been subject to significant legislative and national policy changes from UK and Scottish governments. Some changes increase expectations on or duties of councils. Some change councils' role. Some have significant financial implications, while the implications of others are not clear. All of this means additional work for councils to understand these changes and manage and implement them accordingly [Exhibit 1](#)

**Have you considered how policy and legislative change will affect how your council operates?**

## Exhibit 1

### Implications for councils of key UK and Scottish legislative and policy changes

Legislative and policy changes often lack clarity or detail but can require substantial change.



Increased expectation



Change the role of council



Lack of clarity



Financial implications

| Implication  | Changes |   |   |   |
|--|---------|---|---|---|
|  |         |   |   |   |
| <p><b>Withdrawal from the European Union</b></p> <p>Impact of UK's decision to leave the European Union (EU) is unknown but could be significant for councils in terms of funding (Scotland has been allocated € 940 million in funding from the EU for 2014 to 2020) and workforce (19,000 EU nationals are employed in education, health and public administration).<sup>1,2</sup></p>   |         |   | ✓ | ✓ |
| <p><b>City region deals and growth deals</b></p> <p>In its 2017/18 programme, the Scottish Government committed over £1 billion over the next ten to 20 years to five city region deals (Aberdeen, Edinburgh and the South East, Inverness, Glasgow, Stirling and Tay Cities).<sup>3</sup> The UK Government and councils are also contributing significantly to the deals.</p> <p>City deals will require strong partnership working between councils and a wide range of public and private partners. Councils will need to determine roles and responsibilities, accountability and performance reporting. We will report on city deals in 2019/20.</p>   | ✓       | ✓ | ✓ | ✓ |
| <p><b>Integration of health and social care</b></p> <p>All integration joint boards (IJBs) were operational in 2016/17. IJBs are responsible for commissioning health and social care services, so councils are no longer wholly responsible for social care services. Arrangements for financial planning, budget monitoring, risk and performance management vary and continue to evolve. We will audit the effectiveness of health and social care integration in 2018.</p>   | ✓       | ✓ | ✓ |   |
| <p><b>Education reform</b></p> <p>The Scottish Government aims to create a school and teacher led education system, where decisions and funding will be at school level and Regional Improvement Collaboratives (RICs) will provide support to schools.</p> <p>Under proposals, councils would retain their duty to improve the quality of school education but would do this through the RICs rather than directly. It is not clear yet how this would affect councils' roles in education or their ability to scrutinise performance. The financial implications of these proposals for councils are also unclear. The Scottish Government has also consulted on the funding model for school education.</p> |         | ✓ | ✓ | ✓ |

## Exhibit 1 (continued)



Increased expectation



Change the role of council



Lack of clarity



Financial implications

| Implication   | Changes |  |  |  |
|---|---------|--|--|--|
|   |         |  |  |  |
| <p><b>Barclay review of non domestic rates (NDR)</b></p> <p>In 2017/18, NDR made up 28 per cent of revenue funding from Scottish Government to councils. In August 2017, the Barclay review published 30 recommendations on NDR to better support business growth and long-term investment, and to better reflect changing marketplaces.</p> <p>The Scottish Government accepted most of the recommendations. There are expectations that implementing these could cost an additional £80 million a year. It is not yet clear who is responsible for these costs.<sup>4</sup></p>             |         |  |  |  |
| <p><b>Enterprise and skills review</b></p> <p>The Scottish Government's review of the enterprise and skills system in 2016 recommended the creation of regional economic partnerships be led by councils.</p> <p>The implementation of this is still at an early stage but changes will impact on councils' work to support local businesses and business gateways.</p>   |         |  |  |  |
| <p><b>Early Learning and Childcare</b></p> <p>The Scottish Government is committed to extending free childcare for all three-and four-year-old children and some two-year-olds from 600 hours to 1,140 hours by 2020. Councils had to produce plans for the expansion by September 2017 without knowing the full details about funding or how the scheme will work.</p> <p>Our report <a href="#">Early learning and childcare</a>  found that there are significant risks that councils will not be able to deliver the additional hours by 2020.<sup>5</sup></p>                            |         |  |  |  |
| <p><b>Community Empowerment Act</b></p> <p>See <a href="#">paragraphs 8 to 13</a> below</p>   |         |  |  |  |
| <p><b>Named Person provision</b></p> <p>Under current Scottish Government plans every child in Scotland would have a named person responsible for helping them get the support they need. In many cases, these will be teachers. However, there are delays to the scrutiny of the Bill introducing the named person provision after the Supreme Court ruling against the scheme in July 2016.</p>   |         |  |  |  |
| <p><b>Local Governance review</b></p> <p>The Scottish Government aims to strengthen local decision-making and democratic governance in ways that improve outcomes for local communities and give greater control to those who live and work in the area. The Scottish Government and COSLA launched a review in December 2017 to consider how decisions are made about Scotland's public services with the aim of devolving more power to communities. The review's findings will contribute to a Local Democracy Bill which will be introduced before the end of the Parliament in 2021.</p> |         |  |  |  |

Cont.

## Exhibit 1 (continued)



Increased expectation







Change the role of council



Lack of clarity



Financial implications

| Implication   | Changes   |   |   |   |
|---|---|---|---|---|
|   |  |  |  |  |
| <p><b>Islands Bill</b></p> <p>The Islands (Scotland) Bill was introduced to the Scottish Parliament in June 2017. It contains a number of measures to ensure a sustained focus on the needs of Scotland's island communities.</p> <p>Once in place, the Islands Bill will require public bodies to prepare an Island Impact Assessment when introducing new or revised policy, strategies or services that may impact island communities differently to other communities. This will require councils to identify the direct and indirect consequences and adjust their proposals accordingly. They will also be required to report every year on the impact of island proofing on their functions.</p> | ✓   | ✓   |   |   |
| <p><b>Scottish Crown Estate Bill</b></p> <p>Crown Estate assets include most of the seabed, 590 square kilometres of foreshore, rural land, commercial property and the rights to wild salmon fishing and naturally occurring gold and silver.</p> <p>The Scottish Crown Estate Bill allows public bodies, including councils and community organisations, to manage the Crown Estate in Scotland. The Crown Estate will remain property of the Queen and any revenue will be paid to the Scottish Government.</p> <p>This would be an additional role for councils to manage which is likely to have financial and staffing implications.</p>  | ✓   | ✓   |   | ✓   |

### Notes:

1. European funding in Scotland 2014-20, Scottish Parliament Information Centre, November 2016.
2. EU nationals living in Scotland, Scottish Parliament Information Centre, November 2016.
3. A Nation With Ambition: The Governments Programme for Scotland 2017/18.
4. Debate in Scottish Parliament, 12 September 2017.
5. [Early learning and childcare](#) , Audit Scotland, February 2018.

Source: Audit Scotland

### Councils and their partners are developing fresh approaches to empowering local communities and actively involving them in making decisions

**7.** Councils are now required to fulfil the expectations of the Community Empowerment Act (Scotland) 2015. This seeks to ensure communities are actively involved in deciding how public services are planned and provided and seeks to empower community bodies through transferring ownership of land and buildings. It intends to enhance outcomes for communities by improving the process of community planning, involving communities at all stages and ensuring that local service providers work with communities to meet the needs of the people using the services.

**8.** Community empowerment is a complex area and will require new ways of thinking about what constitutes good and effective community empowerment and how to work most effectively with the range and diversity of local communities. Underpinning



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

the Act is the intention to reduce inequalities. The Act could have staffing and funding implications as councils seek to work more closely with disadvantaged harder-to-reach groups or could provide savings where communities take over council services. Public sector partners will benefit from working together and sharing their learning experiences across sectors and organisations where possible.

**9.** All Community Planning Partnerships (CPPs) published a Local Outcome Improvement Plan (LOIP) for the first time in October 2017 setting out their local priorities. It will be important for CPPs to use a robust evidence base to target those groups of people in greatest need and reduce inequalities. Clackmannanshire Council and its partners worked closely with communities in developing the new LOIP. This includes a more focused set of priorities for specific geographic areas and particular groups of people such as children and women and these will provide a clear basis for prioritising resources in the future.<sup>2</sup> It is too early to assess the full impact of LOIPs. The Improvement Service will publish an overview of LOIPs in 2018, summarising the LOIPs and identifying good practice.

**10.** Best Value Assurance reports (BVARs) show that councils are committed to community empowerment and there are some examples of good work taking place. However, they are still at the early stages of realising the ambitions of the Act. Councils will need to continue to develop their approaches to community empowerment and there is some evidence that there is room for improvement. For example, in 2016 only 23 per cent of adults agreed that they could influence decisions affecting their local area; this figure has remained relatively static since 2009.<sup>3</sup>

**11.** Councils continue to use mainly traditional approaches of community engagement to find out local people's views, for example citizen's panels and periodic consultations on specific issues. However, there is also evidence that councils are starting to engage differently with their communities. Orkney Islands Council is providing a closer link with remote communities through its Empowering Communities project. The council funds two pilot 'Island Link Officers' on the islands of Papa Westray and Stronsay and has established a 'community office' on each island. This gives communities more influence on policies, decisions and services that affect them and also enables services to be more efficient and responsive to local issues and needs.

**12.** In addition to the Act, the Scottish Government and COSLA announced that by 2022 communities would decide how at least one per cent of local government budgets (around £100 million) will be spent. Councils are already adopting a range of approaches. For example, East Renfrewshire Council has set aside a £600,000 repair fund for residential roads. Community participants have ranked their top two preferences for which roads should be repaired first. Glasgow's Participatory Budgeting Evaluation Group, PB Consulting and What Works Scotland have produced a range of participatory budgeting guides and an evaluation toolkit to help councils.

### The 2017 local government elections resulted in significant changes for councils

**13.** The 2017 elections resulted in significant changes for councils:

- A large number of councillors elected were new to the role. In some councils, for example City of Edinburgh Council, more than half of councillors were new.
- Three-quarters of councils are now run by different political groupings.




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**Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide in the future? What is your role as a councillor in this?**

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- There is no single majority political party in charge in any council - 16 councils are run by coalitions and 13 are minority administrations. The three island councils have a majority of independent councillors.
- For the first time since 1997, three political parties each have over 20 per cent of the vote.

**14.** These changes can bring additional pressures affecting how a council operates, during the transition period from one administration to another, or as political arrangements are established and bed in. Indeed, the administrations established in both Clackmannanshire and East Dunbartonshire Councils following the elections resigned during 2017. Having no single majority party in a council will often require more complex negotiations in the decision-making process to ensure sufficient support across all councillors. Whatever the result of democratic elections, councillors must continue to work together with senior management to address their corporate responsibilities in running a complex organisation that faces significant challenges in service delivery.

**15.** One of the Accounts Commission's strategic priorities relates to councillors having the right knowledge and skills to scrutinise council performance and decision making. This is particularly important for councils with a large number of new councillors with no experience of the role. Our BVARs show that councils were generally providing significant amounts of training for councillors. However, it is essential that councillors attend the training offered to gain the benefits intended, and there is evidence that attendance at training sessions is poor in a few areas.

**16.** It is important for a healthy democracy that councils represent and reflect the make-up of their communities in terms of gender, ethnicity and other socio-demographic characteristics. Yet, only 30.5 per cent of councillors elected in May 2017 were female and Comhairle nan Eilean Siar had no female councillors.<sup>4</sup> Female representation at council level is below that at the Scottish Parliament (36 per cent) and UK Parliament (32 per cent). National data is not available on ethnicity and other socio-demographic characteristics of councillors. However, councils should explore how representative their elected bodies are and what, if anything, they can do to improve this.

### **Scottish Government funding has fallen in real terms in recent years and it is more difficult to make savings in some areas**

**17.** Scottish Government funding is the largest source of income for councils. Revenue funding, that is funding for day-to-day services, from the Scottish Government increased by 0.2 per cent in real terms from £9,793 million in 2017/18 to £9,814 million in 2018/19. Between 2010/11 and 2018/19, revenue funding has fallen by 9.6 per cent in real terms.<sup>5</sup>

**18.** The reductions in funding from the Scottish Government present councils with a major challenge to continue to make savings and deliver services at current levels. However, there are limitations in where and how councils can make savings. For example, councils must make repayments on their borrowing and meet employee pension costs each year.

**19.** Councils and IJBs also deliver key Scottish Government policies and priorities, such as in education and free personal care for older people. Councils must spend some of the money they receive delivering these priorities. For example, the Scottish Government provided £51 million in 2017/18 to councils, on the basis



**Do you know what training is available to help you fulfil your duties?**


**Does the training meet your needs? If not, do you know who to speak to?**

that it would be spent on helping to maintain teacher-pupil ratios. The amount of money not for specific purposes has fallen at a faster rate than total revenue funding (10.5 per cent compared to 9.6 per cent since 2010/11). This could cause tensions for councils in delivering local and national priorities.

**20.** At the same time councils face increasing spending obligations through UK and Scottish Government policy priorities for which they do not always receive additional funding. In addition to those set out in [Exhibit 1 \(pages 11 to 13\)](#), there are a number of additional cost pressures:

- The end to the public sector pay cap - a one per cent increase to council staff wages would cost around £70 million a year.<sup>6</sup>
- The apprenticeship levy - requires a 0.5 per cent levy on organisations with wage bills above £3 million. This affects all councils and the trade union Unison estimates it could cost an additional £25 million a year.<sup>7</sup>
- Equal pay claims - 27 councils had 27,000 outstanding equal pay claims in September 2016. The cost to councils in settling these is unknown but could be significant.<sup>8</sup>
- Any future increases in national insurance contributions.

#### **Smaller services have borne brunt of service cuts**

**21.** In 2017/18, councils allocated 76 per cent of their budgets to education and social care services. Although it is possible to make efficiencies in these areas, national policies, specific funding and demand for services mean it is more difficult to do so. As we reported in the [Financial overview 2016/17](#) , the pattern has been one of larger reductions to relatively smaller service areas in recent years, although these often include important regulatory functions. Over the last five years, planning and development services have seen a 20 per cent reduction in spending and culture services 11 per cent compared with no change in real terms to social care and education spending.<sup>9</sup>

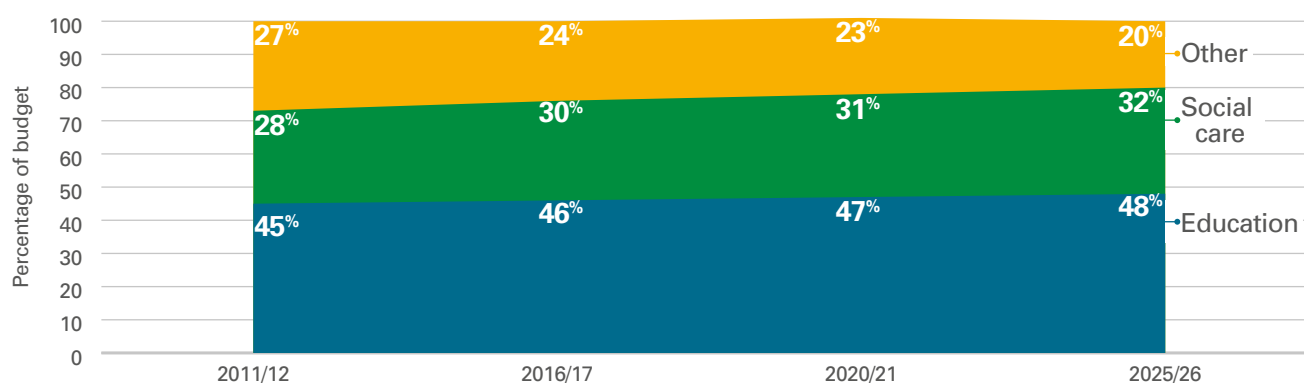
**22.** At an individual council level, North Ayrshire Council reports that it has made savings of 25 per cent to its base budget over the last eight years. This affected different services in different ways. The council has delivered savings of 16 per cent in education, 20 per cent in social care services and 50 per cent in economy and communities over this period.<sup>10</sup>

**23.** If current trends for spending on education and social care services continue, councils will have significantly less to spend on other services in future years. We have forecast councils' future spending patterns. For this, we assumed local government funding increases in cash terms in line with recent years (2012/13 to 2015/16); an increase in social care spend in line with the increased demand due to a higher number of people of a pensionable age in the population; an increase in education spend in line with recent years; and no service redesign or policy changes. This modelling shows that councils would spend 80 per cent of budgets on education and social care by 2025/26. This would leave only 20 per cent of budgets for all other council services such as road repairs, refuse collection and environmental health in 2025/26, seven per cent less than in 2011/12. planning and leisure and culture services [Exhibit 2 \(page 17\)](#).

## Exhibit 2

### Forecast of council spending patterns

Without service redesign or policy changes our modelling suggests that councils could spend 80 per cent of their budgets on education and social care by 2025/26.



Note: Calculations are based on cash terms.

Source: [Scottish Local Government Finance Statistics 2016/17](#)  Audit Scotland, November 2016



## Population change affects demand for services and council funding

**24.** Scotland's population is predicted to grow by three per cent between 2016 and 2026 and five per cent between 2016 and 2041. This growth is entirely from inward migration as deaths will outnumber births in each year. The UK's decision to leave the European Union may have an impact on inward migration which could affect the predictions, particularly for the number of working age people.<sup>11</sup> Scotland's population is ageing. Over the next ten years the number of people aged 75 and over is predicted to increase by 27 per cent and by 79 per cent within the next 25 years [Exhibit 3 \(page 18\)](#).

**25.** Predicted population change has significant implications:

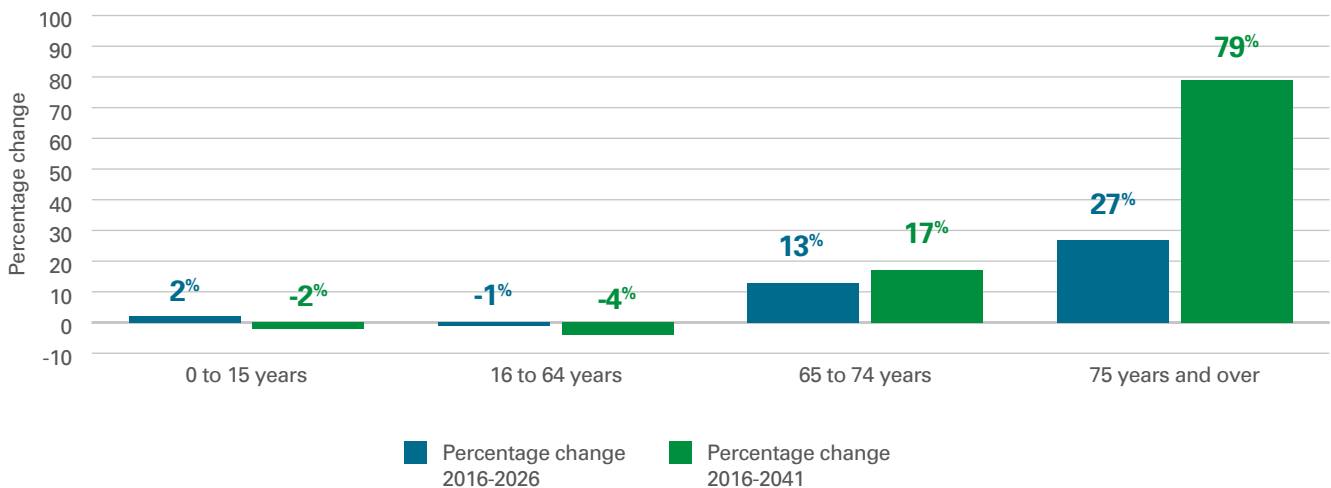
- The sharp increase in the rise of older people is expected to lead to increased demand for social care services. The majority of over-65s in Scotland have two or more long-term conditions such as diabetes or heart disease and the majority of over-75s have three or more long-term conditions.<sup>12</sup> The Scottish Affairs Committee at Westminster concluded this will significantly increase demand for social care services.<sup>13</sup>
- There will be fewer working age people compared to people of pensionable age and school children. Working age people generate more money for public spending through taxation, while older people and children generally use more public services such as social care and education. In 2016, there were 574 people of pensionable age and school children for every 1,000 working age people. This is known as the dependency ratio. This is expected to increase to 640 people of pensionable age and children for every 1,000 people of working age by 2041.<sup>14</sup> The Scottish Affairs Committee also concluded that demand for funding for services for an ageing population will grow quicker than generated income due to slower growth of the working age population.



### Exhibit 3

#### Scotland's population projections, 2016-2026 and 2016-2041

Scotland's population is predicted to age significantly.



Source: National Records for Scotland, 2016 population projections

#### Population change brings different challenges for different councils

**26.** Predicted population change is not uniform across councils, meaning different councils face different challenges [Exhibit 4 \(page 19\)](#). Between 2014 and 2039, the population is expected to increase in 21 councils and decrease in 11. Midlothian Council is expected to see the biggest increase (26 per cent) and Comhairle nan Eilean Siar the biggest decrease (14 per cent).

**27.** The one constant trend across all Scottish councils is that the number of people of a pensionable age and over is expected to increase. This varies from a 48 per cent increase in West Lothian Council to an eight per cent increase in Dundee City Council. This will have differing impacts on demand for social care services.

**28.** In seven councils (Renfrewshire, Orkney Islands, Scottish Borders, Highland, Angus, South Lanarkshire, Moray) projected population increase is made up entirely of elderly population growth. For example in the Moray Council, the population is expected to grow by four per cent but the working age population and child population to fall by three per cent and eight per cent respectively. The population of a pensionable age and over will grow by 33 per cent over the same period.

**29.** There is significant variation in the predicted change in the population of children (defined as aged 0-15):

- Twenty councils are expected to see a decrease. These range from a 28 per cent reduction in Comhairle nan Eilean Siar to 0.1 per cent in Scottish Borders Council.
- Twelve councils are expected to see an increase. These range from 25 per cent in Midlothian Council to two per cent in Fife Council ([Exhibit 4](#)).



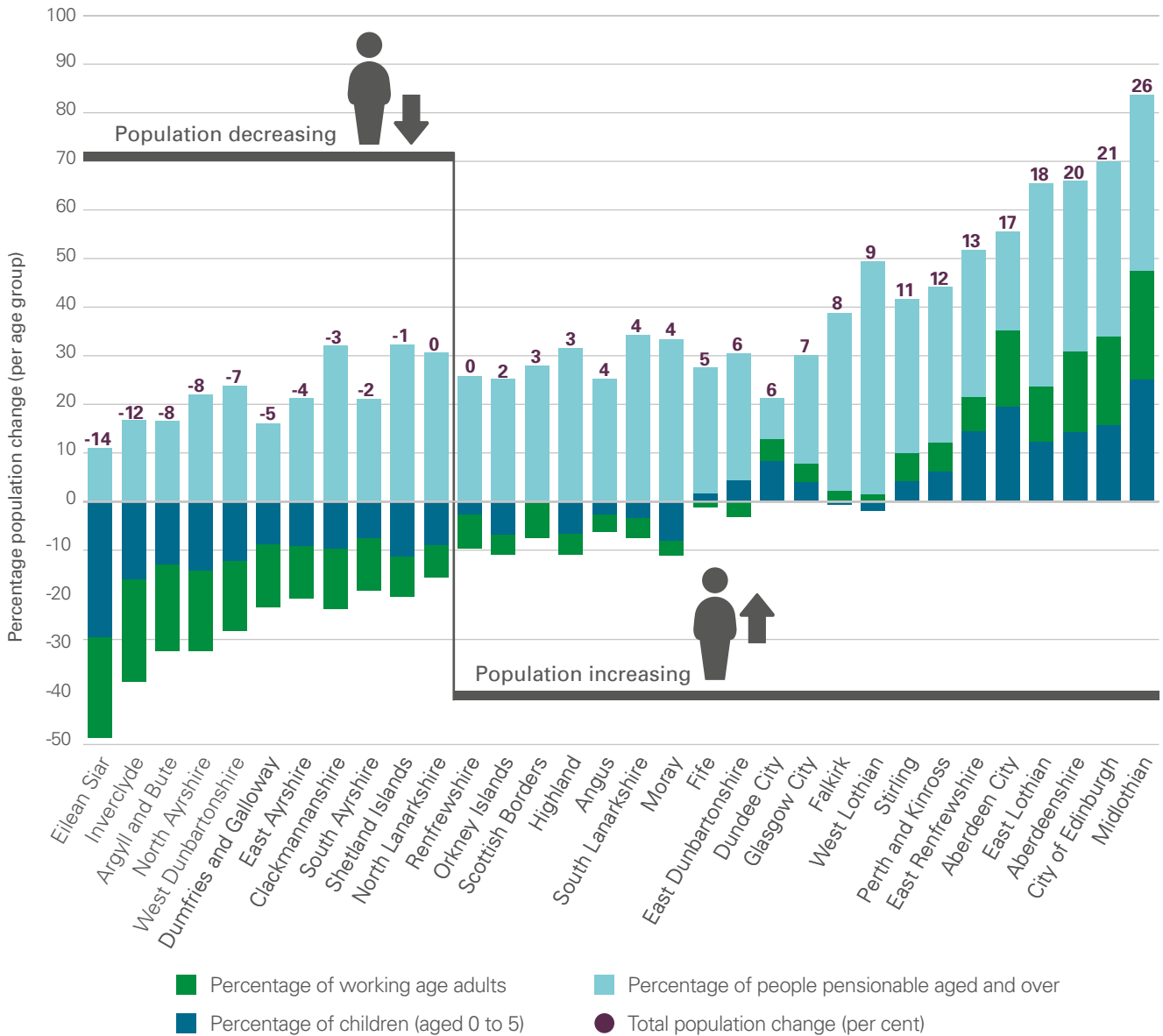
**Have you considered the demographics of your council and how this will impact on service delivery and funding in the future?**



## Exhibit 4

### Councils face different challenges relating to population change, 2014 to 2039

Eleven councils face predicted population decline by 2039.



Source: National Records for Scotland, 2014 population projections; and Audit Scotland



**30.** Changes to the number of children will pose different challenges for councils as they continue to deliver education services. Some may have to build new schools and recruit additional teachers while others will have to manage their school property estate and teacher-pupil ratios as their school population shrinks. This will be particularly challenging for Comhairle nan Eilean Siar and other island and rural councils.

#### Population change also has financial implications for councils

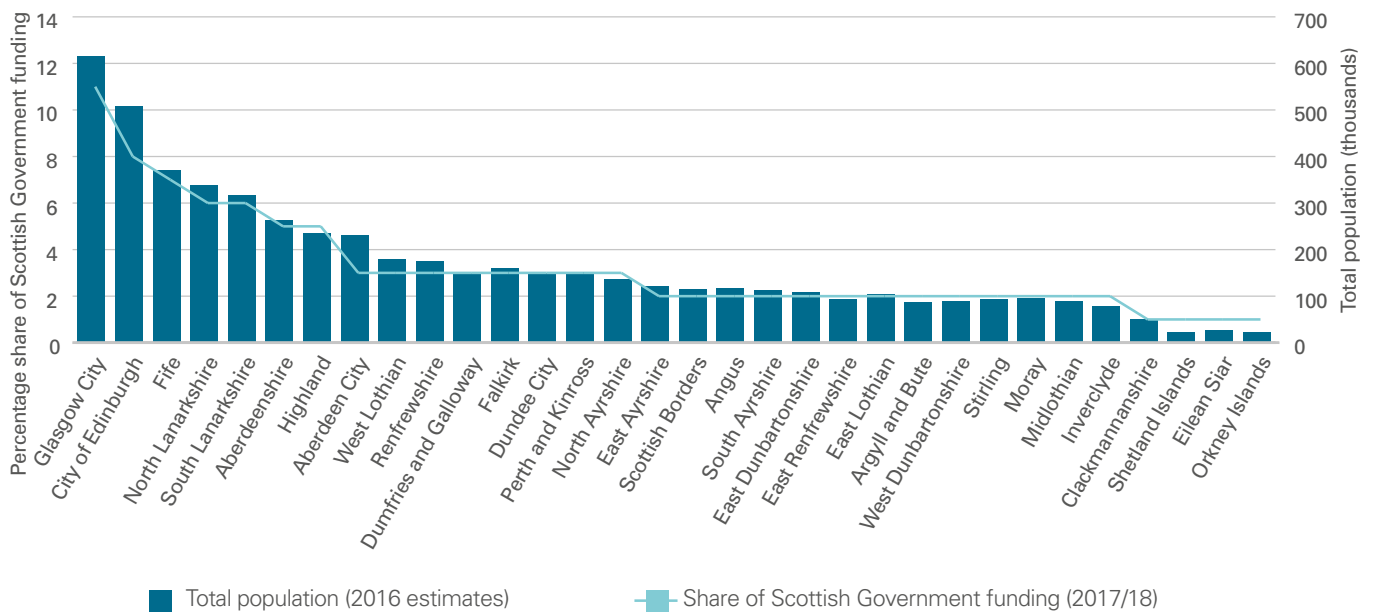
**31.** The implications for councils with a decreasing population include: fewer people to pay council tax, a lack of local workforce which may make the area less attractive to businesses, and low population figures making some local services harder to sustain.

**32.** In our 2017 local government financial overview report, we outlined how the Scottish Government funding formula is largely based on the size of council's populations, although under proposals to review funding for education, this may change ([Exhibit 5](#)). Currently, those councils with a projected decrease in population can expect to see greater reductions to their budgets compared to councils with increasing populations.

### Exhibit 5

#### Total population and share of key element of Scottish Government funding

The amount of funding councils receive from the Scottish Government is closely linked to their population.



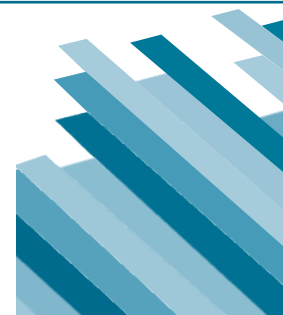
Note: Scottish Government funding is Grant Aided Expenditure and Special Island Needs Allowance.  
Sources: Audit Scotland; the Scottish Government - the green books



**33.** However, all 11 councils which are expected to have reduced total populations are expected to have increases in the number of people of a pensionable age and over ([Exhibit 4](#)). These councils will therefore have a higher dependency ratio and a consequent increased demand for services at a time of reduced funding. Many of these councils are also rural which poses an additional challenge in delivering services as cost effectively as urban councils. We recommended in our 2016/17 local government financial overview that the Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government.

# Part 2

## Councils' response to the challenges



### Key messages

- 1** Councils are increasingly using their reserves. Some councils have higher forecast funding gaps than their current levels of reserves. For these councils, the delivery of savings is critical. Long-term financial planning is not easy but is vital in helping councils deliver sustainable services.
- 2** Reducing staff numbers has been one of the main ways councils have reduced their spending and, in some councils, this is set to continue. Given the changes in workforce to date and the expected new demands on councils, robust workforce planning is essential to ensure councils have the right people, who have the right training and skills, to deliver their priorities. However, not all councils have organisation-wide workforce plans and the quality of these varies.
- 3** Achieving transformational change is increasingly vital to councils as they respond to reductions in funding. Councils need to ensure they have effectively planned and invested to deliver their transformational programmes and that staff have the necessary skills. Cohesive and decisive leadership is essential to address the significant challenges councils face.

### Councils are increasingly using their reserves and for some delivering savings is now critical

**34.** All councils hold reserves. These are funds that councils can spend if they need to meet an unexpected cost, bridge a gap in funding or if they wish to invest in some initiative or specific activity. A council can only use reserves once, they are not a way to sustain services year on year. As we reported in our financial overview, 19 councils drew on their revenue reserves in 2016/17, an increase from the eight councils that did so in 2015/16. In 2016/17, 13 councils used more reserves than they had planned. Overall council revenue reserves fell by about £32 million in 2016/17.<sup>15</sup>

**35.** Some council financial plans for 2017/18 relied more heavily than others on using reserves to bridge funding gaps. Forecast funding gaps remain higher than current levels of reserves for a number of councils, making the delivery of savings critical. Continuing to use reserves at the current rate is not an option for some councils as they would run out of reserves within two to three years if they continued to use them at the level planned for 2017/18.<sup>16</sup>

**36.** Robust medium-term financial strategies and savings plans are vital for the financial sustainability of councils. 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 achievable savings.

**37.** Evidence from councils' annual audit reports generally demonstrates good medium-term (three to five years) financial planning, with some councils using scenario planning to provide a range of options. However, more work needs to be done to link budgets to plans and outcomes, establish sustainable long-term (beyond five years) planning arrangements and demonstrate that outcomes and strategic priorities are being delivered.

**38.** The Accounts Commission recognises the challenge to medium-and long-term planning of the Scottish Government providing funding figures for a single year, without indicative figures for future years. However, the absence of indicative funding for future years should not prevent councils projecting future income and spending, and planning accordingly. Indeed, uncertainty increases the need for councils to plan ahead.

### **Councils have adopted a range of approaches to reduce spending and increase income**

**39.** For most councils, achieving savings while continuing to deliver services requires a mixed approach. This includes reducing workforces and services, taking measures to increase income, and digitising services; along with more transformational changes to service delivery or stopping some services altogether. In practice, these different approaches are interdependent. Councils need effective leadership and governance, strong financial management, and a workforce with the right skills to successfully deliver change.

#### **Reducing workforce size has been one of the main ways councils have reduced their spending but workforce planning is poor in some councils**

**40.** Most councils have reduced their workforce in recent years.<sup>17</sup> Overall, staff numbers have fallen every year since 2009. Nationally, the biggest reductions in staff numbers were in the years 2009 to 2012, when the total council workforce fell by 21,000 (nine per cent).<sup>18</sup> Since then, overall staff numbers have continued to decrease at a relatively steady rate. Between 2012 and 2017, councils' total workforce fell by a further five per cent (10,000 staff); including a one per cent (2,500 staff) drop from 2016 to 2017.<sup>19</sup>

**41.** Our analysis by council over the period 2011–2017 suggests that some councils have relied more heavily than others on staff reductions to make savings ([Exhibit 6, page 23](#)). However, because we are unable to track staff moving to arm's-length external organisations (ALEOs), it is difficult to draw clear conclusions about changing workforce numbers nationally. For example, it is likely that the workforce reductions recorded by Highland and Scottish Borders Councils are partially due to large numbers of staff transferring to ALEOs during this period.

**42.** Data for quarter 3 in 2017 was the first since quarter 2 in 2008 to report an increase in staff numbers compared to the previous year.<sup>20</sup> However, it is too early to comment on whether this indicates any upward trend overall, and evidence from the first year of BVARs suggests that the long-term trend of reducing staff numbers to meet funding gaps is set to continue in some councils. For example Inverclyde Council has reduced its staff by just over 500 (13 per cent of workforce) in the last seven years.<sup>21</sup> It estimates that it will need to reduce its staff by a further 80 to 130 staff over the next two years (this is between two to four per cent of its workforce).<sup>22</sup> East Renfrewshire Council needs to reduce its workforce by an average of 100 staff a year over the next three years. This is around three per cent of its workforce in the first year.




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**Does your council have medium and long-term financial plans in place?**

**Does your council link budgets to plans and outcomes and report on these?**

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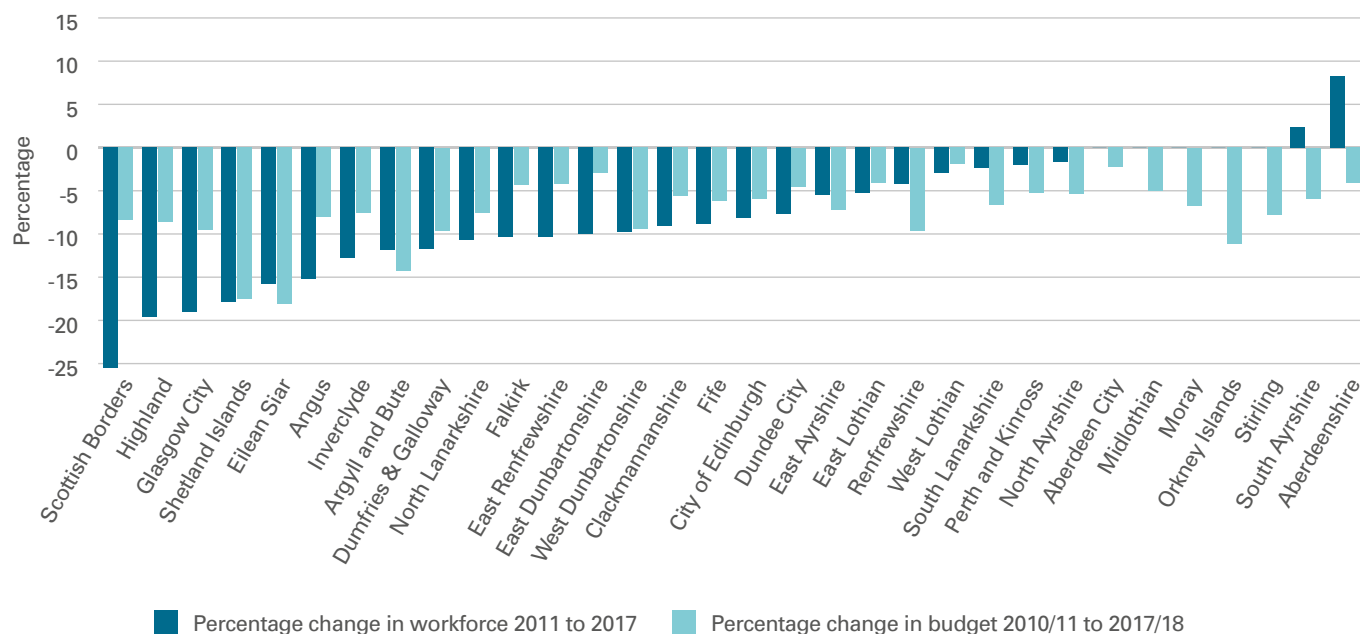
**Does your council have the right structures in place to ensure that all your efficiency, improvement and transformational approaches are working together to maximise savings?**

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## Exhibit 6

### Changes in council budgets and workforce 2011 to 2017

The use of staff reductions to make savings varies across councils.



Notes:

- Budget is defined as general revenue grant and non-domestic rates, in real terms.
- Workforce change is from Q1 2011 to Q1 2017.

Source: Audit Scotland and Joint Staffing Watch, Scottish Government



**43.** It is critical that councils carefully manage workforce reductions and that each council ensures it has people with the skills required to deliver its priorities now and in the future. Workforce planning is complex and councils face a number of challenges:

- The council workforce is ageing. The Scottish Social Services Council reported that the median age amongst public sector social care employees is 48 years.<sup>23</sup> UNISON also report high proportions of staff over the age of 45 years in building standards, school support and home care workers.<sup>24</sup> Councils will need to consider if and how to replace these experienced workers.
- Many councils struggle to recruit and retain employees. Councils in rural areas report difficulties recruiting staff to some roles due to their remote location. Several councils have reported that education and social care staff are particularly difficult to recruit. Others report difficulties recruiting staff in specialist or professional roles such as engineers and accountants. Our Clackmannanshire Council Annual Audit report highlights that the council has found it difficult to recruit suitably qualified and experienced finance staff. The UK's decision to leave the European Union could create further difficulties in staff recruitment.
- Council workforces must be able to adapt to deliver council priorities and meet future challenges. National early learning and childcare commitments will have significant implications for council staffing. Councils will also need to ensure they have staff with the right skills to maximise the potential of new digital technology.



**Does your council have an organisation-wide workforce plan?**


**Does it contain information about the numbers, costs, and skills of the actual and desired workforce?**

**How is your council looking to maximise income?**

- Strong leadership is essential for councils to effectively manage transformation and develop new ways of delivering services within reduced budgets. Yet there can be difficulties recruiting to the top team as salaries are often lower than the private sector at senior levels.<sup>25, 26</sup> The Improvement Service's report on Talent Management in the Public Sector highlights that public sector bodies need to do much more to develop their approach to managing talent.<sup>27</sup>

**44.** Despite its importance, only half of councils had organisation-wide workforce plans last year.<sup>28</sup> Workforce plans vary in quality. For example, not all provide critical planning information, such as:

- the numbers, cost and skills of the current and the desired workforce
- how the move from the current to the desired workforce will take place and when it will be achieved.

**45.** Some workforce plans are short term in nature and only consider workforce needs for the current year, for example, the [Best Value Assurance Report: Inverclyde Council](#)  reports that longer-term forecasts need to be developed. Councils also need to ensure workforce plans will help to deliver corporate priorities, transformation plans and financial plans.

### Councils have sought to increase income

**46.** There are opportunities for councils to raise income through council tax and fees and charges. However, there are limits on how much can be raised.<sup>29</sup>

**47.** The council tax freeze ended in 2017/18. Twenty-four councils increased council tax, including 21 that raised rates by the maximum three per cent allowed by the Scottish Government. This rise increased council income by around £53 million.<sup>30</sup> Proportionately this represents a small increase to council budgets. It is possible that public satisfaction with services will decline if the service delivered is not perceived to improve in line with higher taxes.

**48.** It is difficult to accurately tell how much income is generated through fees and charges in Scotland. The Scottish Parliament Information Centre (SPICe) Briefing on Local Government Finance used Local Financial Returns (LFRs) to analyse how councils have raised income through fees and charges to people using services. It found that revenue from fees and charges had fallen by 4.5 per cent in real terms between 2011/12 and 2015/16, from £569.7 million to £544.2 million.<sup>31</sup> However, the data provided in the LFRs is self-reported and there can be differences with how councils categorise income and expenditure. For example, some councils may not record income generated by ALEOs in the same way that they record income generated directly by the council.

**49.** While it is not possible from the data currently available to assess nationally how councils use their ability to generate income to offset the impact of reduced Scottish Government funding, there are indications that councils are increasing income through fees and charges. For example, the RAC Foundation reported that total income for Scottish councils from parking fees was £79.3 million in 2015/16, a five per cent increase over the previous year.<sup>32</sup> Citizens Advice Scotland has found that burial charges increased in 25 councils in 2016/17, with an average increase of £64.31 (5.5 per cent).<sup>33</sup>

**50.** Councils must consider the impact that increased fees could have on inequality within their communities, as higher charges are likely to have a disproportionate effect on deprived and vulnerable communities. All seven councils that submitted evidence to the Parliament's scrutiny of the draft budget indicated that they considered inequalities when making decisions about fees and charges.<sup>34</sup>

**51.** Councils are also getting together to share ideas and approaches to maximising income and many are involved in a network on 'commercialisation' led by the Association for Public Sector Excellence (APSE). This work is at an early stage but could lead to councils generating additional income from a range of activities.

### Transformation is increasingly important to councils

**52.** By transformation we mean significant programmes of activity that radically change the services councils provide and how they are delivered. This involves making services more efficient and achieving better outcomes for people who use services and for communities. Good transformation will be based on robust option appraisal. It should reflect the needs of communities, consider alternative service delivery models and seek to reduce long-term demands on services.

**53.** Planning for and delivering transformational savings will become increasingly important to councils if funding continues to fall and decisions about spending priorities become increasingly difficult. Options appraisal is an important tool to help councils make an informed decision on what their transformation priorities should be.

### Transformation needs to be properly scoped and resourced for it to deliver the desired savings

**54.** Some councils use formal and explicit transformation plans to deliver their strategy for change. Other councils integrate transformation into developing how services are delivered without using a specific transformation plan. Both approaches can be effective if the right leadership and management are in place. Cohesive and decisive leadership is essential to address the significant challenges councils face.

**55.** Councils need to ensure that they are investing the right time and resources to deliver the scale of the planned transformation. Real transformation takes time and to be successful councils should:

- set priorities - councils cannot transform everything at once
- conduct robust option appraisals - councils should consider a wide range of options
- have a clear strategy and a realistic savings target which is properly monitored
- have proportionate governance structures
- assess the impact on equality of access and opportunity and whether change may have a disproportionate impact on more vulnerable or poorer communities or individuals.

**56.** Transformation needs:

- effective leadership from councillors and the senior management. In Dumfries and Galloway Council, progress is reported regularly to the Business Transformation board and Business Transformation steering group




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**Does your council compare its policies and priorities to raise income with other councils?**

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**Does your transformation activity contain plans for truly transformational change? Will it improve services and save money?**

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- staff who have the time to work exclusively on transformation. West Lothian Council has 15 full-time equivalent staff (including senior and specialist staff) on secondment working on the scoping stage of their transformation plan.
- staff with the skills to achieve council priorities and make the required changes to services. At Inverclyde Council, 100 employees took part in a senior management leadership development course which emphasised delegating operational decisions to front-line managers. East Renfrewshire Council has recognised that there is limited supply of some skills in the council. In response it has designed and delivered a Scottish Qualifications Authority (SQA) accredited course in project management and a course in change management.

**57.** Councils should ensure that planned savings are realistic and achievable. Councils that are already under significant financial strain need to be especially careful about this. For example, Midlothian and Clackmannanshire Councils have low general fund reserves and high savings targets for their transformation plans, which will be challenging to meet. Not delivering expected savings could mean their general fund reserves fall.

**58.** There is a high level of risk involved in transformation projects. These include expected savings not being delivered (with consequent effects on a council's reserves and financial position); alternative models of service delivery not achieving the expected service standards and outcomes and there being insufficient staff time and skills deployed. Not all transformation activity will have the desired effect. Councils need to be willing to take some risk, within an effective risk management framework, in their approaches to transformation.

**59.** Councils are sharing successful new approaches. The Innovation Exchange website, which is supported by the Society of Local Authority Chief Executives (SoLACE) and the Improvement Service, brings together innovative projects from across all councils. It allows councils to share good practice and improve how services are provided.

### **Councils recognise the potential of digital solutions to deliver savings and make services more efficient**

**60.** Digital solutions are a key element of most councils' transformation activity. When we talk about digital, we are not just talking about technology. We are talking about how digital technologies and solutions are affecting and changing human interactions. Some of the ways that councils are adopting digital solutions include:

- introducing new technology to allow front-line staff to access and process information wherever they are working, for example home carers
- making better use of data by linking and integrating data across departments
- streamlining and automating processes to make them more straightforward for citizens and more efficient for the council, for example completing forms and making payments
- ensuring the security of data and information held by the council
- making information more accessible to residents through websites.




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**Have you invested in the right resources for your transformation activity to achieve its planned savings?**

**Does your council have the necessary governance structures to effectively oversee and monitor its transformation activity?**

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**What is your council's risk appetite for transformational change? Are risks properly monitored?**

**What will the financial implications be for your council if your transformation strategy fails to meet its savings targets?**

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**61.** Councils are incorporating digital solutions in a variety of ways. As councils become more mature users of digital, they are adopting more innovative ways of integrating digital into how they deliver services. Thirty councils have signed up to the Local Government Digital Partnership programme, which aims to strengthen councils' use of digital.<sup>35</sup>

**62.** Many councils are pursuing greater efficiency by integrating digital into how they deliver their services. For example, the Moray Council reports it has made its housing repair service more efficient by introducing mobile working. This has cut travel time to jobs, reduced missed appointments, and allowed seven team members to be reallocated to other areas. North Ayrshire Council increased customer satisfaction from 91 per cent to 98 per cent by improving the digital channels that people can use to access services.

**63.** Some councils are working to make their digital infrastructure more efficient. This involves joining up systems and data that are held by different services and creating systems that are able to share data. Aberdeen City Council has developed a digital transformation programme that prioritises these tasks. One of the anticipated outcomes of this programme is that customers will only have to provide information once to the council, and this information will automatically update data already held by the organisation.

**64.** Our *Principles for a digital future*  report provides guidance on the core principles for successfully planning digital projects.<sup>36</sup> It identifies the following principles for success:

- comprehensive planning setting out what will be achieved and how it will be done
- active governance providing appropriate control and oversight
- putting users at the heart of the project
- clear leadership that sets the tone and culture and provides accountability
- individual projects set in a central framework of strategic oversight and assurance.

**65.** Councils need to balance improving digital access to services with an awareness that not everyone can access or operate digital technologies. Others will be limited in how they can access digital technology; for example, some may only have access to the internet using their mobile phone. Limited access to digital technology is most likely to affect vulnerable and excluded groups. Digital should not become the only way to access council services, but it should be an efficient and easy option of communication for those who choose to use it.



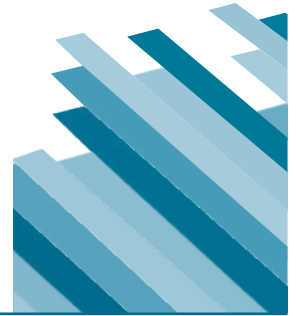

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**Does your council follow the core principals for successfully planning digital projects outlined in our *Principles for a digital future* report?**

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# Part 3

## The impact on council services



### Key messages

- 1** At a national level, indicators suggest that councils have maintained or improved performance in a number of areas despite funding reductions. However, there is considerable variation between councils that is not always easily explained. Our audit work has found that councils articulate their strategic priorities and plans well but often do not report how these connect to actual performance and outcomes.
- 2** However, there is also some evidence that budget reductions are impacting on services. Public satisfaction is falling. There is evidence that social care services for older people are not keeping up with demand, and there is a general risk to the quality of services. The impact of budget reductions on smaller services could be significant but there is limited evidence on this. Councils need to understand and clearly set out the impact budget reductions have had on service delivery and use this to inform future decision making.

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### Despite funding reductions a number of national indicators of performance continue to improve

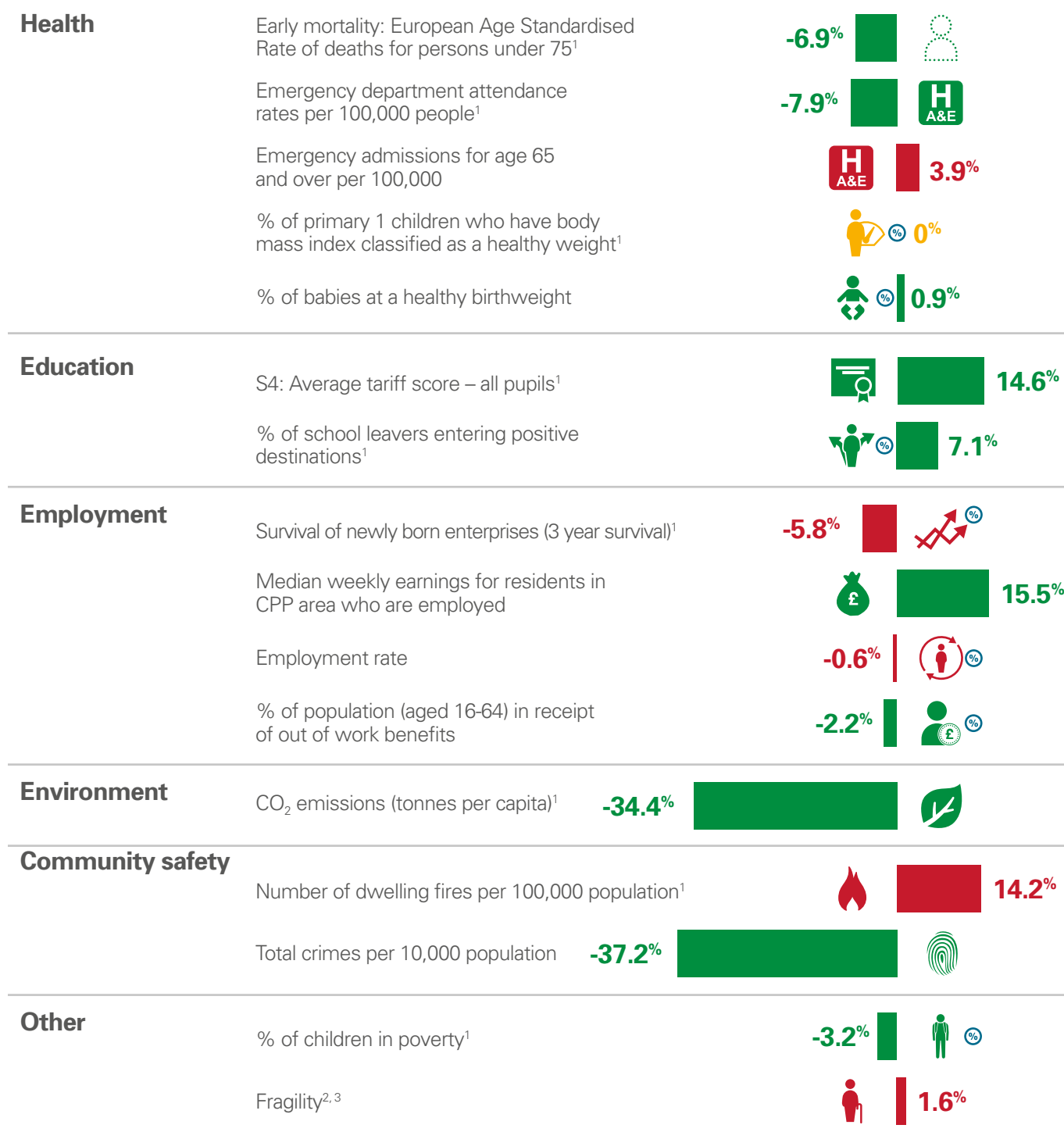
**66.** The Accounts Commission has previously stated that given the challenges facing local government, not least the future financial challenges, it does not expect to see performance improving in all measures for all councils. It is up to individual councils and their communities to agree local priorities and make the difficult decisions about which services to focus time, skills and money on. Effective public performance reporting should reflect those decisions and explain performance variance within that context. Councils will need to continue to have conversations with their communities to understand and explain the impact of budget cuts.


**67.** The Scottish Government's National Performance Framework measures and reports progress towards the Scottish Government's Purpose and national outcomes. The Improvement Service reports on progress against 18 outcomes, supported by 16 performance measures, through the Community Planning Outcomes Profile. Councils work with partners and communities through, for example, CPPs and IJBs to improve outcomes for communities. Changes in outcomes will be influenced by factors wider than council activity so cannot be solely linked to council activity. These measures are designed for use at a community or council level, but we have presented them at a Scotland level for this report. The 16 performance measures suggest that the majority of outcomes are improving across Scotland ([Exhibit 7, page 29](#)).

## Exhibit 7

### Changes in performance measures for Scotland's outcomes 2006/7 to 2016/17

Performance measures suggest that the majority of outcomes for Scotland's communities are improving.



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

Notes:

1. Imputed and projected data has been calculated by the Improvement Service using different methodologies for measures where raw data is not yet available.

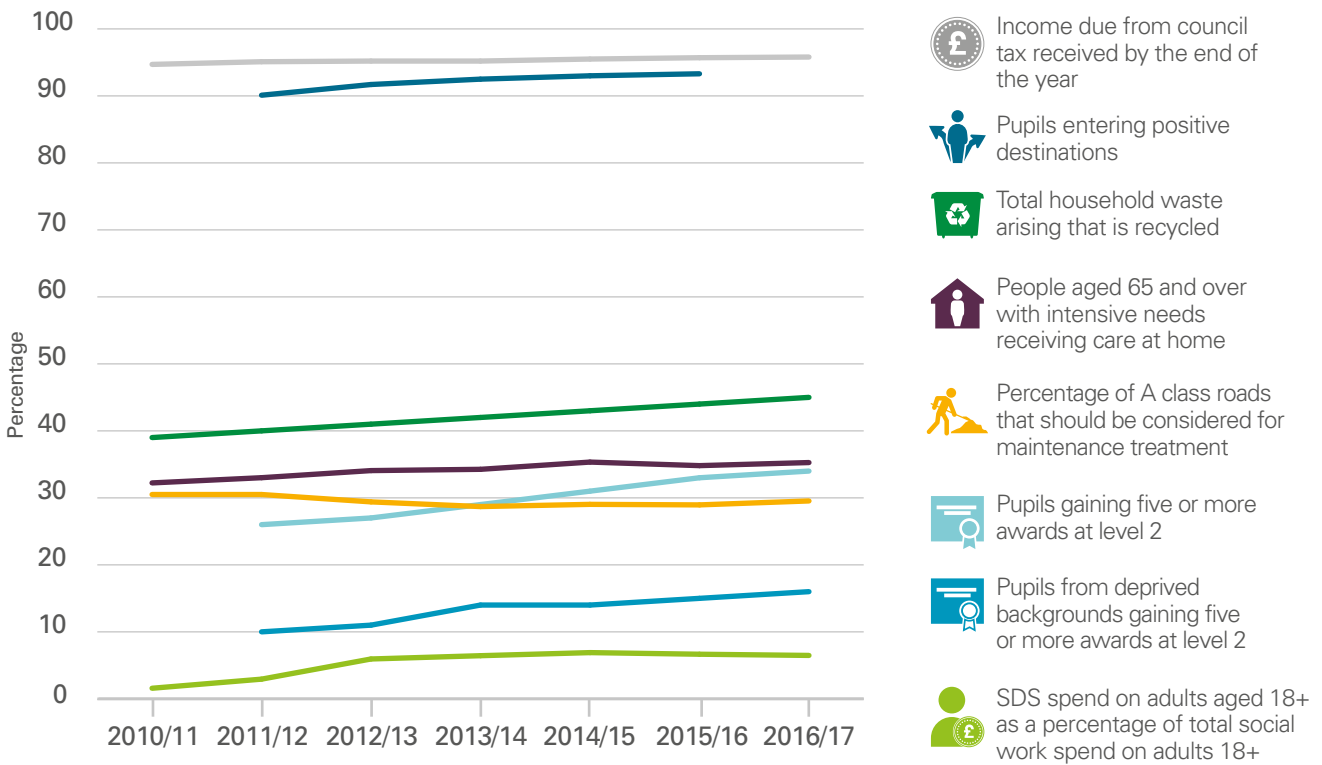
2. Fragility is a weighted combination of three indicators: de-population, rural de-population and old age dependency ratio.

3. Data uses rolling three year averages. All figures are based on community level data and so may have some discrepancies due to rounding.

Source: *Community planning outcomes profile*, Improvement Service, 2016/17

**68.** The Improvement Service, in partnership with councils, also collates and reports on the Local Government Benchmarking Framework (LGBF) to provide comparative performance information for councils to help them improve. The framework includes over 70 performance indicators. While these are not designed to comprehensively cover performance across all council activities, they are spread over a broad range of service areas. We selected for further analysis, a sample of eight measures which give an indication of council performance in services likely to be of significant interest to the public.<sup>37</sup> This shows that councils' performance for these indicators over the last six years has remained the same or improved, except for the proportion of social work spend on self directed support (SDS) which dropped slightly between 2015/16 and 2016/17 ([Exhibit 8](#)).

**Exhibit 8**  
**Performance against selected indicators, 2010/11 to 2016/17**  
 Performance has been maintained or improved.



Notes:  
 1. The percentage of A class roads that should be considered for maintenance treatment indicator is measured over two year periods, for example 2009-11 is plotted in 2010/11.  
 2. 2016/17 data is not available, national data is modelled to provide proxy measure.

Source: Audit Scotland; and *Local Government Benchmarking Framework 2016/17*, Improvement Service



**69.** We have also analysed council spending against indicators to see what impact funding reductions have had on performance at a national level. This shows that despite spending less in most service areas, councils have maintained or improved performance on most of the selected measures ([Exhibit 9, pages 31-32](#)). It is important to note that a number of factors other than spend will impact on how services perform, and individual performance indicators do not show overall quality of a service.

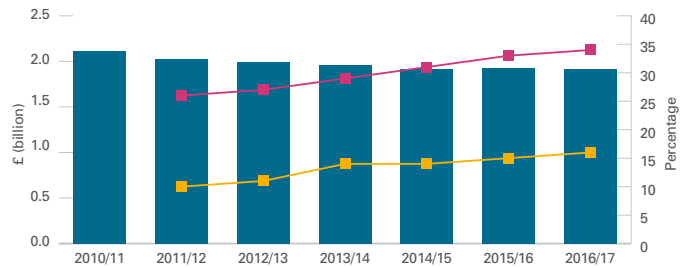
## Exhibit 9

### Performance and spend in key service areas, 2010/11 to 2016/17



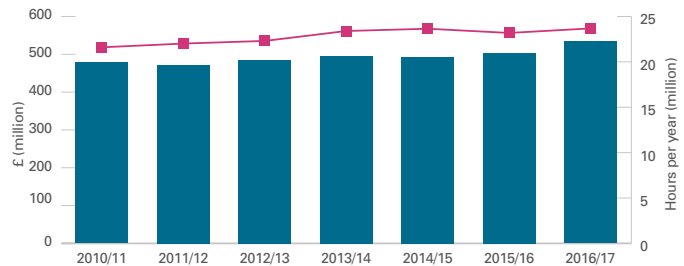
**Councils are spending less on secondary schools but pupils' attainment continues to improve.<sup>1</sup>**

- Gross expenditure on secondary schools (£ billion)
- Percentage of pupils gaining five or more awards at level 6
- Percentage of pupils from deprived backgrounds gaining five or more awards at level 6



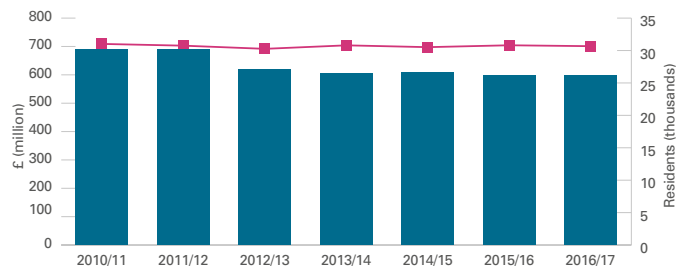
**Since 2010/11 the amount spent on homecare has increased at a faster rate than the number of home care hours.**

- Total expenditure on homecare (£ million)
- Homecare hours per year



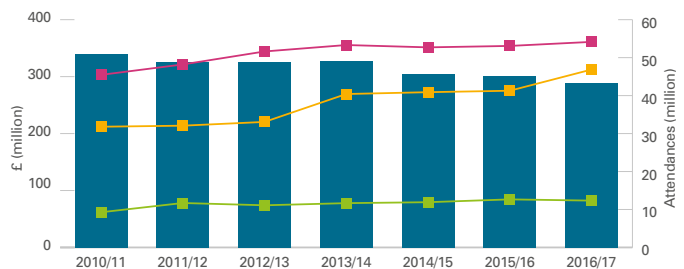
**Spending on residential care homes for older people has remained constant since 2012/13. The number of residents has remained at a similar level since 2010/11.<sup>2</sup>**

- Net expenditure on care homes for older people (£ million)
- Number of long-stay residents aged 65+ supported in care homes



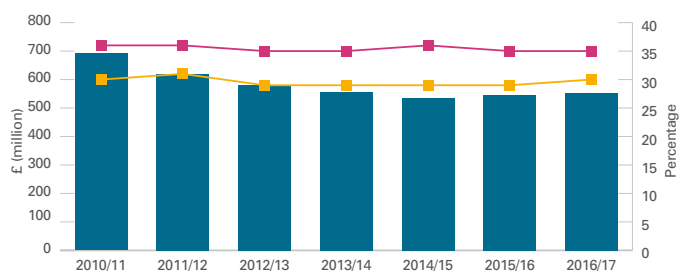
**Libraries, sports facilities and museums have all reduced spending but report increased visitor numbers.**

- Total expenditure on culture and leisure (£ million)
- Number of attendances at sports facilities
- Number of library visits
- Number of museum visits



**Councils spend 20 per cent less on road maintenance but the percentage of roads classified as needing to be considered for maintenance has remained constant.**

- Gross expenditure on roads and winter maintenance (£ million)
- Percentage of A class roads that should be considered for maintenance treatment
- Percentage of B class roads that should be considered for maintenance treatment

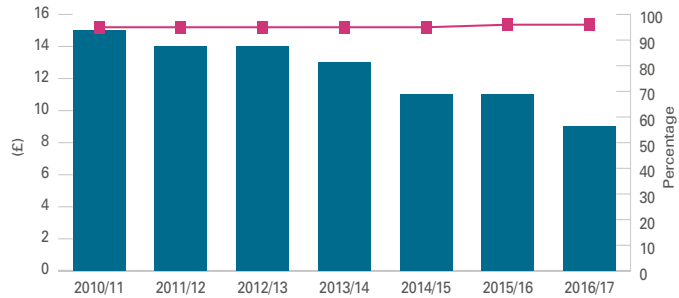


Cont.

## Exhibit 9 (continued)

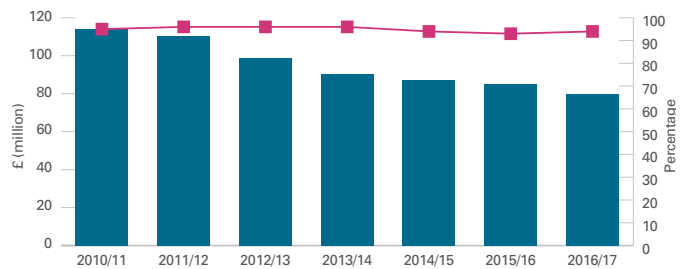
The amount councils spend on collecting council tax has decreased by 41 per cent since 2010/11 but the percentage collected by the end of the year has remained at around 96 per cent.

- Cost per dwelling of collecting council tax (£)
- Percentage of income due from council tax received by the end of the year



Despite a 30 per cent reduction in the net cost of street cleaning per 1000 people since 2010/11, street cleanliness scores have only decreased by three percentage points.

- Net expenditure on street cleaning (£ million)
- Street cleanliness score



Notes:

1. 2016/17 data is not available, national data is modelled to provide proxy measure.
2. 2010/11 and 2011/12 expenditure includes supports costs and so is not directly comparable to later years.
3. The percentage of A class roads that should be considered for maintenance treatment indicator is measured over two year periods, for example 2009-11 is plotted in 2010/11.

Source: Audit Scotland; and *Local Government Benchmarking Framework 2016/17*, Improvement Service

### Council performance varies, sometimes significantly

**70.** A range of factors, such as levels of deprivation, rurality, demographics and local priorities and policy choices will have an impact on how services perform. The quality and effectiveness of leadership and management are also important factors. Analysis of LGBF data shows that there continues to be significant variation in performance among councils. For example in 2016/17:

- The amount of waste recycled varies from eight per cent in the Shetland Islands Council to 61 per cent in East Renfrewshire Council.
- The percentage of people aged 65 and over with intensive needs being cared for at home varies from 23 per cent in Scottish Borders Council to 50 per cent in North Lanarkshire Council.
- The percentage of pupils gaining five or more awards at level six varies from 22 per cent in Clackmannanshire Council to 63 per cent in East Renfrewshire Council.

**71.** The link between performance and spend also varies. For example between 2015/16 and 2016/17, 21 councils increased the amount of waste that was recycled. Of these ten increased the cost of waste collection while 11 reduced their costs (**Exhibit 10, page 33**). Fife Council have reduced the net cost of waste collection per premise by 25 per cent in real terms from £57 to £42, while increasing the percentage of waste recycled from 52 per cent to 55 per cent. Of the ten councils which are recycling less, seven had increased costs.

## Exhibit 10

### The cost of waste collection and the percentage of waste recycled, 2015/16 to 2016/17

Twenty-one councils increased the amount of waste that was recycled. Of these ten increased the cost of waste collection while eleven reduced their costs.



#### Percentage change in cost of waste collection



#### Percentage point change of waste recycled



■ **Reduced performance**  
Cost increase or less recycling

■ **No change**

■ **Improved performance**  
Cost decrease or more recycling

### Councils

**ABNC** Aberdeen  
**ABNS** Aberdeenshire  
**ANGS** Angus  
**A&B** Argyll and Bute  
**CLAC** Clackmannanshire  
**D&G** Dumfries and Galloway  
**DUND** Dundee  
**EAYR** East Ayrshire  
**EDUN** East Dunbartonshire  
**ELOT** East Lothian  
**EREN** East Renfrewshire

**EDIN** Edinburgh  
**CNES** Eilean Siar  
**FALK** Falkirk  
**FIFE** Fife  
**GLAS** Glasgow  
**HIGH** Highland  
**INVE** Inverclyde  
**MLOT** Midlothian  
**MRY** Moray  
**NAYR** North Ayrshire  
**NLRK** North Lanarkshire

**ORKN** Orkney Islands  
**P&K** Perth and Kinross  
**RENF** Renfrewshire  
**SBOR** Scottish Borders  
**SHET** Shetland Islands  
**SAYR** South Ayrshire  
**SLAN** South Lanarkshire  
**STIR** Stirling  
**WDUN** West Dunbartonshire  
**WLOT** West Lothian

Note: Due to inconsistencies with published data Glasgow and Shetland Islands councils have provided their own figures.

Source: Audit Scotland; and Local Government Benchmarking Framework 2016/17, Improvement Service


**72.** Variation in performance and spend suggests councils have the potential to deliver further improvements and efficiencies. For example, as we reported last year, if councils reduced staff sickness absence this would help increase productivity. Nationally the average number of sickness days for non-teaching staff has increased slightly from 10.63 in 2015/16 to 10.92 in 2016/17. Sickness absence rates for non-teaching employees vary from an average of 8.8 days in East Ayrshire Council to 16.5 days in Clackmannanshire Council. If councils with high absence levels could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of about 730 full-time employees across Scotland.

**73.** Sickness absence rates for teachers improved slightly from 2015/16 to 2016/17 from 6.09 to 6.06 days per teacher. This also varied by council from an average of 4.1 days in East Ayrshire Council to 9.8 days in Clackmannanshire Council. If councils with high teacher absences could reduce these to be in line with the top eight performing councils, they would gain the equivalent of about 260 full-time teachers in Scotland.

**74.** There may be valid reasons for the variation between performance and spend at a council level. Councils should continue to learn from each other through benchmarking groups and work to understand reasons for variation in performance and cost, identify any options for efficiencies, savings and service redesign. Councils have a duty to clearly report performance to local people. Our audit work has found that councils articulate their strategic priorities and plans well but often do not report how these connect to actual performance and outcomes. Good performance reporting includes clearly stating how performance and spend is linked to the council's priorities and using local indicators which demonstrate quality of service and public satisfaction.

#### **Not all variation in education performance can be explained by deprivation**

**75.** Improving school attainment and closing the gap between the achievements of the richer and poorer pupils is a Scottish Government priority and one shared by councils. Nationally pupil attainment has been increasing each year since 2010/11 across all measures ([Exhibit 9](#)). However, this still masks significant variation between individual councils. Using the measure of average tariff score, an overall measure of secondary attainment, the attainment gap between the most deprived and least deprived pupils has decreased by six per cent in the last six years.<sup>38</sup> However, the most deprived pupils are still performing only half as well as the least deprived pupils.

**76.** Councils with lower deprivation levels tend to have more children gaining five or more awards at level 5 and 6 and higher overall average tariffs than councils that have higher deprivation levels ([Exhibit 11, page 35](#)). East Renfrewshire Council and East Dunbartonshire Council have the lowest levels of deprivation and are performing considerably better on this measure than any other council. However, some councils (Aberdeenshire, Aberdeen City, and the Moray councils) might be expected to perform better than they are when their lower levels of deprivation are taken into account. Inverclyde Council has high levels of deprivation but higher attainment than similarly deprived areas. We examined the various factors which influence pupil attainment in our 2014 report on [School education](#) , and are planning a further audit of the sector in 2019/20.<sup>39</sup>

**77.** Councils should continue to work to understand the variations in performance between them, learn what has been successful in other councils and, where appropriate, apply these lessons to their own services.




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**How well does your council report performance to local communities? Is there a link to outcomes, priorities and budgets in your performance reporting?**

**Have you considered what lessons you can learn from other councils who are delivering services well?**

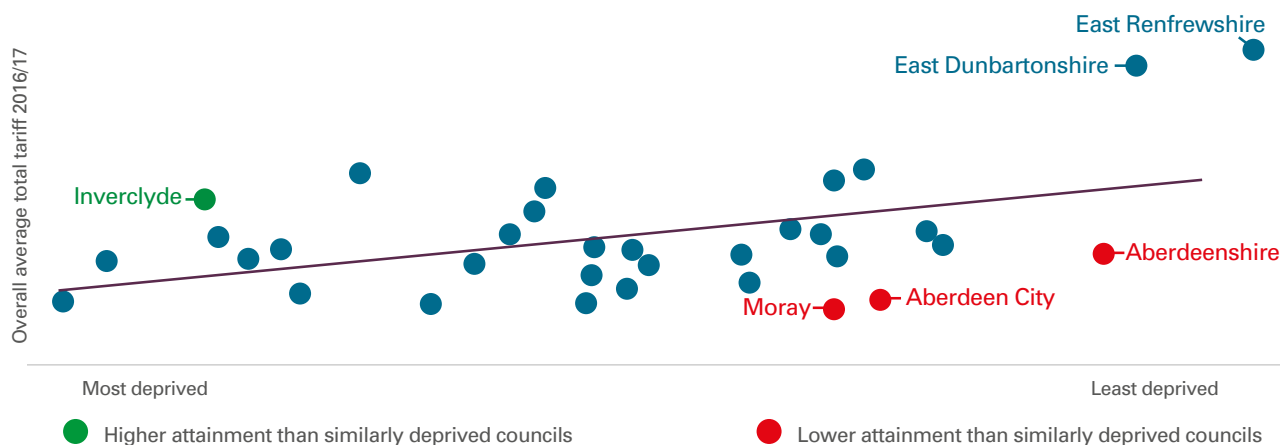
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## Exhibit 11

### Overall tariff scores for secondary school children compared with deprivation levels 2015/16

The link between attainment and deprivation varies across councils.



#### Notes:

1. The line shows the relationship between overall average total tariff and deprivation levels.
2. We have used 2015/16 attainment data. Data is not currently available by council for 2016/17.



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

## There is some evidence that spending reductions and increasing demand are impacting on services



### Public satisfaction is falling

**78.** Different sources show public satisfaction is falling:

- LGBF indicators mostly show a decline in public satisfaction between 2010 and 2017, for example satisfaction with the following services is down:
  - local schools from 83 to 73 per cent
  - libraries from 84 to 73 per cent
  - museums and galleries from 76 to 70 per cent
  - leisure facilities from 75 to 73 per cent
  - street cleaning from 73 to 70 per cent
  - refuse collection from 81 to 79 per cent.

Some satisfaction levels have been maintained or improved:

- parks and open spaces has increased from 83 to 87 per cent.
- In 2016, the Scottish Household Survey found that only 56 per cent of adults were satisfied with three local public services (local health services, schools and public transport). This is the lowest level since it was first measured in 2007, and down ten percentage points in five years.<sup>40</sup>
- In a poll by PricewaterhouseCoopers in 2017, only 12 per cent of respondents in Scotland agreed that their council had become more effective over the last five years.<sup>41</sup>

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

### There is evidence that adult social care services are not keeping up with demand

**79.** Adult social care services are a main and growing area of spend for councils. These services are now commissioned by IJBs. Social care services for older people are a key pressure area for councils and IJBs as Scotland's population ages. Between 2010/11 and 2016/17:

- The number of people aged 65 and over (and more likely to have two or more long-term conditions) increased by 13.2 per cent.
- The number of people aged 75 and over (and, more likely to have three or more long-term conditions) increased by 9.4 per cent.


**80.** Older people in need of support are cared for either in a residential care home or in their own home by visiting home care workers. Since 2011, the policy of many councils and the Scottish Government has been to move more care to a home setting.

**81.** National data suggests that spending on residential care is generally keeping up with the number of residents, while spending on caring for people at home has increased at a faster rate than the amount of care provided. National data on quality shows that care homes assessed by the Care Inspectorate as good or better has increased from 66 per cent in 2014/15 to 72 per cent in 2016/17 and home care services from 81 per cent to 83 per cent.

**82.** Despite an increase in the number of homecare hours, the number of people aged 65 and over who receive care at home fell by nine per cent. The Scottish Government reports that this is due to a focus on people with higher needs meaning that fewer people get more hours.<sup>42</sup> Although this means that councils can focus care on those with the highest needs, it does mean others no longer receive support. This has implications for early interventions which could improve peoples' quality of life and save money in the long-term by preventing people developing more complex needs.

**83.** Recent local inspections have raised significant concerns about social care services' ability to meet demand from older people and about the quality of care provided. The inspections at City of Edinburgh Council and Scottish Borders Council found that older people faced long waits for an assessment of their needs and a further wait to receive their care package following an assessment.

- In Edinburgh people waited 100 days for an assessment and 16 per cent of cases had an unreasonable delay after assessment. Often, this meant that the person's condition had deteriorated by the time they received their service so it was no longer adequate. These delays impacted on other health and social care services, especially hospitals, as people could not return home until care had been arranged for them.<sup>43</sup>
- In the Scottish Borders there was a nine week wait for top priority cases and a 15 week wait for the second level of priority. Even some people assessed as critical could struggle to get the support when they needed it. Overnight care for people at the end of their life who wanted to die at home was especially problematic. Inspectors found that staffing problems had led to a lack of consistency of care and although always treated with respect, some individuals had 24 different carers in a three-month period.<sup>44</sup>

**84.** We reported in our 2016 *Social work in Scotland*  audit, that people receiving care were most unhappy with the limited length of visits. In the survey, one person described facing a choice of breakfast or a shower as the carer could not provide both in the 15-minute appointment slot. A survey of home care workers by Unison in 2016, found that 80 per cent felt that their service had been affected by budget reductions and many staff described this as a focus on 'quantity not quality'.<sup>45</sup> The Care Inspectorate reported that the number of complaints upheld for adult care homes increased by five per cent between 2014/15 and 2016/17.

**85.** East Lothian Council has also reported a backlog of residents waiting for a care package due to a lack of capacity within care providers.<sup>46</sup> It is unlikely that these are isolated examples as elderly populations are growing in all council areas in Scotland and this trend is set to continue (**Exhibit 4**). The Competition and Markets Authority concluded recently that the model for residential care was unsustainable without additional funding.<sup>47</sup> Councils and IJBs face significant challenges in delivering social care. They will need to consider how to transform their social care services so that older people are able to access the care they need.

### There is a risk that reduced spending in education is affecting pupils' learning experience and staff morale

**86.** Education is the largest area of council spend. Spending on schools, including pre-schools, has been increasing since 2015/16 when the Scottish Government introduced its School Attainment Challenge. Despite this, national data shows that since 2010/11 spending on schools has not kept up with trends in pupil numbers:

- Spending on primary education has reduced by two per cent despite pupil numbers increasing by nine per cent.
- Spending on secondary education has reduced by nine per cent while pupil numbers have fallen by seven per cent.

**87.** Teacher-to-pupil ratios are protected by Scottish Government policy and funding. Since 2012/13, teacher-to-pupil ratios have increased slightly in primary schools and stayed the same in secondary schools, while the number of class room assistants increased by 13 per cent over that period. However, since 2012/13:

- administration and clerical support staff have been reduced by 11 per cent
- library staff have been reduced by 16 per cent
- music instructors have been reduced by 30 per cent
- additional support needs care workers have been reduced by 13 per cent despite a 44 per cent increase in children with additional support needs over the same period.<sup>48</sup>

**88.** There is no national data showing the impact of these staffing changes. However, there is a risk that unless alternatives are provided, the reduction in library and music staff could result in a less rich and varied learning experience. Similarly, the reductions in additional support staff could mean some children are not receiving the support they need.

**89.** A study for the Educational Institute of Scotland in 2017 found that 40 per cent of teachers were considering leaving their job in the next 18 months. They found the




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**How are your council and IJB managing demand for social care services? What preventative measures are available in your council?**

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main cause of stress was an excessive administration workload and lack of preparation time.<sup>49</sup> In a 2017 survey by UNISON, 60 per cent of support staff reported that morale was low and 40 per cent claimed to work unpaid overtime every week.<sup>50</sup>

**90.** Some councils are reporting difficulties recruiting staff and some schools cannot offer higher level exams in some subjects due to a lack of suitably qualified staff.<sup>51</sup>

### Smaller services are affected more by budget cuts but the impact of this is not always clear

**91.** Smaller services have experienced greater levels of budget reductions. Although nationally published data does not break down staff by department, there is evidence that sizeable staff reductions have affected these services.

- The Royal Town Planning Institute Scotland identified a 23 per cent reduction in staffing of planning teams in local government since 2009.<sup>52</sup>
- The Society of Chief Officers of Environmental Health in Scotland reported an eight per cent fall in environmental health services posts between 2016 and 2017.<sup>53</sup>
- COSLA reported a 20 per cent decrease in the workforce for trading standards, but did not specify over which time period.<sup>54</sup>

**92.** These departments and others provide important services to communities, such as inspecting building standards and public health; there is a risk that staffing pressures and budget cuts could lead to errors with potentially serious consequences to the public. As the Commission reported in 2013, the long-term viability of councils' trading standards services is under threat, potentially leaving consumers without important protection.<sup>55</sup>

**93.** Keep Scotland Beautiful reports that overall local environmental quality has reached its lowest point in over a decade. This is after a marked increase in the presence of litter, fly tipping, graffiti and weeds in communities over the last 18 months.<sup>56</sup> Councils also report that fly tipping has increased from 6.22 incidents per 1000 households in 2014/15 to 9.23 incidents in 2016/17.<sup>57</sup>

**94.** Funding for Money Advice Services reduced by around 15 per cent in 2015/16 and this is set to continue. Although councils have sought to minimise the impact of cost reductions to the Money Advice Service by transforming services, these cuts have also reduced the availability of locally based services. These types of reductions could disproportionately affect the most disadvantaged and vulnerable as 80 per cent of people using these services have a household income of under £15,000.<sup>58</sup> Limiting access to this service can diminish the wellbeing of people who might use them. It could also make it more likely they will require help from other council services such as social care and homelessness services.

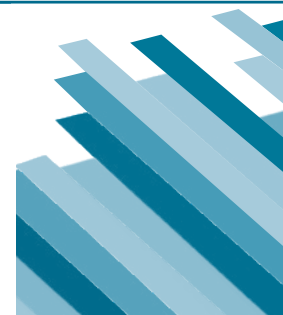
**95.** We recognise that councils will prioritise some services over others to reflect their strategic priorities. Our audit work has found that generally councils are good at setting clear strategic priorities but that links to how these will achieve improved performance and outcomes are poor. Councils should be able to clearly set out the impact sizeable budget reductions have had on performance and outcomes so that decisions on funding are based on solid evidence. This is an area we plan to examine further in our 2019 report.











**Do you know how budget cuts have affected your smaller services?**


**Do you know the impact of spending reductions on the services your council provides?**

# Endnotes



- ◀ 1 *Scottish Household Survey*, Scottish Government, 2016.
- ◀ 2 [Best Value Assurance Report: Clackmannanshire Council](#) , Audit Scotland, January 2018.
- ◀ 3 *Scottish Household Survey*, Scottish Government 2016.
- ◀ 4 Local Government Elections 2017. Scottish Parliament Information Centre, May 2017.
- ◀ 5 Revenue funding includes the general revenue grant, non-domestic rate income and specific revenue grants. Figures for 2017/18 and 2018/19 are based upon the annual totals set out by the Scottish Government in 'Local Government Finance Circular No. 4/2018' and we have compared 2017/18 outturn to the 2018/19 budgeted funding. These totals reflect a £34.5 million redetermination of funding in 2017/18 being classified as funding to councils for 2018/19. We will consider any implications of this funding arrangement for councils during both the 2017/18 annual audit process and our subsequent financial overview of local government.
- ◀ 6 [Local Government in Scotland: Financial overview 2016/17](#) , Audit Scotland, November 2017.
- ◀ 7 Unison submission to the local government and communities committee's scrutiny of the 2018/19 budget.
- ◀ 8 Angus, Dumfries and Galloway, East Lothian, Orkney and Renfrewshire had no live claims in September 2016.
- ◀ 9 Local Government Finance Statistics 2016/17, Scottish Government.
- ◀ 10 North Ayrshire Council's submission to the local government and community committee's scrutiny of the 2018/19 budget.
- ◀ 11 Additional predictions by the National Records for Scotland consider the impact on population growth if migration from the EU changed. Scotland's predicted population growth to 2041 varied from seven per cent if immigration from the EU increased by 50 per cent to two per cent growth if there was no immigration from the EU. This affected working age people and children more than the elderly.
- ◀ 12 Barnett K, Mercer SW, Norbury M, Watt G, Wyke S, Guthrie B. *Epidemiology of multi-morbidity and implications for health care, research, and medical education: a cross-sectional study*. The Lancet, 2012.
- ◀ 13 *The demography of Scotland and the impact of devolution*, Scottish Affairs Committee, Westminster.
- ◀ 14 'Dependency' ratios are a useful way to examine the relative age structure of the population but the reality is more complex than they suggest, many people of typically working age are not economically active (for example students) and many retired people are financially independent.
- ◀ 15 [Local government in Scotland: Financial overview 2016/17](#) , Audit Scotland, November 2017. This contains further information on reserves.
- ◀ 16 Ibid.
- ◀ 17 Joint Staffing Watch figures, Scottish Government. All staffing figures are in Full Time Equivalent (FTE). Figures for most councils are rounded to the nearest 100. Figures for Aberdeen City and Glasgow City Councils are rounded to the nearest 1,000.
- ◀ 18 Joint Staffing Watch figures show 226,800 FTEs in Q1 2009 and 205,800 in Q1 2012.

- ◀ 19 Joint Staffing Watch figures show 205,800 FTEs in Q1 2012, 198,300 in Q1 2016, and 195,800 in Q1 2017.
- ◀ 20 Joint Staffing Watch figures show 196,600 FTEs in Q3 2017, 196,200 in Q3 2016, 229,000 in Q2 2008 and 228,500 in Q2 2007.
- ◀ 21 Joint Staffing Watch figures for Inverclyde Council show 3,900 FTEs in Q1 2010.
- ◀ 22 Joint Staffing Watch figures for Inverclyde Council show 3,400 FTES in Q1 2017.
- ◀ 23 *Scottish Social Service Sector: Report on 2016 Workforce Data*, Scottish Social Service Council, September 2017.
- ◀ 24 Information comes from three Unison reports: *A Unison survey of building control staff*, June 2017; *A survey of Scotland's school support staff*, January 2017; *A survey of care workers in Scotland*, July 2017.
- ◀ 25 Office for National Statistics, *Analysis of factors affecting earnings using Annual Survey of Hours and Earnings: 2016*.
- ◀ 26 The Smith Institute. *From pay squeeze to a staffing crisis: a study of recruitment and retention in the NHS and local government, 2015*.
- ◀ 27 *Talent Management in Public Services in Scotland*, Improvement Service, 2017.
- ◀ 28 [Local Government in Scotland: Performance and challenges](#) , Audit Scotland, March 2017.
- ◀ 29 [Local Government in Scotland: Financial overview 2016/17](#) , Audit Scotland, November 2017.
- ◀ 30 Ibid.
- ◀ 31 *Local Government Finance: Fees and Charges 2011-12 to 2015-16*. Scottish Parliament Information Centre, 2017.
- ◀ 32 *Local Authority Parking Finances in Scotland 2015-16*, RAC Foundation for Motoring, 2017.
- ◀ 33 *The Cost of Saying Goodbye*, Citizens Advice Scotland, 2017.
- ◀ 34 Evidence to Local Government and Communities Committee for scrutiny of 2018/19 draft budget.
- ◀ 35 The Moray Council and Clackmannanshire Council are not currently involved in this project.
- ◀ 36 [Principles for a digital future](#) , Audit Scotland, May 2017.
- ◀ 37 The full range of indicators includes unit costs and public satisfaction. These are available on the Improvement Service website – [www.improvementservice.org.uk/benchmarking/](http://www.improvementservice.org.uk/benchmarking/) 
- ◀ 38 The average tariff score is a summary measure which calculates the latest and best achievements of pupils in the senior phase of secondary school.
- ◀ 39 [School Education](#) , Audit Scotland, June 2014.
- ◀ 40 Scottish Household Survey. Scottish Government, 2016.
- ◀ 41 PricewaterhouseCoopers (PwC) publish an annual report on local government in the UK based on surveys of council chief executives, finance directors, council leaders and 2,007 members of the public.
- ◀ 42 *Social Care Scotland 2016*, Scottish Government, 2017.
- ◀ 43 Joint Inspection of services for older people in Edinburgh, Care Inspectorate and Healthcare Improvement Scotland, 2017.
- ◀ 44 Joint inspection of services for older people in Scottish Borders, Care Inspectorate and Healthcare Improvement Scotland, 2017.
- ◀ 45 *We care, do you?* A survey of care workers in Scotland, Unison, July 2016.
- ◀ 46 Auditor returns, November 2017.
- ◀ 47 Care homes market study, Competition and Markets Authority, 2017.

- ◀ 48 Teacher Census, Scottish Government, December 2016.
- ◀ 49 *Working conditions of Scotland's teachers*, Educational Institute of Scotland, 2017.
- ◀ 50 *Hard Lessons*, A survey of Scotland's school support staff. Unison, 2017.
- ◀ 51 Joint response to the MAC Call for Evidence on the Partial review of the Shortage Occupation List: Teachers, Scottish Government and COSLA, September 2016.
- ◀ 52 Royal Town Planning Institute's submission to the Local Government and Communities Committee's enquiry into the 2018/19 Draft Budget.
- ◀ 53 Correspondence with the Society of Chief Officers of Environmental Health in Scotland.
- ◀ 54 Budget briefing, COSLA, December 2017.
- ◀ 55 [Protecting consumers](#) , Audit Scotland, January 2013.
- ◀ 56 Local environmental quality in decline, an update, Keep Scotland Beautiful 2017.
- ◀ 57 APSE performance network, 12 councils reported data on fly tipping.
- ◀ 58 *The Future of Money Advice Services in Scotland*, Improvement service, 2017.

# Local government in Scotland Challenges and performance 2018

This report is available in PDF and RTF formats,  
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**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – Performance Indicators

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**8**

## **1 PURPOSE**

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

## **2 RECOMMENDATION**

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

## **3 BACKGROUND**

- 3.1 As part of the Audit Plan for 2017/18, a review was undertaken of the systems in place for the preparation and reporting of performance information. Our review has focused on the Local Government Benchmarking Framework (LGBF) indicators for 2016/17.
- 3.2 The main objective of the audit was to ensure that the performance information for East Lothian Council, published in the LGBF National Benchmarking Overview Report 2016/17, was accurate and complete.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 4 June 2018            |

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT PERFORMANCE INDICATORS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2017/18, a review was undertaken of the systems in place for the preparation and reporting of performance information. Our review has focused on the Local Government Benchmarking Framework (LGBF) indicators for 2016/17.

We selected three indicators for financial year 2016/17 for review:

- ECON2 – Cost per planning application
- ENV3a – Net cost of street cleaning per 1,000 population
- ENV4a – Cost of maintenance per kilometre of roads

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

- ECON2 – Cost per planning application. For 2016/17, East Lothian Council's reported figure for the cost per planning application was £2,823 (2015/16 – £2,504). We note that the reported figure was well below the Scottish average of £4,635. We were able to verify the figures used in the calculation for this indicator to supporting documentation.

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

- ENV3a – Net cost of street cleaning per 1,000 population. For 2016/17, East Lothian Council's reported figure for the net cost of street cleaning per 1,000 population was £22,663 (2015/16 – £13,013). We note that the reported figure was the second highest of all local authorities in Scotland and was significantly in excess of the Scottish average of £14,726. We note that for this indicator the reported figure was incorrect. We further note that following publication of the national report, a detailed review of this indicator was undertaken by the service area and Business Finance. The review highlighted that the reported cost of £22,663 was inaccurate – it included costs that did not relate to street cleaning. We are concerned that this error had not been identified prior to the publication of the national report. We further note that service areas are not currently required to check and sign off information, which subsequently forms part of the LGBF indicators. *Risk – performance information may be inaccurate.*
- ENV4a – Cost of maintenance per kilometre of roads. For 2016/17, East Lothian Council's reported cost of maintenance per kilometre of roads was £11,217 (2015/16 – £11,289). We note that the reported figure was higher than the Scottish average of £10,456. For this indicator the costs included both revenue and capital expenditure, however we found that the capital expenditure figure used included items of expenditure that did not relate to roads maintenance. *Risk – performance information may be inaccurate.*

#### **1.4 Summary**

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

**Mala Garden**  
Internal Audit Manager

**June 2018**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
PERFORMANCE INDICATORS**

**ACTION PLAN**

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                                     | <b>AGREED ACTION</b> | <b>RISK ACCEPTED/<br/>MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|--|----------------------|-----------------------------------|----------------------------------|
| 5.1             | Management should ensure that appropriate verification processes are in place – service areas should check and sign off the information used in the calculation of LGBF indicators to ensure accuracy and completeness. | Medium       | Service Manager – Business Finance                             | Agreed               |                                   | September 2018                   |
| 5.2             | Management should review the classification of capital expenditure used in the calculation of performance indicators.   | Medium       | Service Manager – Business Finance / Corporate Finance Manager | Agreed               |                                   | September 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  |
|---------------|---|
| <b>High</b>   | Recommendations which are fundamental to the system and upon which Management should take immediate action.                                     |
| <b>Medium</b> | Recommendations which will improve the efficiency and effectiveness of the existing controls.   |
| <b>Low</b>    | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

**9**

**SUBJECT:** Internal Audit Report – Housing Rent Arrears

---

## **1 PURPOSE**

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

## **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 Housing Rent Arrears 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

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 1 June 2018            |



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT HOUSING RENT ARREARS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Housing Rent Arrears 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**

- A clear audit trail exists for each tenancy on the Orchard system including details of the fortnightly rent charge, rent account transactions and any recovery action taken.
- Adequate arrangements are in place for monitoring housing rent arrears – fortnightly reports are provided to the Rent Income Team detailing the rent arrears, the payment method and the movement in the arrears balance for each rent account.
- Adequate arrangements are in place to ensure that reconciliations are carried out between the debt approved for write-off and amounts written off on the Orchard system.

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

- The existing rent arrears procedures require to be reviewed and updated to ensure that clear guidance is provided to staff. *Risk – failure to adopt a consistent approach.*
- In a number of cases, the arrears had arisen at the start of the tenancy – there was a lack of joint working between Housing Officers and Rent Income Officers at the pre-tenancy stage, to ensure that prospective tenants are offered advice and support in order to reduce the risk of rent arrears. *Risk – failure to prevent the build-up of rent arrears.*
- The current process for managing rent arrears requires review – in some cases, delays were noted in progressing to the next stage of the recovery process, resulting in an increase in rent arrears. In addition, there was a lack of explanation on the Orchard system where a decision had been made not to progress to the next stage of the process. *Risk – failure to prevent the build-up of rent arrears.*
- In a number of cases, there was a lack of evidence to confirm that the terms of agreed repayment plans had been confirmed to tenants in writing. *Risk – lack of a clear audit trail.*

#### **1.4 Summary**

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

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

**June 2018**

## ACTION PLAN

| PARA REF | RECOMMENDATION  | GRADE  | RESPONSIBLE OFFICER  | AGREED ACTION               | RISK ACCEPTED/ MANAGED | AGREED DATE OF COMPLETION               |
|----------|---|--------|--|-----------------------------|------------------------|---|
| 3.1.1    | <p>Management should ensure that the existing rent management policy is updated to reflect changes in legislation.</p> <p>Management should ensure that the procedures are reviewed and updated to provide clear and concise guidance to staff at each stage of the recovery process.</p> | Medium | <p>Service Manager – Revenues and Welfare Support</p> <p>Rent Income Team Leader</p>                         | <p>Agreed</p> <p>Agreed</p> |                        | <p>January 2019</p> <p>October 2018</p> |
| 3.2.2    | Management should ensure that clear explanations are recorded on the notes page of the Orchard system where a decision has been made not to progress to the next stage of the recovery process.   | Medium | Rent Income Team Leader  | Agreed                      |                        | June 2018                               |
| 3.3.1    | Management should ensure that a one Council approach is adopted for the prevention of rent arrears – both Housing Officers and Rent Income Officers should attend the pre-tenancy meeting.  | High   | <p>Service Manager – Revenues and Welfare Support / Service Manager – Community Housing and Homelessness</p> | Agreed                      |                        | August 2018                             |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b> | <b>AGREED ACTION</b>   | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b>    |
|-----------------|---|--------------|----------------------------|--|-------------------------------|-------------------------------------|
| 3.3.3           | Management should review the adequacy and effectiveness of the current process for managing rent arrears.   | Medium       | Rent Income Team Leader    | Agreed – the existing processes will be reviewed.  |                               | October 2018                        |
| 3.3.4           | Management should ensure that the terms of agreed repayment plans are confirmed in writing to tenants and evidence is retained on file.   | Medium       | Rent Income Team Leader    | Agreed – all repayment plans will be scanned into Civica prior to being sent to the tenants. |                               | June 2018                           |
| 3.3.5           | <p>Management should ensure that appropriate advice, assistance and support (e.g. completing relevant applications for Housing Benefit, Discretionary Housing Payments and Universal Credit) are offered to prospective tenants at the pre-tenancy meeting.</p> <p>Management should ensure that adequate arrangements are in place for checking the validity and status of Housing Benefit applications – evidence of checks should be retained on file.</p> | Medium       | Rent Income Team Leader    | <p>Agreed</p> <p>Agreed</p>  |                               | <p>August 2018</p> <p>June 2018</p> |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>  | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                     | <b>AGREED ACTION</b>                                  | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|--|--------------|--|---|-------------------------------|----------------------------------|
| 3.3.8           | Management should review the arrangements in place for recovering all outstanding legal costs and expenses relating to rent arrears. | Medium       | Rent Income Team Leader                        | Agreed – a review of sub accounts will be undertaken. |                               | September 2018                   |
| 3.4.2           | Management should ensure that bad debt write-offs are reported timeously to the Members' Library.                                    | Medium       | Service Manager – Revenues and Welfare Support | Agreed  |                               | August 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  |
|---------------|---|
| <b>High</b>   | Recommendations which are fundamental to the system and upon which Management should take immediate action.                                     |
| <b>Medium</b> | Recommendations which will improve the efficiency and effectiveness of the existing controls.   |
| <b>Low</b>    | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – Throughcare and Aftercare

---

**10**

**1 PURPOSE**

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

**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 Throughcare and Aftercare 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

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 4 June 2018            |



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT THROUGH-CARE AND AFTERCARE**

### **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 the provision of Throughcare and Aftercare. A summary of our main findings is outlined below.

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

- The Council has adequate arrangements in place for meeting its statutory obligations to provide support to young people, looked after by East Lothian Council, who are about to leave care or have recently left care.
- The financial support being provided to young people is in accordance with the definition of eligible needs contained in the Aftercare (Eligible Needs) (Scotland) Order 2015.
- Adequate arrangements are in place for ensuring that payment requests are properly authorised on the Mosaic system.
- Nominated key workers are in place for all young people leaving care.

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

- There is a lack of procedures in place to provide operational guidance to staff with responsibility for Throughcare and Aftercare. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of a clear audit trail to confirm that up to date support plans were in place. *Risk – information held may be out of date.*
- There was a lack of clear documentation to confirm the full package of financial support being provided to the young person. *Risk – failure to adopt a structured approach.*
- In some cases, cash payments were being made to the young person, although they held their own bank account. *Risk – lack of a clear audit trail.*
- The existing practices in place whereby staff members are making payments either to or on behalf of young people from their own personal bank account require review. *Risk – failure to follow appropriate processes.*
- In some cases, there was a lack of receipts to support the expenditure incurred on behalf of young people. *Risk – lack of a clear audit trail.*

#### **1.4 Summary**

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

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

**June 2018**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
THROUGH-CARE AND AFTERCARE**

**ACTION PLAN**

| <b>PARA REF</b> | <b>RECOMMENDATION</b>  | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                         | <b>AGREED ACTION</b>   | <b>RISK ACCEPTED/<br/>MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|--|--------------|--|--|-----------------------------------|----------------------------------|
| 3.2.1           | Management should ensure that detailed procedures are in place to provide operational guidance to staff administering Throughcare and Aftercare.   | Medium       | Group Service Manager – Long Term Support Services | A financial policy is currently being drafted.   |                                   | December 2018                    |
| 3.3.1           | <p>Management should ensure that financial assessments are carried out to establish the level of financial support the young person requires.</p> <p>Management should ensure that clear documentation is held to confirm the full package of financial support being provided to the young person.</p> <p>Management should ensure that all available funding sources are considered when preparing the young person’s financial package.</p> | Medium       | Group Service Manager – Long Term Support Services | Currently developing a policy and procedure on Pathway Assessments, Reviews and Plans. Areas included – lifestyle, learning and work, and money. This will enable current assessments to be clearly documented and transparent, giving an overview of a young person’s financial situation and ELC’s role within that. |                                   | July 2018                        |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>  | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                         | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|--|--------------|--|---|-------------------------------|----------------------------------|
| 3.4.1           | <p>Management should ensure that all Section Payment forms are properly authorised.</p> <p>Management should ensure that appropriate documentation is held to confirm all payments made – a signed and dated receipt should be held on file to support the payment made.</p>   | Medium       | Group Service Manager – Long Term Support Services | Agreed  |                               | June 2018                        |
| 3.5.1           | <p>Management should review the existing practices in place whereby staff members are making payments either to or on behalf of young people from their own personal bank account – consideration should be given to alternative methods of making payments.</p> <p>Where a young person has a bank account, Management should seek to ensure that payments are made directly to the bank account.</p> | High         | Group Service Manager – Long Term Support Services | Agreed, however it would be helpful to have a more responsive banking system. Pathway plans and case notes will detail any reasons for deviating from this. |                               | June 2018                        |
| 3.6.1           | <p>Consideration should be given to setting up individual budgets to enable a more planned approach to be adopted in meeting the eligible needs of the young person being supported.</p>   | Medium       | Group Service Manager – Long Term Support Services | This will be considered as part of the financial policy.  |                               | December 2018                    |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>  | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                         | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|--|--------------|--|---|-------------------------------|----------------------------------|
| 3.7.1           | <p>Management should ensure that all young people are given assistance in opening and managing bank accounts.</p> <p>Management should ensure that young people sign the cash expenditure forms to acknowledge receipt of cash.</p> <p>Management should ensure that receipts are held for all expenditure incurred.</p>   | Medium       | Group Service Manager – Long Term Support Services | Agreed  |                               | June 2018                        |
| 3.8.1           | <p>Management should ensure that where young people are being placed in accommodation, which forms part of a Council contract, payments made are in accordance with the contracted rates.</p> <p>Management should ensure that rent payments are only made on behalf of a young person, where the young person is not eligible for universal services (e.g. Universal Credit).</p> <p>Management should ensure that full use is made of properties leased by the Council, prior to sourcing Bed &amp; Breakfast accommodation.</p> | Medium       | Group Service Manager – Long Term Support Services | <p>Agreed</p> <p>Reasons for rent payments will be clearly documented with their financial assessments.</p> <p>Framework issues need to be discussed and agreed with housing.</p> |                               | July 2018                        |

| <b>PARA REF</b>     | <b>RECOMMENDATION</b>  | <b>GRADE</b>  | <b>RESPONSIBLE OFFICER</b>                                | <b>AGREED ACTION</b> | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|---------------------|--|---------------|---|----------------------|-------------------------------|----------------------------------|
| <b>3.8.1 (cont)</b> | <b>Management should review the current practice whereby payments are being made to Bed &amp; Breakfast providers for vacant rooms, prior to the young person moving in.</b> | <b>Medium</b> | <b>Group Service Manager – Long Term Support Services</b> | <b>As above</b>      |                               |                                  |

### **Grading of Recommendations**

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

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

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – Common Repairs

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**11**

**1 PURPOSE**

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

**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 Common Repairs 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

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 4 June 2018            |



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT COMMON REPAIRS**

### **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 administering Common Repairs. 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 the Council fulfils its statutory obligations in respect of common repairs.
- All work notices issued to owners comply with legislative requirements and clearly set out the reasons for issuing a notice, the work that requires to be carried out and the period within which the work is to be completed.
- Adequate arrangements are in place for enforcing work notices where owners have failed to take reasonable action within the specified timescales.
- A record is maintained of each common repairs project including the total expenditure incurred and the amounts paid to contractors.
- For the sample of cases reviewed, expenditure incurred for common repairs projects had been properly apportioned amongst owners.

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

- In a number of cases, there were delays in issuing invoices to owners to recover all sums due in respect of completed common repairs projects. *Risk – loss of income to the Council.*
- There was a lack of adequate arrangements in place to ensure that regular progress reports were being provided to senior management on completed common repairs projects and amounts to be invoiced. *Risk – failure to monitor all amounts due to the Council.*
- There was a lack of clear internal procedures in place outlining the processes to be followed by each service area at various stages of the common repairs process. *Risk – failure to adopt a consistent approach.*
- The existing draft procedure for the missing share scheme requires reviewing and updating. *Risk – failure to adopt a consistent approach.*

#### **1.4 Summary**

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

**Mala Garden  
Internal Audit Manager**

**June 2018**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
COMMON REPAIRS**

**ACTION PLAN**

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>            | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/<br/>MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|---------------------------------------|---|-----------------------------------|----------------------------------|
| 3.2.1           | Management should ensure that clear guidance is in place outlining the procedures to be followed by each service area involved in the common repairs process.   | Medium       | Service Manager – Protective Services | A consultative group will be formed comprising members of various Council Services to ensure agreed process flows and prescribed timescales are implemented.                    |                                   | September 2018                   |
| 3.6.1           | As a matter of priority, management should ensure that invoices are raised to recover all sums due to the Council from property owners in respect of completed common repairs projects.                     | High         | Service Manager – Protective Services | For projects passed to Protective Services all invoices (with the exception of one which is being formally challenged with the contractor by the Council) have now been issued. |                                   | Ongoing                          |
| 3.7.1           | Appropriate arrangements should be put in place to ensure that regular progress reports are provided to senior management on the status of common repairs projects and amounts that require to be invoiced. | Medium       | Service Manager – Protective Services | Agreed  |                                   | September 2018                   |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>            | <b>AGREED ACTION</b> | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|---------------------------------------|----------------------|-------------------------------|----------------------------------|
| 3.8.1           | Management should review and update the draft procedure for the missing share scheme. | Medium       | Service Manager – Protective Services | Agreed               |                               | September 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  |
|---------------|---|
| <b>High</b>   | Recommendations which are fundamental to the system and upon which Management should take immediate action.                                     |
| <b>Medium</b> | Recommendations which will improve the efficiency and effectiveness of the existing controls.   |
| <b>Low</b>    | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

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

**SUBJECT:** Internal Audit Report – Non-Domestic Rates

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**12**

## **1 PURPOSE**

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

## **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 Non-Domestic Rates 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

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 1 June 2018            |

## **EAST LoTHIAN COUNCIL – INTERNAL AUDIT NON-DOMESTIC RATES**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Non-Domestic Rates 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**

- A unique property reference number identifies each Non-Domestic property on the Council's Capita system.
- Adequate arrangements are in place to ensure that regular reconciliations are undertaken between the total number of properties on the Capita system and the property control totals on the Assessor's interface reports.
- The annual rate poundage (46.6 pence) and the additional supplement applied to large businesses (2.6 pence) had been correctly set up on the Capita system for 2017/18.
- Systems are in place to ensure that the total number of bills produced as part of the annual billing run reconciles to the total number of live properties on the Capita system.
- Adequate systems are in place to ensure that Non-Domestic Rates income collected through the Council's Income Management System is correctly posted to both the Capita system and the general ledger.

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

- There was a lack of appropriate authorisation on file for a number of current users with access to the Capita system. *Risk – unauthorised access may be granted.*
- The existing arrangements in place for checking Non-Domestic Rates Income Returns require review, to ensure that the information submitted to the Scottish Government is accurate and complete. *Risk – errors and irregularities may occur and remain undetected.*
- Reconciliations between the Non-Domestic Rates Income Returns and the Capita financial statements had not been undertaken. *Risk – errors and irregularities may occur and remain undetected.*

#### **1.4 Summary**

Our review of Non-Domestic Rates identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

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

**June 2018**

## ACTION PLAN

| PARA REF | RECOMMENDATION  | GRADE  | RESPONSIBLE OFFICER                                  | AGREED ACTION   | RISK ACCEPTED/ MANAGED | AGREED DATE OF COMPLETION |
|----------|---|--------|--|---|------------------------|---------------------------|
| 3.2.1    | Management should ensure that appropriate authorisation is held for all current users with access to the Capita system – where evidence of authorisation is not currently held, a new user access form should be completed and approved by the appropriate line manager.  | Medium | Systems Development and Business Support Team Leader | Agreed – all current users will be required to complete a new user access form. |                        | August 2018               |
| 3.5.1    | Management should retain all supporting documentation that forms part of the property control totals reconciliation to evidence that appropriate checks had been carried out prior to approval.   | Medium | Service Manager – Revenues and Welfare Support       | Agreed  |                        | In place                  |
| 3.9.1    | Management should ensure that reconciliations are carried out between the Non-Domestic Rates Income Returns and the Capita financial statements.<br><br>Management should ensure that robust checking procedures are in place to confirm the accuracy and completeness of all submissions to the Scottish Government – evidence of checks carried out should be retained on file. | Medium | Service Manager – Revenues and Welfare Support       | Agreed  |                        | In place                  |



| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>  | <b>AGREED ACTION</b>   | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|---|--|-------------------------------|----------------------------------|
| 3.10.1          | Management should ensure that year-end adjustments for Non-Domestic Rates are consistent with the information submitted to the Scottish Government. | Medium       | Service Manager – Revenues and Welfare Support / Service Manager – Business Finance | Agreed – the final year-end adjustments will be passed to the Revenues Section for checking. |                               | 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  |
|---------------|---|
| <b>High</b>   | Recommendations which are fundamental to the system and upon which Management should take immediate action.                                     |
| <b>Medium</b> | Recommendations which will improve the efficiency and effectiveness of the existing controls.   |
| <b>Low</b>    | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – Care at Home Payments

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**13**

**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Care at Home Payments.

**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 Care at Home Payments was undertaken as part of the Audit Plan for 2017/18. Our review has included the arrangements in place for monitoring the use of the Social Care Fund.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

**4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 4 June 2018            |

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT CARE AT HOME PAYMENTS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of Care at Home Payments was undertaken as part of the Audit Plan for 2017/18. Our review has included the arrangements in place for monitoring the use of the Social Care Fund. A summary of our main findings is outlined below.

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

- The Council has in place a framework agreement for the provision of Care at Home and Housing Support services. The contract commenced on 1 April 2017 and is for a five year period to 31 March 2022.
- A signed contract agreement is in place between the Council and each framework provider clearly setting out the responsibilities of both parties.
- Appropriate arrangements are in place for monitoring the use of the Social Care Fund and for ensuring that service providers are paying their care staff the Scottish Living Wage – written declarations were held on file from individual service providers confirming the hourly rates being paid to their employees who are providing care at home and housing support.

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

- There was a failure to comply with the reporting requirements set out in the Council's Corporate Procurement Procedures – a report on the contracts awarded to care at home and housing support providers had been prepared, however it had not been lodged in the Members' Library. *Risk – failure to comply with the procedures in place.*
- There was a lack of evidence to confirm that referrals had been allocated to providers in accordance with the allocation ranking set out in the framework. *Risk – non-compliance with contract conditions.*
- In a number of cases, care at home services were being provided by non-framework providers. In some of these cases, there was a lack of evidence to indicate that the service user had elected to have their care provided under Self-Directed Support (SDS) Option 2 – this option enables service users to choose their care provider, but the Council organises and pays for their care. *Risk – lack of a clear audit trail.*

#### **1.4 Summary**

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

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

**June 2018**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
CARE AT HOME PAYMENTS**

**ACTION PLAN**

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                       | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|--|---|-------------------------------|----------------------------------|
| 3.1.3           | Management should ensure that the report on the Care at Home and Housing Support framework is lodged in the Members' Library as required by the Council's Corporate Procurement Procedures. | Medium       | Group Service Manager – Planning and Performance | Agreed  |                               | In Place                         |
| 3.1.4           | Management should ensure that the framework allocation ranking for referrals is used in all cases.  | Medium       | Group Service Manager – Planning and Performance | Instructions will be issued to staff on allocating referrals.   |                               | July 2018                        |
| 3.2.1           | Management should ensure that non-framework providers are only being used where the client has specifically selected SDS option 2.  | Medium       | Group Service Manager – Planning and Performance | Agreed – we are currently seeking to resolve the historic spot purchasing of non-framework providers. |                               | Ongoing                          |
| 3.4.1           | Management should ensure that clear explanations are held on the system for all variances identified.   | Medium       | Group Service Manager – Planning and Performance | Agreed – Support Plan Administrator to be appointed to undertake this task.                           |                               | October 2018                     |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>  | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b>                       | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|--|--------------|--|---|-------------------------------|----------------------------------|
| 3.6.1           | Management should ensure that appropriate SDS Option 2 support services contracts are issued to non-framework providers.       | Medium       | Senior Procurement Officer                       | Agreed  |                               | July 2018                        |
| 3.7.1           | Management should ensure that a clear audit trail is in place to locate individual invoices paid and scanned on to the system. | Medium       | Group Service Manager – Planning and Performance | Agreed – this will be reviewed by the Information Systems & Business Manager. |                               | August 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  |
|---------------|---|
| <b>High</b>   | Recommendations which are fundamental to the system and upon which Management should take immediate action.                                     |
| <b>Medium</b> | Recommendations which will improve the efficiency and effectiveness of the existing controls.   |
| <b>Low</b>    | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Internal Audit Manager  
**SUBJECT:** Annual Internal Audit Report 2017/18

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14

## **1 PURPOSE**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Manager prepares an annual internal audit opinion and report to support the Council's Annual Governance Statement.
- 1.2 This report provides a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2017/18 and supports both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to note the contents of the Annual Internal Audit Report 2017/18.

## **3 BACKGROUND**

- 3.1 Internal Audit is an independent appraisal function established by the Council to review its governance, risk management and control systems. East Lothian Council's Internal Audit Unit operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 The Council's Internal Audit resources in 2017/18 were made up of:
  - The Internal Audit Manager
  - Three Senior Auditors
  - One Senior Audit Assistant
- 3.3 The Internal Audit Manager reports administratively to the Depute Chief Executive – Resources and People Services, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer.

- 3.4 Internal Audit is continuously seeking to improve its service and aims to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2017/18 through the following processes:
- Compliance with PSIAS.
  - A tailored audit approach using a defined methodology for financial audits.
  - A programme of quality control measures which include the supervision of staff conducting audit reviews and the detailed review of working paper files and audit reports.
  - The development of personal and training plans – Internal Audit staff members are required to undertake a programme of Continuous Professional Development (CPD).
- 3.5 The PSIAS require the development of a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An internal assessment of internal audit practices was carried out against the PSIAS to ensure conformance to the Standards and an External Quality Assessment of the Council's Internal Audit service was recently undertaken by the Chief Internal Auditor of Argyll and Bute Council.

### **Delivery of the Internal Audit Service 2017/18**

- 3.6 In March 2017, the Audit and Governance Committee approved the Internal Audit Plan for 2017/18. Our audit plan was scoped to address the Council's key risks and strategic objectives.
- 3.7 In 2017/18 Internal Audit completed 21 audit reviews (see Table A below). In addition, two audits (Debtors and Procurement of Goods and Services – Property Maintenance) are currently in progress and a further review (Learning and Development) is outstanding.
- 3.8 Table A outlines the audit work undertaken which resulted in a number of recommendations being made – 15 recommendations were graded as high (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action) and 95 recommendations were graded as medium (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls). Our recommendations sought to address the weaknesses identified in the design of controls and operating effectiveness.
- 3.9 In addition to the reviews listed in Table A, Internal Audit has undertaken follow-up reviews of previous years' work to ensure that recommendations have been implemented by Management and have prepared reports for the East Lothian Integration Joint Board Audit and Risk Committee.

3.10 We have completed the following reviews in 2017/18:

**Table A**

| <b>Audit Assignment</b>                   | <b>Report Status</b> | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|---|----------------------|-------------|---------------|------------|
| Housing Benefit and Council Tax Reduction | Final                | -           | 4             | -          |
| Gas Servicing and Maintenance             | Final                | 1           | 8             | -          |
| Non-Residential Charging                  | Final                | 1           | 6             | -          |
| Counter Fraud Arrangements                | Final                | -           | -             | -          |
| Taxicard Scheme                           | Final                | 3           | 8             | -          |
| Homelessness                              | Final                | 5           | 6             | -          |
| ALEO (Enjoy East Lothian Limited)         | Final                | -           | 4             | -          |
| Training                                  | Final                | -           | 4             | -          |
| Performance Bonds                         | Final                | -           | 4             | -          |
| Overtime                                  | Final                | 2           | 3             | -          |
| School Meals Income                       | Final                | -           | 10            | -          |
| Complaints Handling Procedure             | Final                | -           | 6             | -          |
| Council Tax Liability                     | Final                | -           | 4             | -          |
| National Fraud Initiative                 | Final                | -           | -             | -          |
| Performance Indicators                    | Final                | -           | 2             | -          |
| Common Repairs                            | Final                | 1           | 3             | -          |
| Housing Rent Arrears                      | Final                | 1           | 7             | -          |
| Throughcare and Aftercare                 | Final                | 1           | 6             | -          |
| Social Care Fund                          | Final                | -           | -             | -          |
| Non-Domestic Rates                        | Final                | -           | 4             | -          |
| Care at Home Payments                     | Final                | -           | 6             | -          |
| <b>Totals</b>                             |                      | <b>15</b>   | <b>95</b>     | <b>-</b>   |

### **Conflicts of Interest**

3.11 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

### **Performance Indicators**

3.12 We have undertaken our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit and Governance Committee. Performance information for 2017/18 covers:

- Completion of the annual Audit Plan – 92%
- % of recommendations accepted by Management – 100%
- % of staff with CCAB accounting qualifications – 80%

## **4 POLICY IMPLICATIONS**

4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 4 June 2018            |

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Internal Audit Manager  
**SUBJECT:** Controls Assurance Statement 2017/18

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**15**

## **1 PURPOSE**

- 1.1 The Internal Audit Manager has the responsibility to independently review the internal control systems within East Lothian Council, make an assessment of the control environment and report annually on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to note that the Controls Assurance Statement is a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2018.

## **3 BACKGROUND**

### **Sound Internal Controls**

- 3.1 The Council's senior management has responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. The main objectives of the Council's internal control systems are:
- Achievement of the Council's strategic objectives.
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations and programmes.
  - Safeguarding of assets.
  - Compliance with laws, regulations, policies, procedures and contracts.
- 3.2 A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others,

management overriding controls or the occurrence of unforeseen circumstances. The Council is continually seeking to improve the effectiveness of its system of internal control.

### **The Work of Internal Audit**

- 3.3 Internal Audit is an independent appraisal function established by the Council to review its internal control systems. Internal Audit objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.
- 3.4 In 2017/18 the Internal Audit Unit sought to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, Depute Chief Executives, the Council's External Auditor and the Audit and Governance Committee.
- 3.6 The weaknesses outlined in our audit reports are those that have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. It is the responsibility of Management to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations.

### **Basis of Opinion**

- 3.7 My evaluation of the control environment is informed by a number of sources:
1. The policies and procedures of the Council, including:
    - Standing Orders and Financial Regulations;
    - Strategy for the Prevention and Detection of Fraud and Corruption;
    - Information Security Policy;
    - IT Acceptable Use Policy;
    - Code of Conduct;
    - Disciplinary Code;
    - Disciplinary Procedure;
    - Gifts and Hospitality Policy;
    - Whistleblowing Policy.
  2. The planning, monitoring, review and reporting arrangements within the Council, including:
    - The Budget Setting Process;
    - Monthly Budget Monitoring Statements;
    - Policy and Performance Review Committee;
    - Performance Management Framework;

- The work of the Council Management Team.
3. The work undertaken by Internal Audit during 2017/18 including planned audits, investigations, follow-up reviews and one-off exercises.
- 3.8 My opinion does not cover the internal control systems of other organisations that are included in East Lothian Council's 2017/18 Statement of Accounts under the Group Accounts section.

### **Assessment of Controls and Governance**

- 3.9 The Annual Internal Audit Report 2017/18 presented to the Audit and Governance Committee summarises the work of Internal Audit during the year.
- 3.10 For areas reviewed, an Executive Summary and Action Plan is submitted to the Audit and Governance Committee. The Action Plan contains detailed recommendations including Management responses to the recommendations made.
- 3.11 The majority of Internal Audit recommendations made in 2017/18 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a number of high risk recommendations (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action). A summary of all recommendations made during 2017/18 is outlined below:

| <b>Recommendations<br/>Priority Level</b> | <b>Number of<br/>Recommendations</b> | <b>Recommendations<br/>%</b> |
|---|--------------------------------------|------------------------------|
| High                                      | 15                                   | 14                           |
| Medium                                    | 95                                   | 86                           |
| Low                                       | -                                    | -                            |
| <b>Total</b>                              | <b>110</b>                           | <b>100</b>                   |

- 3.12 During 2017/18 areas identified with scope for improvement included the following:
- Adherence to Council policies, procedures and guidance.
  - Compliance with the Council's Corporate Procurement Procedures.

- Internal financial controls including reconciliations, monitoring and checking arrangements, retaining supporting documentation and audit trail.
- Recovery of all amounts due to the Council.
- Monitoring and management of overtime working.
- Issues identified from our review of homelessness.
- The arrangements for obtaining assurance on governance, risk management and control processes operating within ALEOs.

3.13 The implementation by Management of agreed actions to address the weaknesses identified should provide assurance that the system of internal control is operating as intended.

### **Opinion**

3.14 It is my opinion, subject to the weaknesses outlined in section 3.12 above, that reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year to 31 March 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

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 4 June 2018            |



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Progress Report 2017/18

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**16**

**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

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 31 May 2018            |

## **INTERNAL AUDIT PROGRESS REPORT 2017/18**

| <b>AUDIT REPORTS</b>           | <b>SCOPE OF THE AUDIT</b>  | <b>TARGET COMPLETION DATE</b> | <b>STATUS</b> |
|--------------------------------|--|-------------------------------|---------------|
| 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     |

| <b>AUDIT REPORTS</b>           | <b>SCOPE OF THE AUDIT</b>   | <b>TARGET COMPLETION DATE</b> | <b>STATUS</b> |
|--------------------------------|---|-------------------------------|---------------|
| 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     |

| <b>AUDIT REPORTS</b>             | <b>SCOPE OF THE AUDIT</b>   | <b>TARGET COMPLETION DATE</b> | <b>STATUS</b> |
|----------------------------------|---|-------------------------------|---------------|
| 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     |
| 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                 | Completed     |
| Housing Rent Arrears             | We will examine the processes and controls in place for the recovery of housing rent arrears.   | February 2018                 | Completed     |
| 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                 | Completed     |
| Social Care Fund                 | We will review the arrangements in place within Adult Services for monitoring the use of the Social Care Fund.  | February 2018                 | Completed     |
| Council Tax – Liability          | We will review the arrangements in place for determining Council Tax liability.   | June 2018                     | Completed     |

| <b>AUDIT REPORTS</b>                 | <b>SCOPE OF THE AUDIT</b>  | <b>TARGET COMPLETION DATE</b> | <b>STATUS</b> |
|--------------------------------------|--|-------------------------------|---------------|
| 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                     | Completed     |
| 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                     | 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.                  | June 2018                     | Completed     |
| 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                     | Completed     |
| 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                     | Completed     |
| 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   |

| <b>AUDIT REPORTS</b>                                     | <b>SCOPE OF THE AUDIT</b>   | <b>TARGET COMPLETION DATE</b> | <b>STATUS</b> |
|--|---|-------------------------------|---------------|
| 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                     | In Progress   |
| 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                     | Outstanding   |





**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** External Quality Assessment – Internal Audit

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**17**

**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the findings from the recent external quality assessment of the Council's Internal Audit service.

**2 RECOMMENDATION**

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

**3 BACKGROUND**

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Council's Internal Audit Manager to develop a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable the evaluation of Internal Audit's conformance to the PSIAS. The QAIP must include annual internal self-assessments and a five yearly external assessment, carried out by an independent assessor.
- 3.2 The Scottish Local Authorities Chief Internal Auditors' Group has developed an external quality assessment framework to satisfy the requirement for a five yearly external assessment. The attached report sets out the findings from the external quality assessment of East Lothian Council's Internal Audit service, which was recently undertaken by the Chief Internal Auditor of Argyll and Bute Council.

**4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 31 May 2018            |

Argyll and Bute Council  
 Internal Audit Report  
 May 2018  
 FINAL

East Lothian Council Internal Audit  
 External Quality Assessment

Audit Opinion: **High**

|                    | High | Medium | Low |
|--------------------|------|--------|-----|
| Number of Findings | 0    | 2      | 6   |

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## 1. Executive Summary

### Introduction

1. East Lothian Council (the Council) has an internal audit function which provides an internal audit service to the Council, based on the Public Sector Internal Audit Standards (PSIAS) that became effective in April 2013. These Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom and compliance with them is mandatory for all public sector internal audit service providers, whether in-house, shared services or outsourced.
2. PSIAS require the Council's internal audit manager to develop a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable evaluation of internal audit's conformance to the PSIAS. The QAIP must include annual internal self-assessments and a five yearly external assessment, carried out by an independent external assessor.
3. The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed an external quality assessment framework to satisfy this requirement for a five yearly external assessment.
4. This report sets out the findings arising from the external assessment undertaken by Argyll and Bute Council's chief internal auditor in April 2018.
5. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

### Scope and Methodology

6. The scope of the review was to establish whether the Council's internal audit function is complying fully with PSIAS and identify any recommendations for improvement.
7. In order to reach an opinion on the compliance with PSIAS a range of activities were undertaken including:
  - an external assessment of internal audit's PSIAS self-assessment
  - issuing questionnaires to seven key stakeholders, returns for which were received from the:
    - i. Chief Executive
    - ii. Depute Chief Executive – Partnerships and Community Services and also the Council's Monitoring Officer
    - iii. Head of Council Resources and also the Council's Section 95 Officer
    - iv. Depute Convenor of the Audit and Governance Committee (A&GC)
  - discussions with the internal audit manager and the internal audit team
  - review of the internal audit charter, manual and other relevant governance documents

- review of internal audit planning records, reports, and other working papers/records.

### Audit Opinion

8. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
9. Our overall audit opinion for this audit is that we can provide a high level of assurance on internal audit's compliance with PSIAS. We found they fully conform to twelve standards and generally conform to the remaining one.

### Key Findings

10. We have highlighted no high priority recommendations, two medium priority recommendations and six low priority recommendations where we believe there is scope to strengthen PSIAS compliance. The two medium priority recommendations that consideration should be given to are summarised below:
  - increasing the level of engagement between internal audit and the Council's Corporate Management Team (CMT)
  - implementing a sliding scale of assurance categories when determining the overall audit opinion on the adequacy of arrangements in an area being audited.
11. Full details of the recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. PSIAS Standards Assessment

12. Exhibit 1 sets out the 13 PSIAS assessment standards and our assessment against each standard.

### Exhibit 1 – Summary Assessment of Control Objectives

|    | PSIAS Assessment Standard                   | Assessment         |
|----|---|--------------------|
| 1  | Definition of internal auditing             | Fully Conforms     |
| 2  | Code of ethics                              | Fully Conforms     |
| 3  | Purpose, authority and responsibility       | Fully Conforms     |
| 4  | Independence and objectivity                | Generally Conforms |
| 5  | Proficiency and due professional care       | Fully Conforms     |
| 6  | Quality assurance and improvement programme | Fully Conforms     |
| 7  | Managing the internal audit activity        | Fully Conforms     |
| 8  | Nature of work                              | Fully Conforms     |
| 9  | Engagement planning                         | Fully Conforms     |
| 10 | Performing the engagement                   | Fully Conforms     |
| 11 | Communicating results                       | Fully Conforms     |
| 12 | Monitoring progress                         | Fully Conforms     |
| 13 | Communicating the acceptance of risks       | Fully Conforms     |

### 3. Detailed Findings

#### *Definition of internal auditing*

13. Internal audit fully conforms to the definition of internal auditing, as evidenced by the findings set out in subsequent sections of this report.

#### *Code of ethics*

14. Members of internal audit are supported by the Council and internal audit management to perform their work in a manner which demonstrates:

- honesty, diligence and responsibility
- objectivity
- respect for the confidentiality of the data and information they acquire
- the application of appropriate knowledge, skills and experience
- a regard for Nolan's seven principles of public life.

15. All members of internal audit have signed a code of ethics declaration in which they are confirming they are fully conversant with their ethical responsibilities. This is considered an example of good practice.

#### *Purpose, authority and responsibility*

16. This standard is designed to ensure clarity of the role and scope of internal audit and to provide a firm foundation for its powers and rights of access. It is a requirement of the PSIAS that there is a formal Internal Audit Charter (the charter) in place that clearly sets out the purpose, authority and responsibility of the internal audit function, and that this is reviewed annually and presented to the A&GC for approval.

17. There is a well written and comprehensive charter that fully complies with the requirements of PSIAS. In particular the charter clearly defines:

- the purpose, authority and responsibility of internal audit
- the definition of "board" and "senior management" in relation to internal audit
- internal audit's position within the Council and its organisational independence
- the internal audit manager's reporting relationship with the A&GC
- the scope of internal audit's remit
- internal audit's rights of access to records, assets, personnel etc
- the arrangements for resourcing the internal audit function
- internal audit's responsibility for fraud and corruption.

18. There were two minor areas where it was considered the charter could be further improved. These are that PSIAS requires the:

- Nature of assurance services provided to the Council to be formally defined in the charter and, if applicable, the nature of any assurances provided to external parties to

be documented. The charter does not define the nature of assurance services or make reference to third party assurances.

- Mandatory nature of PSIAS to be recognised in the charter. Paragraph 1.1 of the charter confirms that internal audit activity is governed by PSIAS however that language could be strengthened to specifically reference its mandatory nature.

#### **Action Plan 1**

19. The charter was last approved by the A&GC in January 2017 and is currently being reviewed with an intention to present it to the AG&C for approval in June 2018. After it was approved by the A&GC in January 2017 there was a delay in excess of one year before it was presented to the CMT in March 2018. PSIAS requires the charter to be approved by both the A&GC and the CMT.

#### **Action Plan 2**

20. These are only considered to be minor issues and hence it has been concluded that internal audit fully conforms to the standard on purpose, authority, and responsibility.

#### *Independence and objectivity*

21. This standard sets out the organisational and reporting lines required to promote and preserve the organisational independence of internal audit. It also sets out the arrangements expected to achieve individual objectivity and for dealing with potential and actual conflicts of interest.
22. The internal audit manager attends all meetings of the A&GC and is actively involved in agenda items and presenting papers. However internal audit reports presented to the A&GC are in the name of the Depute Chief Executive - Resources & People Services. To clearly demonstrate organisational independence it is recommended that internal audit reports, and other internal audit related papers, are in the name of the internal audit manager.

#### **Action Plan 3**

23. The four responses to the stakeholder questionnaires all confirmed that the internal audit manager has unrestricted access to the Chief Executive and Chair of the A&GC as is appropriate.
24. Responses to the questionnaire mainly confirmed that the priorities and objectives of audit engagements were discussed with senior management and stakeholders. However it was suggested there may be benefit in establishing better links between internal audit and the CMT to make them more of a strategic partner within the Council and provide for increased engagement to help ensure audit activity is focused on those areas most likely to add value to the Council. Whilst the internal audit manager has monthly meetings with the Depute Chief Executive – Resources and People Services, wider engagement with the CMT tends to be on an 'as required' basis. Consideration should be given to whether there would be benefit in the internal audit manager attending CMT meetings more regularly.

#### **Action Plan 4**

25. Internal audit has no responsibility for operational activities and it is clear the internal audit manager is provided with appropriate opportunity to discuss the audit plan, reports and findings with the A&GC.



26. The internal audit manager's annual performance review includes input from the Depute Chief Executive – Resources and People Services in their role as the internal audit manager's line manager. PSIAS suggests that best practice would be for there to also be input from the Chief Executive and the Chair of the A&GC thus providing a degree of independence between the internal audit manager's performance assessment and an officer who may be subject to audit.

#### **Action Plan 5**

27. It is clear that internal audit operates independently of management and that the audit team are actively supported to act objectively. This could, however, be enhanced by the improvements suggested at paragraphs 22, 24 and 26. Therefore it has been concluded that internal audit generally conforms to the standard on independence and objectivity.

#### *Proficiency and due professional care*

28. This standard seeks to ensure that internal audit possesses the knowledge, skills, and competencies to carry out their role with due professional care.
29. The internal audit manager holds a relevant qualification, has 20 years post qualification experience and has been in post for 15 years. In total, four of the five internal audit team members have relevant professional qualifications. This is a high ratio for an internal audit team.
30. Job descriptions exist which set out the post requirements for team members. The senior auditor job description has post requirements and a person specification whereas the senior audit assistant job description only details post requirements. These, and other audit job descriptions may benefit from a review to ensure they are consistent and remain relevant to the posts. However, as there is very low turnover in the team with the current team all being in post for approximately 13 years, this is not considered a significant concern.
31. The stakeholder questionnaires confirm that the internal audit manager demonstrates the appropriate level of knowledge and experience to perform the role and that internal audit collectively possess the competencies required to meet audit objectives and comply with PSIAS.
32. Internal audit have adopted CIPFA's '*The Excellent Internal Auditor*' guidance to frame the skills and competencies required for each level of auditor within the team. The team assess their competency against this framework and identify areas for development. This is used instead of the Council's PRD template for all team members with the exception of the internal audit manager who uses the Council's template. Training logs are maintained for all audit team members which detail the course attended and/or delivered.
33. The team have a structured methodology in place which supports the exercise of due professional care when planning audit assignments. This includes having an audit manual which includes appropriate sections on understanding the business, setting audit objectives, identifying audit risks, scoping and planning.
34. It has been concluded that internal audit fully conforms to the standard on proficiency and due professional care.

*Quality assurance and improvement programme (QAIP)*

35. This standard sets out the requirements for the internal and external assessment of performance and compliance with PSIAS.
36. The internal audit manager actively and openly participated in this external quality assessment and has confirmed that this report, as the outcome to the assessment, will be reported to the June 2018 A&GC.
37. The Council have key performance indicators for internal audit which are monitored on a quarterly basis and reported annually in the annual internal audit report. Client survey questionnaires are issued at the end of each audit assignment to assess management's opinion on the manner in which the assignment was conducted.
38. Internal audit have a QAIP which is subject to annual review. This is designed to provide assurance to stakeholders that internal audit performs its work in accordance with PSIAS, is operating effectively and is perceived as adding value and focused on improvement. The QAIP is very comprehensive and could be considered as good practice.
39. It has been concluded that internal audit fully conforms to the standard on QAIP.

*Managing the internal audit activity*

40. This standard sets out the requirements for the preparation, delivery, and reporting of the internal audit plan.
41. Internal audit has a documented process setting out how they gain an understanding of the corporate objectives and associated risks and define the 'audit universe.' They also have a planning document which aligns audit reviews, and the scope of those reviews, with identified risks which are assessed using an established criteria for impact and likelihood. The internal audit manual, last reviewed in December 2017, provides guidance to the team on the audit process at an assignment level however it may benefit from a review to better align it to the PSIAS requirements. This would provide further assurance to the A&GC that the audit process adopted by internal audit complies with the requirements of PSIAS.

**Action Plan 6**

42. The internal audit manager consults with the CMT as part of the process to prepare the annual audit plan and takes cognisance of areas they feel may benefit from audit coverage. There is also evidence of engagement with external audit regarding the content of the internal audit plan and consideration of the outputs from other scrutiny bodies such as the Scottish Housing Regulator, Education Scotland and the Care Inspectorate.
43. The Council have a high level assurance checklist which is used to confirm the existence of key governance documents, appropriate arrangements for reporting and scrutiny and assessing the control environment. This is completed on an annual basis.

44. The 2017/18 annual audit plan was approved by the A&GC on 14 March 2017 with progress reports routinely considered by the A&GC as a standard agenda item. The progress reports detail all the reviews in the annual audit plan and whether they are complete or in progress. The progress reports provide the target dates for completion to enable the A&GC to assess if the audit team is on track, or otherwise, to deliver the plan.
45. The internal audit manager confirmed that, whilst she takes cognisance of the views of the CMT when creating the plan, the plan itself is prepared on an independent and objective basis and it is therefore not submitted to CMT for approval. Whilst this is not consistent with the requirements of PSIAS it is considered a reasonable position to adopt. However taking the plan to the CMT for endorsement as part of the wider engagement between internal audit and the CMT (as per paragraph 24 and action plan 4) should be considered.
46. A review of the 2017/18 internal audit plan confirmed it incorporates the key information that would be expected to be detailed in it including:
- how internal audit will be delivered
  - references to council plans and objectives when creating the plan
  - audit assignments to be carried out with an identified risk profile for each
  - estimated resources required to perform audit assignments
  - degree of built in contingency
  - recognition of the need for the plan to be flexible to reflect changing risks and priorities.
47. Whilst the audit team's resource allocation spreadsheet builds in time for the overall management of the department (i.e. planning, development of the annual report, attendance at committees etc.) this is not reflected in the audit plan.

#### **Action Plan 7**

48. The internal audit manager is responsible for securing the resources required to deliver the annual audit plan. This review confirmed that the governance structures and documentation that shape the operation of the team are clear and that the team is well established. Audits are assigned to the team based on competencies, skills and experience and the department's resource allocation spreadsheet confirms that, for each assignment, there is an allocated team member with time built in for management review.
49. It is clear that internal audit is actively managed and the process for delivering and reporting the plan is sound. This could be further enhanced by the improvements suggested at paragraphs 41 and 47 however these are considered minor improvements and, on that basis it has been concluded that internal audit fully conforms to the standard on managing the internal audit activity.

#### *Nature of work*

50. This standard relates to the adequacy and effectiveness of the arrangements necessary for internal audit to contribute to the improvement of risk management, governance, and control processes.

51. Internal audit is a key element of the Council's governance structures, and the 2016/17 Annual Governance Statement (which forms part of the Council's annual accounts) specifically refers to the role of internal audit.
52. As mentioned previously the approach to audit planning has an appropriate focus on key risks. IT risks are also considered and one of the audit team is a member, and Chair, of the SLACIAG computer audit sub group.
53. All four stakeholder questionnaires returned confirmed that, overall, internal audit adds value to the organisation leading to improved organisational processes and operations.
54. It is clear internal audit forms a key element of the Council's governance structures, and plays a valued role in further improving those structures. On that basis it has been concluded that they fully conform to the standard on nature of work.

#### *Engagement planning*

55. This standard relates to the requirements necessary to develop and plan individual audit assignments including setting the objectives, scope, timing and resource allocation.
56. To assess compliance with this standard working papers were reviewed for the 2017/18 audits of:
- arm's length external organisations
  - non-residential charging
  - training.
57. For each audit there was a terms of reference setting out the background, objective, scope, resources, timescales and reporting arrangements. Furthermore there was an engagement planning document providing further information on:
- areas for the audit to consider
  - services delivered by the area being audited
  - financial information
  - performance
  - governance
  - controls
  - risk management.
58. For each of the three audits sampled there were audit programmes in place which set out the expected controls and the compliance testing to be performed. The controls in the programmes could be easily linked to the scope detailed in the terms of reference.
59. It has been concluded that internal audit fully conforms to the standard on engagement planning.

#### *Performing the engagement*

60. This standard covers arrangements for gathering, documenting, analysing, and evaluating audit evidence, and for the supervision of staff undertaking audit assignments.
61. To assess compliance with this standard the fieldwork for the three audits detailed at para 56 was reviewed. For all three audits there was clear evidence that:
- files were comprehensive, well documented and cross referenced
  - fieldwork was clearly aligned to the audit programme
  - audit judgement was documented
  - audit findings were clear and reflected in the final report
  - fieldwork had been subject to appropriate management review.
62. There is an established internal audit records management policy which provides general advice about the management, control and disposal of internal audit information. It also makes clear the approval required before audit records can be released to external parties. This is considered an example of good practice.
63. It has been concluded that internal audit fully conforms to the standard on performing the engagement.

#### *Communicating results*

64. This standard relates to the communication of results from individual assignments and the internal audit manager's overall annual opinion.
65. To assess compliance with this standard the fieldwork for the three audits detailed at para 56 were reviewed. This confirmed that findings are clearly reported with the reports setting out the audit objective, scope, conclusions, risk assessed and recommendations with an associated action plan and management responses.
66. While reports do include a 'Conclusions' section, consideration should be given to implementing a sliding scale of assurance categories to provide an overall opinion on the adequacy of arrangements for risk management, governance, and control in the area subject to audit.

#### **Action Plan 8**

67. The internal audit manager is also responsible for reporting on findings and conclusions to the A&GC. On an annual basis she presents the 'Annual Internal Audit Report' to the A&GC which summarises the work undertaken by the team over the course of the year. She also presents the annual 'Controls Assurance Statement' in which she documents her overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
68. Assignment and annual reporting processes are well defined. It is clear how findings flow through from working papers into assignment reports and subsequently into reports to A&GC. Whilst a recommendation has been raised at paragraph 66 it is not considered a major weakness and it has been concluded that internal audit fully conforms to the standard on communicating results.

*Monitoring progress and communicating the acceptance of risk*

69. These standards relate to arrangements for monitoring the implementation of agreed recommendations or the acceptance of the risk of not implementing, and for the escalation of unacceptable risk to the A&GC.
70. The annual audit plan clearly allocates time for audit follow up to be carried out to ensure that recommendations from completed audits have been implemented. Internal audit follow up on agreed action plans to ensure actions are properly implemented. Prior to a meeting of the A&GC services are expected to update the internal audit database with an update on progress against all action plan points with an imminent due date. The reminder to services is an e-mail which is automatically triggered by the database. Services are expected to update the status of their action and attach evidence where they consider the action to be complete. Internal audit then confirm if the provided evidence is sufficient. Asking services to update the database, rather than internal audit doing it, places greater ownership for the issue with the service. This is considered an example of good practice.
71. Follow up reports are submitted to the A&GC however consideration should be given to reporting overdue matters to the CMT. This has been incorporated into the action plan point about wider engagement with the CMT highlighted at paragraph 24.
72. Should there be any need to escalate unacceptable risk it is clear that, as per paragraph 23, the internal audit manager has unrestricted access to the Chief Executive and the Chair of the A&GC.
73. In summary, the reporting of follow up actions is well defined, embedded, and transparent, and the internal audit manager is clearly able to escalate unacceptable risk. On that basis, it has been concluded that internal audit fully conforms to both the monitoring progress standard and the communicating the acceptance of risk standard.

## Appendix 1 – Action Plan

|        | No. | Recommendation   | Agreed Action                                 | Responsibility / Due Date           |
|--------|-----|--|---|-------------------------------------|
| Low    | 1   | <p><b>Internal Audit Charter Update</b></p> <p>The charter could be further improved by:</p> <ul style="list-style-type: none"> <li>• defining the nature of assurance services provided by internal audit</li> <li>• defining the nature of any assurances provided to external parties (if applicable)</li> <li>• strengthening the language to specifically recognise the mandatory nature of PSIAS.</li> </ul> | Agreed – Internal Audit Charter to be updated | Internal Audit Manager<br>June 2018 |
| Low    | 2   | <p><b>Internal Audit Charter Approval</b></p> <p>After the charter was approved by the A&amp;GC in January 2017, 14 months elapsed before it was approved by the CMT. The Charter is currently being reviewed, once this is complete it should be subject to timely approval by both the A&amp;GC and CMT in compliance with PSIAS.</p>  | Agreed  | Internal Audit Manager<br>June 2018 |
| Low    | 3   | <p><b>Internal Audit Reports to A&amp;GC</b></p> <p>The organisational independence of internal audit could be further strengthened and evidence by all internal audit reports and papers being presented to the A&amp;GC in the name of the internal audit manager rather than the Depute Chief Executive (Resources &amp; People Services).</p>  | Noted and will be considered by CMT           | Chief Executive<br>June 2018        |
| Medium | 4   | <p><b>Internal Audit and CMT Engagement</b></p> <p>Engagement between the internal audit manager and CMT tends to be ad hoc. More regular engagement would help ensure internal audit is more of a strategic partner within the Council and help ensure the internal audit manager is well cited on areas of concern or development for the Council.</p>   | Noted and will be considered by CMT           | Chief Executive<br>June 2018        |

|        |   |   |                                      |  |
|--------|---|---|--------------------------------------|--|
|        |   | <p>This, in turn, will help ensure that internal audit activity is focused on those areas most likely to add value to the Council.</p> <p>Furthermore it is recommended that the internal audit manager presents the annual internal audit plan to the CMT for endorsement and considers the benefit of reporting overdue audit action points to the CMT on a periodic basis.</p> | Agreed                               | Internal Audit Manager<br>September 2018 |
| Low    | 5 | <p><b>Internal Audit Manager's Performance Review</b></p> <p>Consideration should be given to incorporating feedback from the Chief Executive and the Chair of the A&amp;GC in the internal audit manager's annual performance review.</p>  | Agreed                               | Internal Audit Manager<br>March 2019     |
| Low    | 6 | <p><b>Internal Audit Manual</b></p> <p>For the December 2018 review of the internal audit manual consideration should be given to better aligning it to the requirements of the PSIAS.</p>  | Agreed                               | Internal Audit Manager<br>December 2018  |
| Low    | 7 | <p><b>Allocation of Resource in Annual Audit Plan</b></p> <p>The time required for the overall management of internal audit (i.e. planning, development of the annual audit report, committee attendance etc.) should be reflected in the annual audit plan.</p>  | Agreed                               | Internal Audit Manager<br>March 2019     |
| Medium | 8 | <p><b>Audit Opinion in Reports</b></p> <p>Consideration should be given to implementing a sliding scale of assurance categories when determining the overall audit opinion on the adequacy of arrangements for risk management, governance and controls in an area being audited. This overall opinion should be clearly stated in the final audit report.</p>                    | Agreed – consideration will be given | Internal Audit Manager<br>September 2018 |



In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

| Grading       | Definition   |
|---------------|--|
| <b>High</b>   | A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.  |
| <b>Medium</b> | Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken. |
| <b>Low</b>    | Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.  |

## Appendix 2 – Audit Opinion

| Level of Assurance  | Definition  |
|---------------------|---|
| <b>High</b>         | Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.            |
| <b>Substantial</b>  | Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.                        |
| <b>Reasonable</b>   | Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.                              |
| <b>Limited</b>      | Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised. |
| <b>No Assurance</b> | Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.    |

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 12 June 2018  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Charter

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**18**

## **1 PURPOSE**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require an Audit Charter to be in place in each local authority.
- 1.2 The PSIAS require the Internal Audit Charter to be reviewed periodically and presented to Senior Management and to the Audit and Governance Committee for approval.
- 1.3 East Lothian Council's Internal Audit Charter was approved by the Audit and Governance Committee in January 2017. The Charter has been reviewed and updated to reflect the recommendations made following the recent external quality assessment of Internal Audit. The updated Internal Audit Charter is being presented to the Audit and Governance Committee for approval.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee approves the updated Internal Audit Charter.

## **3 BACKGROUND**

- 3.1 The Internal Audit Charter has been drawn up in line with PSIAS requirements and is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter is attached as Appendix A.
- 3.2 The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Internal Audit Manager's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

#### **4 POLICY IMPLICATIONS**

4.1 None

#### **5 INTEGRATED IMPACT ASSESSMENT**

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

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

#### **7 BACKGROUND PAPERS**

7.1 None

|                      |                        |
|----------------------|------------------------|
| <b>AUTHOR'S NAME</b> | Mala Garden            |
| <b>DESIGNATION</b>   | Internal Audit Manager |
| <b>CONTACT INFO</b>  | 01620 827326           |
| <b>DATE</b>          | 31 May 2018            |

**EAST LoTHIAN COUNCIL  
INTERNAL AUDIT**



**INTERNAL AUDIT  
CHARTER**

## INTERNAL AUDIT CHARTER

### **1. Introduction**

- 1.1 The work of East Lothian Council's Internal Audit activity is governed by the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013. The PSIAS are mandatory for all internal auditors working in the UK public sector.
- 1.2 The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes Internal Audit's position within the Council, including the nature of the Internal Audit Manager's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

### **2. Definitions**

- 2.1 The PSIAS comprise a revised definition of internal auditing, a Code of Ethics for internal auditors working in the public sector and the Standards themselves.
- 2.2 The PSIAS require that the Internal Audit Charter defines the terms "Board" and "Senior Management" in relation to the work of Internal Audit. For the purposes of Internal Audit work in East Lothian Council, the Board refers to the Audit and Governance Committee which has responsibility for overseeing the work of Internal Audit. Senior Management is defined as the Council Management Team (Chief Executive, Depute Chief Executives and Heads of Service).
- 2.3 The PSIAS also refer to the 'Chief Audit Executive' which in East Lothian Council is the Internal Audit Manager. The Internal Audit Manager is responsible for the effective review of all aspects of risk management, control and governance processes, throughout the full range of the Council's activities.

### **3. Purpose**

- 3.1 Internal Audit's purpose is to provide an independent, objective assurance and advisory service designed to add value and improve the Council's operations. Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In carrying out its activities Internal Audit aims to contribute to:
  - building strong and effective risk awareness and control consciousness within East Lothian Council;
  - continuously improving the risk management, control and governance processes so they operate at optimum effectiveness and cost efficiency and reflect best practice.

#### **4. Scope**

- 4.1 Internal Audit's scope of work extends to the entire control environment of the Council. Internal Audit determines what areas within its scope should be included within the annual Internal Audit Plan by adopting an independent risk based approach, and through engagement with Senior Management.
- 4.2 Internal Audit provides assurance as to whether the Council's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
- Achievement of the Council's strategic objectives.
  - Compliance with policies, standards, procedures and applicable laws and regulations.
  - Reliability and integrity of financial and operational information.
  - The safeguarding, verifying and accounting for assets.
  - Economic and efficient use of resources.
- 4.3 Internal Audit participates in the National Fraud Initiative (NFI) and is also responsible for carrying out ad-hoc investigations into potential irregularities involving cash, stores, equipment or other property of the Council, and for providing advice as and when required in relation to control and compliance issues.

#### **5. Authority**

- 5.1 The PSIAS require that the Internal Audit Charter establishes Internal Audit's rights of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as is considered necessary to fulfil its responsibilities. Internal Audit's rights of access to records, information and explanations are set out in Section 7, paragraphs 2(a) and 2(b) of The Local Authority Accounts (Scotland) Regulations 2014.

#### **6. Responsibility**

- 6.1 Internal Audit is accountable for developing and delivering a programme of assurance aimed at validating the effective management of key business risks.
- 6.2 The annual Internal Audit Plan takes cognisance of the areas of greatest risk within the Council. The planning approach includes consideration of any risks or concerns identified by management.
- 6.3 The annual Internal Audit Plan is approved by the Audit and Governance Committee. The Audit Plan is reviewed to identify any amendments needed to reflect changing priorities and emerging risks.
- 6.4 Internal Audit is accountable for reporting its findings, conclusions and recommendations to the Audit and Governance Committee and to Senior Management. In addition, Internal Audit is responsible for ensuring timely follow-up on management actions.

- 6.5 Internal Audit assists as needed in the investigation of significant suspected fraudulent activities within the Council and notifies management and the Audit and Governance Committee of the results of any investigations.

## **7. Independence**

- 7.1 Internal Audit must be independent from management at all times in order to be effective in executing its work freely and objectively. In this regard:

- Internal Auditors will have no responsibility or authority over any operating activities reviewed;
- Internal Audit is prohibited from performing management activities, including performing operational duties;
- Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply tools and techniques, and to obtain the necessary assistance and specialised services within or outside the Council to accomplish its objectives;
- Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management.

## **8. Accountability**

- 8.1 Day to day management of the Internal Audit team will be performed by the Internal Audit Manager. The Internal Audit Manager reports administratively to the Depute Chief Executive – Resources and People Services and has unrestricted access to the Chief Executive, the Monitoring Officer, Section 95 Officer and the Chair of the Audit and Governance Committee.

- 8.2 The Internal Audit Manager shall be accountable to the Audit and Governance Committee for:

- providing at least annually an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of risk management, control and governance;
- reporting significant issues relating to the processes for controlling the activities of the Council, including recommendations and status of implementation of improvements;
- periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources;
- co-ordination with other significant assurance functions.

## **9. Management Responsibilities**

- 9.1 An Internal Audit function can only be effective if it receives the full cooperation of management. By approving this Internal Audit Charter, the Audit and Governance Committee and the Depute Chief Executive – Resources and People Services are mandating management to cooperate with Internal Audit in the delivery of the service by:

- providing Internal Audit with full support and cooperation, including complete access to all records, assets, personnel and premises relevant to the performance of their responsibilities at all levels of operations,



without unreasonable delay, subject to all relevant legal obligations and restrictions;

- responding to draft Internal Audit reports including provision of management responses to recommendations;
- implementing agreed management actions in accordance with the agreed timescales and updating Internal Audit with progress made on management actions;
- informing Internal Audit of proposed changes and developments in processes and systems and of newly identified risks.

9.2 Management is responsible for the effective identification of risk and the maintenance of adequate systems of controls. Management is responsible for corrective actions on reported weaknesses.

9.3 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will assist management in the effective discharge of this responsibility.

9.4 In accordance with the Council's Strategy for the Prevention and Detection of Fraud and Corruption, management will notify Internal Audit of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.

## **10. Advisory Work**

10.1 The Public Sector Internal Audit Standards (PSIAS) recognise that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment within the Council, providing:

- the objectives of the consulting engagement address governance, risk management and control processes to the extent agreed upon with the Council;
- the request has been approved by the Council Management Team;
- Internal Audit is considered to have the right skills, experience and available resources;
- Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

10.2 When performing consulting services, Internal Audit staff must maintain objectivity and not take on management responsibility.

10.3 The Internal Audit Manager is responsible for ensuring that all requests for consulting engagements are reviewed in accordance with the above criteria and for making the final decision.

## **11. Quality Assurance**

- 11.1 Public Sector Internal Audit Standards (PSIAS) require that the Audit function is subject to a Quality Assurance and Improvement Programme (QAIP) that must include both internal and external assessments.

### Internal assessments

- 11.2 On an annual basis, an internal review is undertaken to ensure that the Internal Audit function is fully compliant with the PSIAS. All Internal Audit engagements are subject to a thorough review of quality to ensure that the work meets the standards expected from all Internal Audit staff. For example the internal file quality reviews undertaken by the Internal Audit Manager cover the following:

- All work undertaken is in accordance with PSIAS.
- The work is planned and undertaken in accordance with risks associated with areas under review.
- Sampling is undertaken in accordance with a methodology agreed with External Audit.
- The conclusions are fully supported by the detailed work undertaken and appropriate audit evidence is held on file to support the conclusions reached.

### External assessments

- 11.3 An external quality assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Internal Audit Manager will discuss options for the external assessment with the Depute Chief Executive – Resources and People Services and with the Audit and Governance Committee.

## **12. Approval**

- 12.1 Final approval of the Internal Audit Charter resides with the Audit and Governance Committee.

**Updated: May 2018**