



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

**TUESDAY 27 NOVEMBER 2018
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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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 J Williamson

Other Councillors Present:

Councillor J McMillan (Item 5)

Council Officials Present:

Mrs A Leitch, Chief Executive
Mr A McCrorie, Depute Chief Executive
Ms M Patterson, Depute Chief Executive
Mr D Proudfoot, Head of Development
Mr J Lamond, Head of Council Resources
Mr T Reid, Head of Infrastructure
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Ms S Fortune, Service Manager – Business Finance
Mr S Wood, Waste Services Officer
Mr B Moffat, Service Manager - Transport
Ms D Budziosz, Transport Coordinator
Mr R Baty, Business Development Manager
Mr E John, Service Manager – Sport, Countryside & Leisure
Mr B Davies, Group Service Manager – Planning & Performance
Mr B Axon, General Manager, Enjoyleisure

Clerk:

Ms F Currie

Visitors Present:

Ms E Scoburgh, Audit Scotland

Apologies:

Councillor B Small

Declarations of Interest:

None

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 25 SEPTEMBER 2018

The minutes of the Audit and Governance Committee meeting held on 25 September 2018 were approved as a true record.

2. INTERNAL AUDIT REPORT – NOVEMBER 2018

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of Internal Audit reports issued since the last meeting of the Committee and providing an update on the progress against the 2018/19 annual audit plan.

Stuart Allan, Senior Auditor, presented the report outlining the purpose of the audits, and the level of assurance provided to Management as a result of this work. He also drew Members' attention to the report showing Internal Audit's progress against the 2018/19 annual audit plan.

Payments on Schedule

Mr Allan summarised the main findings of this audit and highlighted one or two of the areas with scope for improvement.

Mr Allan and Mala Garden, Internal Audit Manager, responded to questions from Councillor Currie confirming that the overpayments identified following the audit had now been recovered and that appropriate arrangements were now in place. Addressing concerns about the level of assurance, Mr Allan stated that the assessment of 'moderate' assurance was based on the audit findings and that following implementation of the recommendations he would expect the assessment to rise to 'reasonable' or 'substantial' assurance.

Bryan Davies, Group Service Manager – Planning & Performance, confirmed that work had been undertaken to improve processes and that further improvements were planned. As a result, he expected the level of assurance to improve when the audit team returned to do their follow up review.

Adult Services Transport

Mr Allan explained that the audit had focused primarily on taxi services. He summarised the main findings and highlighted one or two of the areas with scope for improvement. Mr Allan also addressed a point raised by Councillor McLeod regarding compliance with data protection legislation. Mr Allan indicated that as part of the service it was sometimes necessary to give the operator an idea of a client's needs. Bruce Moffat, Service Manager - Transport, confirmed that he had discussed the procedures with the Council's GDPR officer who had confirmed that all were compliant with legislation.

In response to questions from Councillor Findlay and Councillor Dugdale, Mr Moffat advised that all work was now done through taxi framework providers and that all appropriate checks on licences, training and PVG were carried out. He also confirmed that a new standardised request form was in place.

Mr Allan and Ms Garden also responded to questions from Councillor Williamson and the Convener on the timescales for implementation of the recommendations, confirming that a wider review of transport had been undertaken and that the new processes in place incorporated the recommendations made by the audit team.

IT Access Controls

Mr Allan explained that the audit had looked at five systems within the Council (AVD, CHRIS, PECOS, Total and Uniform). He summarised the main findings of the audit and highlighted one or two of the areas with scope for improvement.

Mr Allan confirmed that no examples of inappropriate access to or use of the systems had been found in the samples reviewed for the audit. He added that it was important to ensure that access rights were restricted only to those areas of any system that were essential for staff to carry out their duties and that system access was removed for all former employees.

Trade Waste Income

Mr Allan summarised the main findings of this audit and highlighted one or two of the areas with scope for improvement.

Mr Allan and Tom Reid, Head of Infrastructure, provided further information on transfer notices, the systems in place for ensuring that all notices were valid, and arrangements for dealing with persistent late payment or non-payment of business waste charges.

Decision

The Committee agreed to note:

- (i) The main findings and recommendations from Internal Audit reports issued during the period October to November 2018; and
- (ii) Internal Audit's progress against the annual audit plan for 2018/19.

3. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID-YEAR REVIEW 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) updating the Committee on Treasury Management activity during the first half of 2018/19.

Sarah Fortune, Service Manager – Business Finance, presented the report advising Members that the update was in line with the Treasury Management Strategy approved by Council in February 2018. She indicated that the report drew heavily on the advice provided by the Council's Treasury Management advisers and she highlighted some of the key themes, including in-year borrowing and repayment of loans matured and the potential impact of further interest rate rises. She added that, at this time, it was difficult to assess the likely impact of Brexit.

In response to questions from Councillor McLeod and Councillor Findlay, Ms Fortune explained the reasons for the forecast need for borrowing during the next six months of the year and confirmed that lending to other local authorities was standard practice and formed part of the Council's overall strategy.

Following a query from Councillor Williamson, Mr Lamond advised that ‘investment counterparty criteria’ referred to the criteria to be considered when investing, such as the level of risk and liquidity and whether it offered a reasonable return.

Responding to questions from Councillor Currie, Mr Lamond stated that it was a fundamental principle of the Code that local authorities could not borrow in advance of need. He said that changes to interest rates were difficult to predict and when the Council considered funding for capital projects it looked at how best to finance them as a whole. While he acknowledged that interest rates were a factor in considering whether to bring forward the timing of capital projects, he said that other factors, such as remaining within affordability limits, were more important.

Decision

The Committee agreed to note the contents of the report.

4. ENJOYLEISURE ANNUAL REPORT 2017/18

Bill Axon, General Manager of Enjoyleisure, had prepared a report to the Committee outlining the organisation’s activities during 2017/18. He was happy to answer any questions.

The Members asked a number of questions about the withdrawal of the ‘free swim’ scheme, arrangements for free swimming lessons, concerns about capacity within the service to accommodate the demand for swimming, business performance challenges and external funding opportunities.

Mr Axon explained that, at present, it was difficult to assess the impact of the withdrawal of ‘free swims’ during the summer holidays and he outlined some of the alternatives available through the learn to swim programme, free swimming lessons for some school children and free access as part of membership arrangements.

He acknowledged that budget constraints and capacity issues were factors in reviewing future service provision. He said that there were particular concerns about capacity at the Aubigny Centre and discussions were already taking place with external providers on proposals to increase the availability of services. He would be in a position to present these proposals to the Council in January 2019.

Mr Axon commented more generally on the challenges associated with delivering local and national government commitments to improving access to physical activities and improving health. He emphasised the need for a more strategic approach and for better partnership working between enjoyleisure, the Council and external providers. He said that this would be an essential part of ensuring that they had the capacity to grow and develop services to support and benefit people with long-term illnesses. He cited the example of Macmillan Cancer Support who were part funding a new post in enjoyleisure.

On the issues of incentive programmes and external funding, Mr Axon advised Members that he was currently considering proposals and the expertise and staff resource required to focus on bid writing and marketing. He also responded to a question on swim teacher development and agreed that this needed to be expanded. He acknowledged that there had been issues in North Berwick which had impacted on their ability to provide a level of consistency with swimming lessons but that staff were working hard to resolve this.

Councillor Currie expressed concern about potential capacity issues raised by Mr Axon and highlighted in the report and thought that these should be addressed through developer contributions when housing applications were brought forward to the Planning Committee. He welcomed the focus on external funding sources and said that this was a crucial part of future investment. He suggested that it would be useful for the Committee to have an update on progress with these and other issues before the next annual report.

Eamon John, Service Manager – Sport, Countryside & Leisure, confirmed that there had been a developer contribution included in the Letham Mains site under the 2008 Local Development Plan (LDP). The new 2018 LDP focused on open space and educational sports provision and he cited examples in North Berwick and Musselburgh.

Councillor Dugdale welcomed the number of opportunities available for physical activities, as well as the introduction of soft play sessions for children with autism, community provision for people with dementia and future partnership working with Macmillan Cancer Support.

The Convener thanked Mr Axon for his report and the Members for their contributions. Referring to the range of the discussion, she noted that there were a number of challenges ahead for enjoyleisure and she looked forward to receiving an update on progress.

Decision

The Committee agreed to note the contents of the report.

5. EAST LoTHIAN LAND LTD 2017/18

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of the work undertaken by East Lothian Land Ltd in 2017/18.

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 2017/18.

In response to a question from Councillor Currie, Mr Baty advised that a few years ago a review was undertaken of all land identified for employment use. An agent was employed to make approaches to developers for the purchase of these sites but all offers were declined. He said that the exercise would be repeated in the New Year.

Councillor Currie said that East Lothian Land was a good business which had shown that it was possible to make a success of commercial sites. He said that there continued to be demand, especially from incubator businesses, and that the Council must continue to support the development of these sites.

Mr Proudfoot stated that he was determined to see the delivery of land use allocations and to resist applications for housing on land set aside for employment use.

Councillor John McMillan welcomed the Committee's consideration of the report. He said that East Lothian Land was aware of the issues and the importance of supporting the growth of new businesses.

The Convener thanked Mr Baty for a clear and very useful report.

Decision

The Committee agreed to note the contents of the report.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee

DRAFT

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 February 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – February 2019

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1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued, and follow-up work completed, since the last meeting of the Committee and to provide an update on the progress against the 2018/19 annual audit plan.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from Internal Audit reports issued during the period from December 2018 to February 2019 as contained in Appendix 1;
 - ii. the findings from Internal Audit's follow-up work as contained in Appendix 2;
 - iii. Internal Audit's progress against the annual audit plan for 2018/19 as set out in Appendix 3.

3 BACKGROUND

- 3.1 Since the last meeting of the Committee, final reports have been issued in respect of the following audits: Disclosure Checks, Non-Domestic Rates Liability, Windygoul Primary School, Conflicts of Interest and Contracts.
- 3.2 The main objective of the audits was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audits is contained in Appendix 1.

3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:

- Disclosure Checks – Reasonable Assurance
- Non-Domestic Rates Liability – Reasonable Assurance
- Windygoul Primary School – Moderate Assurance
- Conflicts of Interest – Moderate Assurance
- Contracts – Moderate Assurance

3.4 Internal Audit follows up recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for four audits that were reported in 2017/18. Our findings are detailed below.

Taxicard Scheme

3.5 Internal Audit's report on the Taxicard Scheme was issued in September 2017. Our follow-up review has highlighted that all eleven recommendations made have been implemented.

Non-Residential Charging

3.6 Internal Audit's report on Non-Residential Charging was issued in September 2017. Our follow-up review has highlighted that of the seven recommendations made, six have been implemented and one is outstanding (see Appendix 2). For the outstanding recommendation, we are informed by management that progress is being made with a view to full implementation by March 2019.

ALEO (Enjoy East Lothian Limited)

3.7 Internal Audit's report on ALEO (Enjoy East Lothian Limited) was issued in November 2017. Our follow-up review has highlighted that all four recommendations made have been implemented.

Training

3.8 Internal Audit's report on Training was issued in November 2017. Our follow-up review has highlighted that of the four recommendations made, three have been implemented and one is outstanding (see Appendix 2). For the outstanding recommendation, we are informed by management that the revised implementation date is December 2019.

3.9 The progress report attached as Appendix 3 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan for 2018/19.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Stuart Allan
DESIGNATION	Senior Auditor
CONTACT INFO	01620 827311
DATE	8 February 2019

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
DISCLOSURE CHECKS**

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the arrangements in place for undertaking Disclosure Checks was carried out as part of the Audit Plan for 2018/19. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adequate arrangements in place to ensure compliance with the Protection of Vulnerable Groups (Scotland) Act 2007.
- Appropriate policies and procedures are in place to ensure compliance with legislation including a Protection of Vulnerable Groups Policy and Procedure, Guidance on Levels of Disclosure and PVG Checks and an HR Guide for the Secure Handling, Use, Storage and Retention of Vetting Information.
- The Council's Disclosure Team within HR have a clear understanding of the disclosure process including the Code of Practice issued by the Scottish Ministers in connection with the use of disclosure information.
- A comprehensive job register is maintained of all posts within the Council – each post has been assessed to establish if it falls within the definition of regulated work and the PVG/Disclosure requirements for each post are clearly recorded.
- For all posts considered to be regulated work with children and/or protected adults, job advertisements clearly specify the PVG requirements.
- Adequate pre-employment checks are in place to ensure that appropriate PVG clearance is obtained for posts undertaking regulated work or Disclosure checks carried out for non-regulated work, prior to individuals commencing employment with the Council.

1.3 Areas with Scope for Improvement

- The current arrangements in place for non-employee groups (e.g. volunteers, agency workers, drivers/escorts on Council contracted routes) who undertake regulated work, require review. *Risk – failure to ensure compliance with legislation.*

1.4 Summary

Based on our review of Disclosure Checks, Internal Audit can provide reasonable assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden
Internal Audit Manager**

January 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that key guidance documents on PVG/Disclosure checking are reviewed and updated to reflect the current arrangements in place.	Medium	Performance and Business Support Manager	Agreed		July 2019
3.4.1	Management should ensure that corporate guidance is developed to assist staff who recruit volunteers to undertake regulated work – the guidance should cover those service areas who refer volunteers directly to Disclosure Scotland.	Medium	Performance and Business Support Manager	Agreed		July 2019
	Management should ensure that service areas provide HR with a list of current volunteers for whom PVG checks have been carried out.	Medium	Team Manager – CLD	Agreed		April 2019
	Consideration should be given to maintaining a central database of all volunteers undertaking regulated work within the Council.	Medium	Performance and Business Support Manager	Agreed – a list is maintained by HR and will be updated to include information provided by service areas		July 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that agency workers are only hired from framework providers and have been subject to the appropriate PVG checks.	Medium	Service Manager – Transport	Agreed, however flexibility is required in exceptional circumstances	Yes	April 2019
	Management should ensure that a record is maintained to confirm that appropriate PVG clearance has been reviewed, prior to agency workers commencing work with the Council.	Medium	Service Managers	Agreed – HR to send email to all Service Managers		
3.6.1	Management should ensure that monitoring checks are undertaken on a regular basis to confirm that only drivers/escorts listed on the Transportation PVG Database are being used.	Medium	Service Manager – Transport	Agreed		In Place
	Management should ensure that a comprehensive list is maintained of all drivers/escorts for whom PVG checks have been carried out, together with the date the PVG certificate was checked.	Medium	Service Manager – Transport	Agreed		February 2019
	For drivers/escorts for whom PVG checks have been undertaken by another authority/body, Management should ensure that a record is maintained of the individual, together with the date their PVG certificate was reviewed.	Medium	Service Manager – Transport	Agreed		February 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1 (cont)	Management should ensure that the Council's Lead Signatory undertakes a health check of the current PVG checking arrangements operating within Transport Services.	Medium	Performance and Business Support Manager	Agreed		July 2019

Grading of Recommendations

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

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

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT NON-DOMESTIC RATES – LIABILITY

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Non-Domestic Rates Liability was undertaken as part of the Audit Plan for 2018/19. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place for identifying persons liable for Non-Domestic Rates – for the sample tested, the owner or the tenant had been correctly identified as the liable person(s).
- The Capita system has been correctly set up to calculate liability for Non-Domestic Rates in accordance with legislation.
- A clear audit trail exists for all reliefs and exemptions awarded – the Capita system records the type of relief or exemption applied and the effective dates of entitlement.
- All reliefs and exemptions had been correctly updated on the Capita system for 2018/19.

1.3 Areas with Scope for Improvement

- The draft Business Rates Discretionary Relief Policy in place has yet to be formally approved. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of documentation to support the reliefs and exemptions awarded. *Risk – errors and irregularities may occur and remain undetected.*
- The existing monitoring arrangements in place to confirm continued entitlement to reliefs and exemptions require review – in a number of cases reviews had not been undertaken since 2012. *Risk – reliefs and exemptions awarded may be inappropriate.*
- In two cases, there had been a failure to update the Capita system to accurately reflect changes to the ratepayer's account. *Risk – information held may be inaccurate or incomplete.*
- There is currently no planned programme of visits in place to confirm eligibility for empty property reliefs and exemptions awarded. *Risk – reliefs and exemptions awarded may be inappropriate.*

1.4 Summary

Based on our review of Non-Domestic Rates Liability, Internal Audit can provide reasonable assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the draft Business Rates Discretionary Relief Policy is formally approved.	Medium	Service Manager – Revenues and Welfare Support	Agreed		June 2019
3.2.3	Management should ensure that reliefs and exemptions are properly applied.	Medium	Systems Development and Business Support Team Leader	Agreed		February 2019
	For the case highlighted, Management should review the eligibility of the Small Business Bonus Scheme Relief awarded.	Medium	Systems Development and Business Support Team Leader	Agreed		February 2019
3.4.2	Management should ensure that appropriate documentation is held to support all reliefs and exemptions awarded.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019
	Management should ensure that the Capita system is updated to reflect all changes in occupiers and that a demand notice is issued to the liable person.	Medium	Systems Development and Business Support Team Leader	Agreed		February 2019
3.5.1	Management should review the existing arrangements in place for monitoring reliefs and exemptions awarded.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	Management should ensure that all review forms are scanned on to the Electronic Document and Records Management System.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019
3.5.2	Management should ensure that a planned programme of visits is undertaken for empty properties – a risk assessment should be carried out to identify specific categories of empty properties that should be inspected.	Medium	Systems Development and Business Support Team Leader	Agreed		June 2019

Grading of Recommendations

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

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

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT WINDYGOUL PRIMARY SCHOOL

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of the financial arrangements operating at Windygoul Primary School. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Financial procedures are in place to provide guidance to staff responsible for the administration of the School's finances.
- Adequate procedures are in place for the checking, receipting and processing of invoices for payment.
- Income returns are being completed and submitted for all income received and banked.
- Appropriate arrangements are in place for the ordering of goods through the Pecos system.
- For academic year 2017/18, the School Fund Annual Return had been completed and submitted to Finance.

1.3 Areas with Scope for Improvement

- There was a lack of adequate separation of duties – the same member of staff had responsibility for administering both the School Fund and the School DSM. *Risk – errors and irregularities may occur and remain undetected.*
- Delays were noted in School Fund reconciliations being carried out. *Risk – errors and irregularities may occur and remain undetected.*
- The existing procedures in place for the recording of cash received in both the class registers and the School Fund cashbook require review. *Risk – information held may be inaccurate or incomplete.*
- Cash prepared for banking is not being checked and countersigned by a second member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of adequate arrangements in place to ensure that the overall financial position of the School was being regularly checked and reconciled to the general ledger. *Risk – errors and irregularities may occur and remain undetected.*
- The School's authorised signatory list requires to be updated to accurately reflect current staff members. *Risk – information held may be out of date.*

1.4 Summary

Based on our review of the financial arrangements operating at Windygoul Primary School, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

**Stuart Allan
Senior Auditor**

February 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should ensure that there is appropriate separation of duties between the administration of the School Fund and the administration of the DSM commitment system.	Medium	Head Teacher	Agreed		February 2019
3.2.3	Management should ensure that all School Fund income and expenditure is accurately recorded in both the income and expenditure general account spreadsheet and in the individual ledgers. Management should ensure that all School Fund income and expenditure transactions are adequately cross-referenced.	Medium	Head Teacher	Agreed		In Place
3.2.4	Management should ensure that the School Fund is reconciled on a monthly basis.	Medium	Head Teacher	Agreed		In Place
3.2.5	Management should ensure that the School DSM is promptly reimbursed for all School Fund purchases made.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.6	Management should ensure that VAT is not reclaimed on purchases made directly from the School Fund.	Medium	Head Teacher	Agreed		In Place
3.3.1	Management should ensure that class registers accurately record the individual amounts received, the date received and the total daily amount collected.	Medium	Head Teacher	Agreed – will be in place for next School trip.		Ongoing
3.3.2	Management should ensure that all online payments received are accurately recorded in the class registers and in the School Fund cashbook.	Medium	Head Teacher	Agreed		In Place
3.3.3	Management should ensure that daily prints from the SchoolPay system are produced and retained on the banking file. Management should ensure that cash and cheques received and input to the SchoolPay system are checked by a second member of staff – the daily prints should be signed and dated by both members of staff.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	Management should ensure that all cash handed into the school office is accurately recorded on the "Record of Money Handed in Directly to the Office" form. The form should be initialled by persons to whom the cash is then passed.	Medium	Head Teacher	Agreed		In Place
3.3.6	Management should ensure that two members of staff count and prepare cash for banking. Management should ensure that weekly banking sheets and bank giro pay-in slips are fully completed and signed by the two members of staff.	Medium	Head Teacher	Agreed		In Place
3.3.8	Management should ensure that additional members of staff are fully trained in the income and banking procedures.	Medium	Head Teacher	Agreed		In Place
3.3.10	Management should ensure that all financial documents are retained in line with the retention periods outlined in the Financial Procedures.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that the School's authorised signatory list is updated and Pecos forms are completed for all relevant members of staff.	Medium	Head Teacher	Forms completed and sent for sign off to add further signatories.		February 2019
3.5.4	Management should ensure that the DSM commitment system is promptly updated with details of all expenditure. Management should ensure that invoice numbers are recorded on the DSM commitment system for all expenditure incurred.	Medium	Head Teacher	Agreed		In Place
3.6.3	Management should ensure that purchase card transactions are monitored by the designated Cardplus Supervisor.	Medium	Head Teacher	Agreed		In Place
3.6.4	Management should ensure that all purchase card transactions are supported by valid invoices or receipts. Management should ensure that all purchases are delivered directly to the School to ensure that the goods are formally checked and receipted.	Medium	Head Teacher	Agreed		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.5	Management should ensure that all purchase card transactions are timeously updated in the DSM and School Fund records.	Medium	Head Teacher	Agreed		In Place
3.6.6	To enable VAT to be reclaimed, Management should ensure that proper VAT invoices or receipts are obtained for all purchase card transactions.	Medium	Head Teacher	Agreed		In Place
3.8.1	Management should ensure that the DSM commitment system is kept up to date, to assist in the effective budget monitoring of the School's finances.	Medium	Head Teacher	Agreed		In Place

Grading of Recommendations

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

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

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONFLICTS OF INTEREST

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the audit plan for 2018/19, a review was undertaken of the arrangements in place for managing potential conflicts of interest. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adopted the COSLA National Code of Conduct for Local Government Employees in Scotland, which outlines the seven principles of public life including employees' duty to declare any private interests, which might affect their work with the Council.
- Procedures are in place within some service areas to identify potential conflicts of interest.

1.3 Areas with Scope for Improvement

- There is a lack of an overarching framework in place to ensure that a coordinated approach is adopted for identifying, monitoring and managing potential conflicts of interest. *Risk – an inconsistent approach may be adopted.*
- A Conflict of Interest Statement has recently been introduced by Procurement as part of the tender evaluation process, however the arrangements in place for single source procurements and quick quote exercises require review. *Risk – failure to identify potential conflicts of interest.*
- There is a lack of appropriate documentation to enable employees to record any potential conflicts of interest. *Risk – lack of a clear audit trail.*
- Where a conflict of interest has been declared by an employee, there is a lack of guidance in place to assist managers and supervisors on the ongoing monitoring and management of the potential conflict, the actions that should be taken to mitigate the risks or the level of involvement that would be considered acceptable. *Risk – an inconsistent approach may be adopted.*
- In some areas, informal arrangements were in place for declaring conflicts of interest, however there was a lack of evidence to confirm the actions that had been taken to mitigate the risks. *Risk – lack of a clear audit trail.*
- There is a lack of adequate guidance in place for dealing with non-compliance and breaches. *Risk – an inconsistent approach may be adopted.*
- There was a lack of evidence to demonstrate that employees were being regularly informed of their requirement to declare any potential conflicts of interest. *Risk – failure to promote awareness of conflicts of interest.*

1.4 Summary

From our review of the arrangements in place for managing potential conflicts of interest, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	Management should ensure that an overarching conflicts of interest framework is developed to enable the Council to apply a coordinated approach for identifying, monitoring and managing conflicts of interest.	Medium	Depute Chief Executive – Partnerships and Community Services	Agreed		March 2019

Grading of Recommendations

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

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

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONTRACTS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Contracts. Our audit focused on work being awarded by the Council's Property Maintenance and Engineering Services sections. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Corporate Procurement Procedures Manual, which forms part of the Council's Standing Orders – access to the procedures is available via the Council's intranet.
- The Council participates in both national (Scotland Excel and Scottish Procurement Alliance) and regional frameworks for the procurement of goods and services.
- Where extensions to contracts have been granted, appropriate approval has been obtained from the Council's Procurement section.
- Work is ongoing to identify those areas of work where appropriate contracts are not in place – a designated member of staff from Procurement is working with staff within service areas to prioritise work that requires to be procured in line with the Corporate Procurement Procedures.

1.3 Areas with Scope for Improvement

- In a number of cases, there was a lack of evidence to indicate that the Council's Corporate Procurement Procedures had been properly followed in the awarding of work to contractors. *Risk – failure to demonstrate best value.*
- In some cases, suppliers were providing goods and services which did not fall within the scope of work for the contacts they had been awarded. *Risk – failure to obtain best value.*
- Where quotes were being sought, in some cases there was a failure to ensure that the Corporate Procurement Procedures were being followed, which require that all quotes over £5,000 are obtained via the Public Contracts Scotland portal. *Risk – irregularities may occur.*
- In some cases, there was a lack of effective checking and monitoring arrangements in place to ensure that the correct contract rates were being charged by suppliers. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Based on our review of Contracts, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Peter Moore
Senior Auditor

February 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that the Council's Corporate Procurement Procedures are fully complied with in the procurement of all goods and services.	High	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed – services will work with Procurement to ensure that contracts are put in place. High value contracts will be prioritised.		Ongoing
	Management should review the external spend within their area – where the cumulative spend exceeds the thresholds detailed in the Corporate Procurement Procedures, Management should ensure that the goods or services are competitively procured in line with the Corporate Procurement Procedures.	High	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed – as part of the ongoing review all spend will be analysed and tendering exercises carried out.		Ongoing
	Management should ensure that all work awarded to contracted suppliers is covered by the terms of the contact – the current practice of awarding non-contract work to contracted suppliers should cease.	Medium	Service Manager – Engineering Services & Building Standards	Agreed		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	<p>Management should review the current practice of extending contracts beyond the timescales specified in the original contracts.</p> <p>Where contract periods have expired and the Council is continuing to use suppliers from the previous contract, Management should ensure that new contracts are put in place as a matter of urgency.</p>	<p>Medium</p> <p>Medium</p>	<p>Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance</p> <p>Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance</p>	<p>Agreed</p> <p>Agreed</p> <p>Where there is a requirement to continue using a previous contractor for repairs, Management will considering putting Single Source contracts in place.</p>		<p>Ongoing</p> <p>Ongoing</p>
3.3.1	Management should ensure that three quotes are obtained in line with the Council's Corporate Procurement Procedures.	Medium	Service Manager – Engineering Services & Building Standards	Agreed		March 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	<p>Management should ensure that all quotes are sought via the 'Quick Quote' process, in accordance with the Council's Corporate Procurement Procedures.</p> <p>Quotes should be received via the Public Contracts Scotland portal – the current practice of receiving quotes via email should cease.</p>	Medium	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed		March 2019
3.4.1	<p>Appropriate monitoring arrangements should be put in place to ensure that the correct rates are being charged by suppliers.</p> <p>For those cases where incorrect rates have been identified, Management should quantify any excess payments made and seek recovery of the overpayment from the supplier.</p>	Medium	Service Manager – Engineering Services & Building Standards/ Service Manager – Property Maintenance	Agreed – invoices will be checked on a sample basis.		March 2019
		Medium	Service Manager – Engineering Services & Building Standards	Agreed		March 2019

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
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No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

OUTSTANDING RECOMMENDATIONS

NON-RESIDENTIAL CHARGING

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.4.1	<p>Management should review the Mosaic system parameters with a view to incorporating the state pension qualifying age within the income thresholds.</p> <p>Management should review the capital thresholds currently applied in the financial assessment process.</p>	Medium	Group Service Manager – Planning and Performance	Delays due to the development of a revised financial assessment form. Currently in the final stages of testing.	March 2018	March 2019

TRAINING

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.2.1	Consideration should be given to adopting a consistent approach for the recording of training and development activities across the Council.	Medium	Service Manager – Corporate Policy and Improvement	Delays due to the phasing of the implementation of the new HR and Payroll system.	April 2018	December 2019

INTERNAL AUDIT PROGRESS REPORT 2018/19**APPENDIX 3**

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
VAT	For all payments processed by the Council, we will examine the arrangements in place to ensure that VAT is correctly accounted for.	September 2018	Completed
Adult Services – Residential Care	We will review the arrangements in place for the assessment and charging of clients in residential care.	September 2018	Completed
IT Systems Access	We will review the IT access controls/access rights in place for all the Council's main systems.	September 2018	Completed
Trade Waste Income	We will review the arrangements in place for the billing and collection of trade waste income.	November 2018	Completed
Adult Services – Payments on Schedule	We will review payments on schedule processed through the Mosaic system – our audit will focus on the arrangements in place for the recovery of credit balances.	November 2018	Completed
Adult Services – Transport	We will review the transport arrangements within Adult Services – as part of the review we will assess if the arrangements in place for securing transport are cost effective and well managed.	November 2018	Completed
Conflicts of Interest	We will examine the arrangements in place for the disclosure of potential conflicts of interest by members of staff.	November 2018	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools	We will review the financial arrangements operating within one school to ensure compliance with the financial procedures in place.	November 2018	Completed
NDR – Liability	We will continue our audit work on Non-Domestic Rates (NDR) – in 2018/19, we will review the arrangements in place for determining NDR liability.	February 2019	Completed
Disclosure Checks	We will review the disclosure checking arrangements in place for members of staff and volunteers working with children and/or protected adults.	February 2019	Completed
Contracts	As part of our annual review of procurement, we will examine a sample of contracts to ensure compliance with the Council’s Corporate Procurement Procedures.	February 2019	Completed
Business Grants and Loans	We will review the arrangements in place for the awarding of grants and loans to businesses within East Lothian.	February 2019	In Progress
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2019	In Progress
Planning Enforcement	We will check to ensure that planning enforcement is being carried out in accordance with legislation and Council policy.	February 2019	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Bank Reconciliations	We will check to ensure that appropriate and effective systems of control are in place for the Council's bank accounts.	June 2019	
Council Tax	We will continue our audit work on Council Tax – for 2018/19, our review will focus on the procedures in place for the recovery of Council Tax arrears.	June 2019	
Fixed Assets	We will review the systems in place for maintaining and updating the Council's Fixed Asset Register.	June 2019	
Following the Public Pound	We will review the monitoring arrangements in place for a sample of organisations receiving partnership funding from the Council in 2018/19.	June 2019	
Building Standards	We will examine the arrangements in place for the processing of applications received for building warrants, including the collection of income due to the Council.	June 2019	
Creditors	We will review the procedures in place for processing supplier invoices for payment and we will check to ensure that adequate arrangements are in place for the prevention and detection of duplicate payments.	June 2019	

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 February 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Plan 2019/20

3

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2019/20.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2019/20.

3 BACKGROUND

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

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

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

- 3.3 Internal Audit's primary role is to independently review internal control systems within the Council. Internal Audit will evaluate the adequacy and effectiveness of controls in responding to risks within the Council's governance, operations and information systems, regarding the:
- Achievement of the Council's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programmes.
 - Safeguarding of assets.
 - Compliance with laws, regulations, policies, procedures and contracts.
- 3.4 Internal Audit are required to give an opinion on the Council's control environment in the annual Controls Assurance Statement and the audit work carried out will contribute to this opinion.
- 3.5 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit. The resources available have been applied to individual audits and a detailed operational plan has been produced for 2019/20 (see Appendix A).
- 3.6 Internal Audit will adopt a risk based approach to audit assignments as the principal means of providing assurance on the adequacy, reliability and effectiveness of internal controls. Testing of controls will be carried out on a sample basis. A standard sample size is used for financial systems audits and the samples are selected to provide coverage for the full financial year.
- 3.7 For each individual audit, a detailed audit report is prepared for the relevant Depute Chief Executive. Copies of the audit report are provided to the Chief Executive, Head of Service, External Audit and to members of the Audit and Governance Committee.
- 3.8 All audit reports will highlight areas where expected controls have been met and areas where there is scope for improvement. A detailed action plan will be attached to each report listing all recommendations made and recording management responses to the recommendations.
- 3.9 Follow-up audits will be carried out to review the implementation of the recommendations made.

AUDIT COVERAGE

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

- 3.11 Statutory Audits – Internal Audit undertake audit work in respect of specific grant awards made to the Council by the Scottish Government, to ensure compliance with grant conditions.
- 3.12 Best Value Audit – Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.
- 3.13 Investigations – Time has been allocated to carry out work on the National Fraud Initiative 2018/19.
- 3.14 Integration Joint Board (IJB) – The Committee is asked to note that in 2019/20 internal audit services to the East Lothian IJB will be provided by East Lothian Council’s Internal Audit Unit and time has been allocated to carry out audit work for the IJB.

INTERNAL AUDIT PERFORMANCE INDICATORS

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

OTHER FACTORS

- 3.16 The Committee should note that reactive work may impact heavily on the Internal Audit Unit’s ability to complete the audit plan. Contingency days are built in for 2019/20 in the investigations section, but by its nature reactive work is difficult to predict.
- 3.17 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2019/20.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Stuart Allan
DESIGNATION	Senior Auditor
CONTACT INFO	01620 827311
DATE	8 February 2019

APPENDIX A – INTERNAL AUDIT PLAN 2019/20

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
FINANCIAL AND NON-FINANCIAL AUDITS			
Council Tax	We will continue our audit work on Council Tax – for 2019/20, our review will focus on the procedures in place for Council Tax collection and refunds.	Medium	5
Non-Domestic Rates (NDR)	We will continue our audit work on Non-Domestic Rates (NDR) – in 2019/20, we will review the arrangements in place for the recovery of NDR arrears.	Medium	5
Payroll Deductions	We will review the procedures in place for ensuring the accuracy and completeness of payroll deductions made, including Tax, NI and pension contributions.	Medium	5
Transformation Programme	We will examine the implementation of the Council's Transformation Programme to ensure that the financial savings identified have been achieved.	Medium	5
Direct Payments	We will review the arrangements in place for the administration and monitoring of direct payments made to Children and Adult Services clients.	High	6
Treasury Management	We will review the Council's approach to treasury management to ensure compliance with the CIPFA Code of Practice on Treasury Management.	Medium	5
Fostering and Kinship Care Allowances	We will review payments made to foster and kinship carers to ensure compliance with Council policies and procedures.	Medium	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
General Data Protection Regulations (GDPR)	We will review the arrangements in place within the Council for ensuring compliance with the provisions of the GDPR.	Medium	5
Purchase Cards	We will review the internal controls in place for the use of purchase cards, including the arrangements for monitoring expenditure.	Medium	5
Records Management	We will review the arrangements operating within service areas for records management including the storage, retention and disposal of records.	Medium	5
Domiciliary Care	We will review the in-house delivery of domiciliary care services to Adult Services clients.	Medium	5
Fleet Management	We will review the arrangements in place for the replacement, purchase and disposal of vehicles to ensure compliance with existing policies and procedures.	Medium	5
IR35	We will check to confirm that adequate arrangements are in place for ensuring compliance with IR35 regulations, in respect of workers who supply their services through an intermediary body.	Medium	5
Following the Public Pound	As part of our rolling programme of work on Following the Public Pound, in 2019/20 we will review the monitoring arrangements in place for a sample of organisations receiving Section 10 Adult Services funding.	Medium	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Online Payments	We will review the internal controls surrounding the online payments system (SchoolPay), which was recently introduced in East Lothian schools.	Medium	5
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	Medium	5
Risk Management	We will select a sample of High risks from both the Council's Corporate Risk Register and service area Risk Registers and will review the adequacy and effectiveness of the risk control measures in place.	Medium	5
Roads Contracts	We will examine the arrangements in place for the procurement, tendering and monitoring of work awarded by Road Services.	High	5
Procurement	As part of our annual review of procurement, we will examine work being awarded to suppliers to ensure compliance with the Council's Corporate Procurement Procedures.	High	5
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	–	5
STATUTORY AUDITS			
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is required to provide a statement of compliance with grant conditions on an annual basis.	Medium	2

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
BEST VALUE AUDIT			
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	Medium	4
INVESTIGATIONS			
National Fraud Initiative	Time has been allocated for reviewing data matches identified by the 2018/19 National Fraud Initiative (NFI) exercise.	Medium	10
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	9
Whistleblowing	We will investigate concerns raised under the Council's Whistleblowing Policy.	High	5
OTHER AUDIT WORK			
Integration Joint Board	Time has been allocated for work that will be undertaken by Internal Audit for the East Lothian Integration Joint Board (IJB). A separate audit plan will be prepared which will be presented to the IJB Audit and Risk Committee for approval.	Medium	20
Review of Previous Year's Work	Internal Audit will review the outcome of our previous year's work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	Medium	8
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	Medium	1

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Community Councils and Management Committees	<p>Community Councils – Internal Audit provide advice and support to Community Councils.</p> <p>Management Committees – Internal Audit will independently examine the annual accounts of Management Committees where applicable.</p>	Medium	2
Advice and Consultancy	<p>Consultation on New Systems – for new systems implemented, Internal Audit will provide advice on internal control matters.</p> <p>Tender Evaluations – attendance at tender openings and evaluations where requested by service areas.</p> <p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing service areas with financial information about companies and offering advice where applicable.</p> <p>Consultancy – providing advice and consultancy on internal control issues.</p>	Medium	5
TRAINING			
Training	An adequate allocation of budget resources and time will be given to maintaining and improving the knowledge base and quality of the staff resource. This includes time for staff to undertake continuous professional development (CPD) and to acquire skills and knowledge required to undertake specialist audit assignments.	–	5
Annual Self-Assessment	Time has been allocated for internal assessment of the internal audit function against the Public Sector Internal Audit Standards (PSIAS).	–	2

East Lothian Council

Annual Audit Plan 2018/19

4



 AUDIT SCOTLAND

Prepared for East Lothian Council
February 2019

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to East Lothian Council (ELC) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks


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

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>ELC receives a significant amount of income from several sources, in addition to Scottish Government Funding, including income from fees and charges. The extent and complexity of income means that, in</p>	<p>All income is reviewed monthly.</p> <p>Monthly monitoring and performance reporting for council tax and rental income.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.

 Audit Risk	Source of assurance	Planned audit work
<p>accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Specific grant/account codes used for other income and verified via monthly monitoring and bank reconciliations.</p>	
<p>3 Risk of fraud over expenditure</p> <p>The <i>Financial Reporting Council's Practice Note 10 (revised)</i> requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure means that that there is an inherent risk of fraud.</p>	<p>Clear procedures in place for staff and key controls are working.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</p> <p>Budget monitoring and review with significant variances investigated and discussed with budget holders.</p>	<ul style="list-style-type: none"> Review work on the National Fraud Initiative matches. Assess high level key controls in areas of significant expenditure. Focused substantive testing of expenditure and housing benefit transactions.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuations carried out every 5 years for all assets as part of rolling revaluation programme.</p> <p>Procurement and contract criteria ensure valuations are carried out by reputable valuers.</p> <p>Detailed discussions between valuers and ELC Estates team.</p> <p>Detailed working papers retained to support asset reviews and impairments.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer. Focused substantive testing of asset valuations and asset useful lives. Focused substantive testing of provisions.
<p>Wider dimension issues and risks</p>		
<p>5 Financial sustainability</p> <p>ELC's 2019-20 to 2023-24 Financial Strategy sets out the estimated level of revenue savings required over the next 5 years.</p> <p>Current approved spending plans require the delivery of over £12.5 million of efficiencies between 2018-19 and 2020-21. In addition to the approved efficiencies, the total estimated revenue savings required over the next 5 years has been calculated based on a number of different scenarios and ranges from £6.3 million to £32.8 million.</p> <p>The Quarter 2 financial report for 2018/19 highlights that £493,000 of the £5 million planned efficiency savings for the year are unlikely to be delivered in 2018/19.</p>	<p>Financial Prospects Report considered by Council in October 2018.</p> <p>Financial Strategy approved by Council in December 2018.</p> <p>Q2 financial review approved by Council in December 2018.</p> <p>Budget development report and Administration draft proposals considered by Cabinet 22 January 2019.</p> <p>Council Budget to be considered by Council on 12 February 2019.</p> <p>Q3 18/19 report to be considered by Council on 26 February 2019.</p>	<ul style="list-style-type: none"> Review the council's progress towards delivery of its transformation and savings plans as part of BVAR follow up work and normal audit procedures.

 Audit Risk	Source of assurance	Planned audit work
<p>As the delivery of the planned 2018/19 savings is proving to be challenging, there is a risk that ELC may not be able to deliver the level of savings required to be financially sustainable in the longer term.</p>	<p>On-going monitoring and review by Council Management Team.</p>	
<p>6 Financial management</p> <p>The Quarter 2 financial report for 2018/19 identifies three service areas (Adult Wellbeing, Children's Wellbeing and Additional Support for Learning) as high risk of not operating within approved budgets. ELC's financial forecasts for the year indicate that overall there is a high risk it will overspend against its 2018/19 budget, with current estimates suggesting this could be between £1 and £2 million.</p>	<p>Recovery plans are now in place for all 3 High Risk areas.</p> <p>On-going monitoring and review by Council Management Team.</p> <p>Quarterly reviews presented to Council.</p>	<ul style="list-style-type: none"> Review of financial monitoring reports and the council's financial position.
<p>7 Governance and transparency - Corporate Finance and Internal Audit vacancies</p> <p>ELC's Corporate Finance Manager, with responsibilities in a number of areas including debtors, creditors, banking and treasury management, left in November 2018. The Internal Audit Manager is due to retire at the end of January 2019.</p> <p>ELC is exploring options to address the vacancies in these two key finance posts, in the meantime some additional responsibilities have been taken on by the Service Manager for Business Finance.</p> <p>Until a review of the finance function, and allocation of the Corporate Finance Manager's responsibilities is completed, there is a risk that management / supervisory controls in these areas may not operate effectively.</p> <p>Until a replacement Internal Audit Manager is in post, there is a risk that the council may not be able to demonstrate full compliance with PSIAS nor fully complete the 2018/19 internal audit plan.</p>	<p>Service Review in Council Resources management team has now been approved. Corporate Finance Manager post is now deleted and an integrated finance function in place. A wider Finance service review will be progressed as soon as possible.</p> <p>Internal audit options are currently being explored by management.</p>	<ul style="list-style-type: none"> Monitor the arrangements for delivery and completion of the 2018/19 Internal Audit Plan including filling the post of Internal Audit Manager. Key controls testing of accounts receivable, accounts payable and cash/bank systems.
<p>8 Value for money - Following the Public Pound</p> <p>In our 2017/18 Annual Audit Report, we recommended that ELC's reporting and monitoring arrangements for significant group components should be revisited, clarified and strengthened to ensure</p>	<p>The Council is continuing to review the reporting arrangements for Group entities</p>	<ul style="list-style-type: none"> Monitor arrangements put in place to report service and financial performance to a committee of the council.

	Audit Risk	Source of assurance	Planned audit work
	<p>the Council is complying with the duties set out in the Code of Guidance on Funding External Bodies and Following the Public Pound.</p> <p>The council has made some progress since our 2017/18 report, with reports on Enjoyleisure and East Lothian Land Limited being taken to the November 2018 Audit & Governance Committee. There remains scope for further improvement, including consideration of interests in any significant entities falling outwith the group accounting boundary e.g. Trusts. Reports should also be presented in a more timely fashion.</p>		

Source: Audit Scotland

Reporting arrangements

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

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

7. We will provide an independent auditor's report to ELC and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Section 95 Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	11 February 2019	19 February 2019
Management Report	10 June 2019	18 June 2019
Annual Audit Report	09 September 2019	17 September 2019
Independent Auditor's Report	09 September 2019	17 September 2019

Source: Audit Scotland

The audit of trusts registered as Scottish charities

8. The Members of ELC are sole trustees for the Dr Bruce Fund, a charitable trust registered as a Scottish charity, with total assets of £17,678. The preparation and audit of financial statements of registered charities is regulated by the Charities

and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

9. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

10. Based on our initial planning work, we have identified a risk relating to the requirement to advertise the Dr Bruce Fund accounts in accordance with Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 and a risk that ELC's charitable trust funds, including the Dr Bruce Fund, may not be operating to their full effectiveness. The council is currently reviewing its arrangements in these areas and we will assess the progress made as part of our audit.

Audit fee

11. The proposed audit fee for the 2018/19 audit of East Lothian Council, including the Dr Bruce Fund charitable trust is £241,440 (2017/18: £237,010). In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package, on 25 June 2019.

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

Responsibilities

Audit Committee and Accountable Officer

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

14. The audit of the annual accounts does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Appointed auditor

15. Our responsibilities as independent auditors are established by the 1973 Act for Local Government and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

17. Our audit team membership has changed since last year. We include full details of the current team in [Appendix 1](#).

Audit scope and timing

Annual accounts

18. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

19. We will give an opinion on whether the financial statements:

- give a true and fair view of the of the state of affairs of ELC and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRS' as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2013.

Other information in the annual accounts

20. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

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



characteristics



responsibilities



principal activities



risks



governance arrangements

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

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts.	£4.0 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£2.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£40,000

Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	25 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	25 June 2019
Latest date for receipt of audited accounts for group components/ component auditor questionnaires	30 August 2019
Latest date for final clearance meeting with Head of Council Resources	7 September 2019
Issue of Letter of Representation and proposed Independent Auditor's Report	7 September 2019
Agreement of audited unsigned annual accounts	17 September 2019
Issue of Annual Audit Report to those charged with governance	17 September 2019
Independent auditor's report signed	20 September 2019
Latest date for signing of WGA return	28 September 2019

Internal audit

25. Internal audit is provided by ELC's Internal Audit section overseen by an Internal Audit Manager. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis. We have raised a risk in [Exhibit 1](#) regarding the retirement of the Internal Audit Manager and ELC's plans going forward.

Using the work of internal audit

26. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

27. From our initial review of internal audit plans, we plan to place formal reliance on internal audit work to support our audit opinion on the financial statements in the following areas:

- IT Access Controls
- Non Domestic Rates.

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

- Following the Public Pound.

Audit dimensions

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

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

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

31. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

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

- The effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- The appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- Whether ELC can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

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

Governance and transparency

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

- Whether ELC can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs).
- Whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- The quality and timeliness of financial and performance reporting.

Value for money

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

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

- Can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Best Value

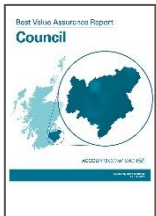
36. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

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

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

38. The seven councils on which a BVAR will be published during the third year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 6 2018/19 Best Value Assurance Reports

	North Lanarkshire Council	Highland Council
	Stirling Council	Scottish Borders Council
	South Lanarkshire Council	Perth and Kinross Council
	Midlothian Council	

Source: Audit Scotland

39. ELC was the subject of a BVAR in 2017/18 and the BVAR report was published in October 2018. The work planned this year will focus on ELC's progress towards implementing the recommendations made in the 2017/18 BVAR.

40. We will also assess its arrangements for demonstrating Best Value in Financial and Service Planning, focussing on the General Services and Housing Revenue Account (HRA) capital programmes. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective ELC's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the 2018/19 Annual Audit Report.

Housing Benefit performance audits

41. The Accounts Commission has responsibility for the audit of housing benefit services in Scotland and Audit Scotland carries out a programme of performance audit work every year. The structural changes to the social security landscape, both at UK and Scottish level, are presenting significant implications for councils. In this context the Commission is considering a more strategic approach to the housing benefit performance audit from 2019/20. This would change the balance between reports on the risks at individual councils to more cross-cutting thematic reviews that look at risks across councils.

42. Audit Scotland will continue to review the relative performance of all councils' housing benefit services throughout the year, and will take a more risk based and proportionate approach to changes in performance at an individual council. Once finalised, the change in approach will be fully communicated to councils along with planned reviews and timescales.

43. For 2018/19, there are currently no plans for specific housing benefit performance audit work at ELC.

Other planned audit work

44. The following areas may present significant risks to ELC:

- **EU Withdrawal** - There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses. We will assess how ELC has prepared for EU withdrawal, specifically looking at implications for workforce, finance and regulation. We will also consider how the council responds to any emerging issues after March 2019.
- **Dependency on key suppliers** - Dependency on a key supplier could potentially expose ELC to service delivery issues should the supplier fail. Where a significant supplier dependency exists there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues. We will undertake work to establish the extent, value and nature of key supplier dependencies and, where issues are identified, consider the robustness of the business continuity arrangements in place.

Independence and objectivity

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

46. The engagement lead (i.e. appointed auditor) for ELC is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of ELC.

Quality control

47. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures,

to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

48. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

Appendix 1: The audit team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



Gillian Woolman

Audit Director

✉ gwoolman@audit-scotland.gov.uk ☎ 0131 625 1981

Gillian is the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

Gillian took up post as Audit Director in 2001, previously having trained with the private sector and worked overseas for five years before joining the NHS as a Chief Internal Auditor. Gillian has extensive experience of public sector audit in local government, central government and the NHS.

Gillian is chair of LASAAC and chair of the regional strategic board of the ICAEW.



Esther Scoburgh

Senior Audit Manager

✉ escoburgh@audit-scotland.gov.uk ☎ 0131 625 1735

Esther will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

Esther has over 20 years public sector audit experience in Scotland and has audited and managed a variety of organisations from health boards, local authorities, NDPBs, the Scottish Government and the Scottish Police Authority. Esther trained for her CIPFA qualification with Audit Scotland and prior to this was a tax auditor in Canada.



Mick Duff

Senior Auditor

✉ mduff@audit-scotland.gov.uk ☎ 0131 625 1718

Mick will lead the audit team and will be the main contact for the audit.

Mick has 15 years' experience of public sector audit with Audit Scotland, covering local government and central government. Prior to this, he trained in a private sector accountancy practice.

East Lothian Council

Annual Audit Plan 2018/19

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REPORT TO: Audit and Governance Committee
MEETING DATE: 19 February 2019
BY: Chief Executive
SUBJECT: Health and Social Care Partnership Risk Register

5

1 PURPOSE

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

2 RECOMMENDATIONS

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

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Health and Social Care Partnership LRWG. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 2) producing an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:
- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
 - High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
 - Medium risk is tolerable with control measures that are cost effective;
 - Low risk is broadly acceptable without any further action to prevent or mitigate risk.
- 3.3 The current Health and Social Care Partnership Risk Register includes 9 High risks, 11 Medium risks and 2 Low Risks. Per the Council's Risk Strategy only Very High and High risks are reported to the Committee.

4 POLICY IMPLICATIONS

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

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial - It is the consideration of the Health and Social Care Partnership LRWG that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.
- 6.2 Personnel - There are no immediate implications.
- 6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

- 7.1 Appendix 1 – Health and Social Care Partnership Risk Register 2019
- 7.2 Appendix 2 – Risk Matrix 2018

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning, Risk and Resilience Officer
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900
DATE	07 February 2019

Health and Social Care Service Risk Register 2019

Date reviewed: 06 February 2019

Risk ID	Risk Title and Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures In Place	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures] Target Risk Score			Risk Owner	Timescale for Completion / Review Frequency	SOA Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
H&SC 1	<p>Service Activity Pressures</p> <p>Service Activity pressures see demand for services outstrip available budgetary and staffing resources leading to unmet client need and risk to client safety and independence, potentially generating reputational risk for the Council as well as failing to meet statutory responsibilities.</p>	<p>A new planning structure has been implemented to deliver on the agreed priorities of the IJB and significant service redesign programmes are underway and planned to commence during 2019.</p> <p>Work is also underway to accurately forecast trajectory of need across all Care Groups to inform service development and financial planning.</p> <p>Application of the Eligibility criteria has been reviewed and delegated authority implemented. Scrutiny of budget authorisations and analysis of trends through delegated authority is currently under review in line with Self Directed Support (SDS) legislation.</p> <p>All funding of commissioned provision has undergone a Strategic Fit and Best Value review. This includes Integrated Care Fund funding and services.</p>	4	4	16	<p>Refresh further Self Directed Support (SDS) action plan following outcome of the Thematic Review.</p> <p>Collaboration between Corporate Finance service and operational teams to develop new systems and processes to support new management team structure and deliver efficiencies and income recovery.</p> <p>A Community Transformation Programme is underway which will remodel both internal and external community services in order to modernise and better meet need both now and forecast in the future including shared service planning between Education, Children's Social Work Services and other relevant Council Services.</p>	4	3	12	<p>Director of Health & Social Care</p> <p>Heads of Service and Service Managers</p> <p>Chief Social Work Officer</p>	<p>April 2019</p> <p>December 2019</p> <p>April 2020</p>	45	<p>Risk updated by Head of Service and title changed to Service Activity Pressures January 2019.</p> <p>Risk further reviewed December 2018 with no change to assessment of current score.</p> <p>Risk refreshed by H&SC management June 2017 with current risk score increased from 15 to 16.</p> <p>Risk refreshed March 2017 with no change to assessment of current score.</p> <p>Risk reviewed June 2016 with current score reduced from 20 to 15 due to implemented measures and residual score reduced from 16 to 12 due to new planned measures.</p> <p>Risk reviewed January 2016 and both current (12 to 20) and residual risk (6 to 16) altered to high as a result of the current overspend position.</p>
H&SC 2	<p>Access to Primary Medical Services</p> <p>There is a risk that East Lothian Health and Social Care Partnership will be unable to provide a satisfactory level of access to primary care services for its population potentially generating risk to patient care and organisational reputation.</p>	<p>East Lothian's share of NHS Lothian and Scottish Government investment has been prioritised by the IJB.</p> <p>A Primary Care Improvement Plan (PCIP) for East Lothian has been developed and agreed.</p> <p>Development of premises improvement plans at Harbours Practice, Cockenzie and North Berwick Practice to expand and modernise premises and to cope with population growth.</p> <p>Significant investment in training to deliver the workforce required as described above.</p> <p>Support to practices wishing to develop methods of joint working, especially if this</p>	3	4	12	<p>The establishment of multi-disciplinary and enhanced skill mix staffing resources within GP Practices e.g. further roll-out of Advanced Nurse Practitioner / Prescribers / GP Link Workers. Using Scottish Government and NHS Lothian Primary Care Investments 18/19 and onwards.</p>	3	3	9	<p>Director of Health & Social Care</p> <p>Head of Access and Older People</p> <p>Clinical Director</p> <p>Chief Nurse</p>	<p>March 2019</p>		<p>Risk further reviewed December 2018 with current score reduced from 16 to 12.</p> <p>Risk introduced from H&SCP RR August 2017.</p>

Risk ID	Risk Title and Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures In Place	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures] Target Risk Score			Risk Owner	Timescale for Completion / Review Frequency	SOA Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
		supports the overall aims of IJB strategy and the PCIP. The four Lothian IJBs are working together to prioritise investment as the elements of the Primary Care Improvement Plans are developed and introduced.											
H&SC 3	Delayed Discharge Additional pressures and increased demands for services could lead to poor outcomes for the population and the inability to access the right services timeously leading to an inability for the Health and Social Care system to respond to wider need leading to potential negative outcomes for patients.	A weekly delayed discharge taskforce is chaired by the Chief Nurse. This is a Health and Social Care action meeting which leads to a Care Planning and Case Management approach to each individual requiring care. Increased surveillance of care homes and care at home providers to identify spare capacity. Closer working and good co-operation "Collaborative Allocation" with care at home providers to consolidate care support runs and release additional capacity, which has seen significant improvements in delays over 4 weeks over the past year.	3	4	12	Further development of a rehabilitative approach and review of client pathway to assist in streamlining process, releasing capacity and reducing delays. Financial modelling is being undertaken in terms of assessing the affordability of increases to National Minimum Wage and Scottish Living Wage and their effect on both daytime rates as well as night time support rates. Homecare & Hospital to Home Project Board established under the leadership of the Chief Nurse. First meeting took place 24.12.18, second meeting 29.01.19. Four works streams covering Service Development, Communications, HR/Workforce Development and Finance, will take forward agreed work areas. Implement early intervention clinic approach across East Lothian. Embed technology enable care approach as preventative measure	3	3	9	Director of Health & Social Care Head of Access and Older People Chief Social Work Officer	December 2019 April 2019 December 2019 December 2019 December 2019	9	Risk reviewed December 2018 with current score reduced from 16 to 12 due to implementation of measures while residual score remains 9. Risk reviewed June 2016 with current score reduced from 20 to 16 due to implementation of measures while residual score reduced from 16 to 9 due to new planned measure. Risk reviewed and refreshed January 2016 with Residual impact increased from 8 back to 16 due to ongoing capacity issues and the potential implementation of the proposed 72 hour target.
H&SC 4	Failure of Provider The failure of a major Older Peoples or Specialist Provider e.g. Care Home or Domiciliary Care Service, could result in a loss of capacity and service users being put at risk as a result of their service being withdrawn at short notice. Additional challenges could impact on capacity and service continuity for vulnerable clients such as care home acquisition, poor quality of care or a lack of capacity to deliver care, potentially generating reputational and/or financial risk to the Partnership	Provider performance is monitored using a balanced scorecard approach which rewards good performance through incentives and the use of penalties for material breaches of the contract. There will be a dedicated Planning and Performance Manager and officer to deal with high risk occurrences where a provider ceases to operate or fulfil their contractual obligations. Contingency protocol established to deal with failure of a major care provider. Quarterly Multi-Agency quality of care meetings for both Residential and Homecare to provide support with improvement planning. Participation in national working groups to maintain national market intelligence. Joint work with NHS Care Home Team and GP Practices to maintain standards and address concerns.	4	3	12	Workforce planning & skill mix being developed within Council Care Homes and Home Care Service. Role re-definition e.g. generic support worker being developed in new rehabilitative team. Workforce of the future H&SC Academy/increasing care workforce in EL. Currently providing advice and support to Managers and employees to respond to the requirement of the EU settlement scheme.	3	3	9	Director of Health & Social Care Heads of Service and Service Managers Chief Social Work Officer	December 2019 December 2019 December 2019 December 2019	9	Risk further reviewed December 2018 with no change to assessment of current score. Risk further reviewed August 2017 with no change to assessment of current score. Risk refreshed June 2017 by H&SC management with current score reduced from 16 to 12 and Residual from 12 to 9 due to control measures now in place. Risk refreshed March 2017 with no change to assessment of current score. Risk reviewed June 2016 and current score

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		<p>Regulated services regularly inspected by the Care Inspectorate and effective collaborative working over performance of Regulated services.</p> <p>Working with other Partnerships to allow information sharing mutual support and contingency planning.</p>										Increased from 12 to 16 due to current situation while residual score increased from 6 to 12.	
H&SC 5	<p>Duty of Care</p> <p>Failure to fulfil our duty of care could result in the death, serious harm or detriment to a person. This could in turn result in prosecution, having to pay compensation and a negative impact on the reputation of the Council.</p> <p>This failure could be due to a lack of resources (financial, services or staffing), poor practice, a failure to prioritise or non-compliance with procedures/guidance.</p>	<p>Prioritise maintenance of adequate staffing levels for Adult/Child Protection and other work with vulnerable children and adults.</p> <p>Briefing sessions, specialist training and support are in place.</p> <p>Regular formal supervision in place for all staff including completion of PRD's and ESKF, focusing on specific and agreed development needs.</p> <p>Services comply with required professional registration standards for all staff e.g. SSSC, HCPC, NMC etc.</p> <p>"Safer Recruitment" practices and PVG Checks embedded.</p> <p>Public Protection Office and Committee oversee all aspects of Child Protection and Adult Support and Protection performance and improvement.</p> <p>Regular monitoring and learning from incidents including through Significant Adverse Event investigation outcomes</p> <p>Regular environmental inspections e.g. Patient Quality Indicators (PQI) in Health and Social Care e.g. Care Inspectorate</p> <p>All Regulated Services inspected, improvement plans produced with regular quality assurance review meetings.</p>	3	4	12	<p>Mosaic is being developed to improve the ways cases are recorded and risks identified.</p> <p>Care and Clinical Governance Group established which is to provide strategic oversight within the partnership. Chief Social Work Officer/Chief Nurse/Clinical Director/AHP Lead oversight and review of practice to assess workload allocation and risk management.</p>	3	3	9	<p>Chief Social Work Officer</p> <p>Critical Services Oversight Group</p> <p>Director of Health & Social Care</p> <p>Heads of Service and Service Managers</p> <p>Chief Nurse</p>	<p>December 2019</p> <p>December 2019</p>	4, 5, 6, 7	<p>Risk further reviewed December 2018 with no change to assessment of current score.</p> <p>Risk refreshed by H&SC management June 2017 with current risk score increased from 8 to 12 and residual from 4 to 9.</p> <p>Risk refreshed March 2017 with current score reduced from 12 to 8.</p>

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			L	I	L x I		L	I	L x I				
H&SC 6	<p>Public Protection</p> <p>A service user dies by murder, culpable homicide, reckless conduct, violence, suicide or accident, or sustains significant harm as a result of abuse or neglect or detriment and becomes subject to Public Protection (Child Protection or Adult Support and Protection) measures due to a lack of appropriate operational processes and resources.</p> <p>This would result in potential human tragedy and reputational damage to and increased scrutiny of the Health and Social Care Partnership.</p> <p>This may be due to processes not being followed, risk-taking behaviours or, omission / commission on the part of parents/carers. Some types of harm or death cannot be predicted or necessarily prevented by agency interventions.</p>	<p>All public protection policy, protocol, procedure and guidance documents will continue to be reviewed and updated at least annually.</p> <p>The scrutiny and improvement planning for regulated services through Care Inspectorate Inspections are fully embedded in service performance improvement.</p> <p>The East and Midlothian Public Protection Committee (EMPPC), incorporates Child Protection, Adult Support and Protection, Offender Management and Violence Against Women and Girls and ensures links with other strategic partnerships. The Committee is supported by a range of sub-groups to deliver its duties as set out in national guidance.</p> <p>The East Lothian Public Protection Improvement Plan is monitored and updated on a quarterly basis.</p> <p>Public Protection training and awareness raising is in place for social care and health staff and is updated regularly.</p> <p>The Public Protection Committee and Critical Services Oversight Group undertake regular self-evaluation of Public Protection arrangements.</p> <p>The Communications sub group of the Public Protection Committee has been reinstated. This group will have oversight of inter-agency communications activity for public protection.</p>	3	4	12	<p>Focus on raising Public awareness of Public Protection issues through the Public Protection improvement plan and communication strategy.</p> <p>Embed case file audit and practice compliance standards within performance framework.</p>	2	4	8	<p>Heads of Service and Service Managers</p> <p>Chief Social Work Officer</p> <p>CSOG/Public Protection Committee</p>	<p>December 2019</p> <p>December 2019</p>	5	<p>Risk further reviewed December 2018 with current score increased from 8 to 12 and residual score increased from 6 to 8 due to learning from local and national case reviews.</p> <p>Risk further reviewed August 2017 with no change to assessment of current score.</p> <p>Risk refreshed March 2017 with no change to assessment of current score.</p> <p>Risk refreshed June 2016 with current score reduced from 15 to 8 and residual risk reduced from 8 to 6.</p>
H&SC 7	<p>Staff Resource</p> <p>Lack of a skilled, sufficiently qualified and experienced staff resource or the unexpected loss of a key employee or employees would result in an inability to provide high quality assessment and support and increased pressure on existing staff as well as reducing the quality and scope of the service resulting in lives and safety being put at risk. This may also result in some statutory duties not being met.</p> <ul style="list-style-type: none"> Difficulties in recruiting to vacancies within the psychiatric workforce have a direct detrimental impact on the ability of East Lothian HSCP Mental Health services to provide robust and 	<p>Competitive salaries and working conditions in place in some areas, recruitment and selection procedures adhered to, with regular professional salary benchmarking taking place.</p> <p>High professional standards, reputation and innovation are maintained while the service has an excellent record among professional workers which all helps attract high calibre staff.</p> <p>Professional Development Programme and commitment to ongoing Social Work practice of "Development of Growing our Own" (promoting staff from within).</p> <ul style="list-style-type: none"> Temporary enhancement of Psychiatric Nursing teams to provide additional capacity for 	4	3	12	<p>All Children and Adult Services Policy and Guidance documents to be checked and updated and then regularly reviewed and refreshed.</p> <p>The first joint workforce plan for the ELH7SCP has been developed in draft form and will be ready by April 2019.</p> <p>Service developments and redesign leading to opportunities to review current job families and redesign roles and responsibilities.</p> <p>Integrated Education Framework being developed in conjunction with regulatory bodies e.g. Social Work Scotland, Care Inspectorate and Health Improvement Scotland initially for Care Home, Mental</p>	3	2	6	<p>Director of Health & Social Care</p> <p>Heads of Service and Service Managers</p> <p>Chief Social Work Officer</p>	<p>December 2019</p> <p>April 2019</p> <p>December 2019</p> <p>December 2019</p>	6, 9 & 10	<p>Risk further reviewed January 2019 by Head of Service and Current Score increased from 9 to 12 and Residual Score from 4 to 6.</p> <p>Risk further reviewed August 2017 with no change to assessment of current score.</p> <p>Risk refreshed March 2017 with residual score reduced from 6 to 4.</p> <p>Risk reviewed in June 2016 with current risk score reduced from 12 to 9 and residual score reduced from 9 to 6.</p>

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			L	I	L x I		L	I	L x I				
	<p>appropriate assessment, care and treatment services, including emergency psychiatric care, to the population of East Lothian.</p> <p>Competing with private sector and adjacent Partnerships to recruit staff and Carers e.g. Foster Carers.</p> <p>Application of Council pay and grading structures to Social Work services staff may lead to difficulty in recruiting and retaining suitably qualified and experienced staff, in a nationally competitive market place.</p> <p>The European Union Settlement may also have an impact on our employees.</p>	<p>the routine monitoring and review of follow up patients.</p> <ul style="list-style-type: none"> Rapid run down process implemented to review IHTT patients/ urgent patient issues every morning to manage/ mitigate patient safety risk. Protection of job plans for the remaining Consultant Psychiatric team to enable targeted focus on new patients/ urgent assessment. Active partnership with Medical Staff bank, to seek/ identify/ recruit locum Consultants whilst proceeding with permanent recruitment. <p>Mandatory training compliance. Compliance levels improving following audit which has resulted in an action plan being put in place.</p> <p>Development of an overall learning culture, use of Action Learning Sets and promotion and development of skills such as "Giving and Receiving Feedback" and "Coaching".</p> <p>The Council regularly publicise the need for Foster Carers and celebrate Foster Carers Community achievements annually.</p> <p>Feedback from Employee Engagement Survey, Investors in People, iMatters and Inspections Regimes see development of annual HGIOC improvement plan and service workforce development plan.</p> <p>Promote and embed PRD, staff learning opportunities and high levels of supervision.</p> <p>Review of Mental Health Officer capacity to meet demand for statutory duties and the Adults with Incapacity Act.</p>				<p>Health, Resource Centre and Homecare Staff (both Health & Council).</p> <p>Continued partnership approach with Medical Leadership team in NHS Lothian to provide appropriate short term cover and identify longer term solutions.</p>					May 2019		
H&SC 8	<p>Specific Non-Compliance with GDPR</p> <p>Non-compliance with GDPR requirements due to handling of personal data by third-party U.S.-based Processor which could lead to data breaches and potential fines from the Information Commissioners Office.</p>	<p>Third-party U.S.-based Processor is a member of the Privacy Shield framework.</p>	3	4	12	<p>Verification of contractual clauses between the Supplier and the third-party U.S.-based Processor ensuring GDPR-level data protection practices, in particular regarding the limitation of data processing and data retention.</p>	2	3	6	Director of Health & Social Care	March 2020		New Risk created January 2019.

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			L	I	L x I		L	I	L x I				
H&SC 9	<p>Substance Misuse</p> <p>Risk to the delivery of National Standards operational challenges within the SMS Service have impacted on the delivery of treatment support and recovery pathways and consequently on performance against the Local Delivery [Standard [90% of people seen within 3 week referral to treatment]</p> <p>Staffing pressures within the Substance Misuse Service affect effective service delivery.</p> <p>Failure to mitigate these risks could affect the reputation of the East Lothian area, and may also impact on drug-related crime and drug-related deaths.</p>	<p>MELDAP is accountable to and reports to the HSCP and to the East Lothian Partnership. Key MELDAP outcomes are included in the East Lothian Local Outcome Improvement</p> <p>The MELDAP Commissioning and Performance Group and MELDAP Strategic Group monitor performance against standards and identify actions to minimise risks as they are identified.</p> <p>Continue regular communication between MELDAP and operational managers to improve performance against the LDP Standards and delivery of Take Home Naloxone.</p> <p>The MELDAP priorities for the partnership with progress are reported to the Scottish Government in an Annual Report. The MELDAP Strategic Group also reports on national standards, ministerial priorities and ADP outcomes as required.</p> <p>Programme of Quality Improvement visits and service presentations to the MELDAP Commissioning and Performance Group to all commissioned services monitor performance and compliance with national standards.</p> <p>The MELDAP local Drug Related Death (DRD) Review group considers DRD's, identifying learning to be implemented by practice teams and MELDAP. Commissioning and Performance Group; a key theme is always 'service impact'.</p>	3	4	12	<p>The establishment of an assertive outreach response, in partnership with Primary Care, to "seek, keep and treat" individuals who are at higher risk of DRD and not currently in contact with services is underway.</p> <p>The development, implementation and delivery of a Recovery Hub.</p> <p>Build on the increased delivery of Take Home Naloxone to higher risk groups, including Intravenous opiate users, and opiate users who are at risk of opiate overdose.</p> <p>Drug Related Death (DRD) Group members have reviewed the current process of the analysis of case reviews.</p>	2	3	6	<p>Head of Children and Adult Services/ Joint Chair of MELDAP</p> <p>SMS MH Service Manager/ MELDAP</p> <p>MELDAP local DRD/ARD Group/Chair - Nicki Cochrane</p>	<p>May 2019</p> <p>May 2019</p> <p>December 2019</p> <p>December 2019</p>		Risk further reviewed December 2018 and January 2019 with no change to assessment of current score.

Original date produced (Version 1)	1st March 2012				
File Name	Health and Social Care Partnership Risk Register				
Original Author(s)	S Kennedy				
Current Revision Author(s)	S Kennedy				
Version	Date	Author(s)	Notes on Revisions	Risk Score	Overall Rating
Original	July 2016	S Kennedy	Full Adult Wellbeing and Children's Wellbeing Risk Registers reviewed by Managers and then brought together to form the new Health and Social Care Partnership Service Risk Register.	1-4	Low
2	March 2017	S Kennedy	Refreshed with Head of Children and Adults		
3	June 2017	S Kennedy	Refreshed at H&SC meeting with D Small, A McDonald, Lesley, G Neill, M Drew, S Cameron		
4	July 2017	S Kennedy	Further amalgamated with NHS Register and new risks added		

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			L	I	L x I		L	I	L x I				
5		August 2017	S Kennedy			Updated Version 4 reviewed by D Small, S Saunders & A McDonald							
6		August 30 2017	S Kennedy			New risk added on Substance Misuse							
7		December/January 2018-19	S Kennedy			Several updated made by all Managers with specific updates made by the Group Service Manager - Planning and Performance.							
8		January 2019	S Kennedy			New risk added on Specific Non-Compliance with GDPR and Risk on "Demographic Pressures" changed to "Service Activity Pressures". All High and Very High Risks checked by Director of Health & Social Care and Head of Children and Adult Services.							

East Lothian Council

Risk Matrix

Likelihood Description

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

Impact Description

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

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

Key

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

MEETING DATE: 19 February 2019

BY: Chief Executive

SUBJECT: Education Risk Register

6

1 PURPOSE

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

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the Education Risk Register and in doing so, the Committee is asked to note that:
 - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
 - the total profile of the Education 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 Education and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Education LRWG. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 2) producing an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).
- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

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

3.3 The current Education Risk Register includes 10 High risks, 6 Medium risks and 3 Low Risks. Per the Council's Risk Strategy only Very High and High risks are reported to the Committee.

4 POLICY IMPLICATIONS

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

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

6.2 Personnel - There are no immediate implications.

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

7 BACKGROUND PAPERS

7.1 Appendix 1 – Education Risk Register 2019

7.2 Appendix 2 – Risk Matrix 2018

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning, Risk and Resilience Officer
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DATE	07 February 2019

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating			
			L	I	L x I		L	I	L x I			
ED 1	<p>Workforce Recruitment and Retention</p> <p>There is a nationwide shortage of teachers, including supply teachers, which is impacting on East Lothian. In practice this means that classes are being covered by Management. Further changes are being made to the supply system to improve efficiency of processes.</p> <p>East Lothian is currently expanding the School Estate which will require a significant increase in teacher numbers.</p> <p>The lack of teaching staff could impact on our statutory duty to provide a quality of education for all learners.</p>	<p>New approach to filling current vacancies including maternity leave and advertising and recruiting to supply list on an ongoing basis.</p> <p>Appointment of permanent Primary supply teachers.</p> <p>Work with Contact Centre to improve communication with supply teachers in order to engage their services.</p> <p>Teacher Workforce Group established to review and develop further arrangements for recruiting new staff.</p> <p>Work collaboratively with neighbouring authorities and Edinburgh University including provision of an appropriate course for returners to the profession which is currently being delivered and enhanced through local promotion.</p>	4	4	16	<p>The Council continues to review procedures for the appointment and deployment of supply staff including inter-authority collaboration, which it's hoped will lead to reduction in unfilled posts and Head Teachers workload.</p> <p>The Education Service is exploring alternative routes into teaching as a means to enhancing the number of qualified teachers available.</p> <p>The Service is also exploring the use of digital learning and teaching for the Secondary Sector in engagement with the E-Sgoil in the Western Isles.</p> <p>An Education Support Officer (Digital Learning) will be recruited to support taking forward new approaches to deliver the curriculum in the senior phase using digital technology.</p> <p>Civil servants (Via COSLA & Scottish Government) continue to inform the national debate around permanent and supply teacher numbers.</p> <p>The Education Service is planning to review remits to free up relevant members of staff to take forward the New Routes into Teaching and undertake the Workforce Development plan.</p>	3	4	12	Head of Education	<p>August 2019</p> <p>February 2019</p> <p>May 2019</p> <p>May 2019</p> <p>Ongoing</p> <p>February 2019</p>	<p>Risk further reviewed and updated January 2019 by Head of Education with residual score increased from 9 to 12.</p> <p>Risk further reviewed and updated August 2017 with no change to assessment of scores.</p> <p>Residual risk score increased from 6 to 9 July 2015.</p>
ED 2	<p>Expansion of Early Learning and Childcare (ELCC) to 1140 hours.</p> <p>Scottish Government is implementing plans to expand ELCC to 1140 hours by 2020. Potential risk that this cannot be delivered within the timescale due to challenges of expanding within existing resource, available funds and staffing.</p> <p>Risk that there is an impact on the quality in existing early years provision because the focus is on the expansion.</p> <p>Reputational risk to the Council from Scottish Government reporting on progress in relation to the delivery of 1140hrs ELCC. Parents not able to access 1140hrs of ELCC.</p> <p>Risk that Partner Providers are not able to deliver the 1140 hours as they are no longer financially viable or meet the quality standard.</p>	<p>The Council continues to develop detailed plans and work with Scottish Government (SG) to take forward the expansion. Project board and associated working groups are in place.</p> <p>There is clear governance of the project through the 1140 hours project board to ensure careful planning, communication and monitoring of progress.</p> <p>Work underway to establish baseline of quality across all provision and ELCC across all settings will be supported and monitored by the early years team</p> <p>Scottish Government National Standard for Partnership and associated guidance in place and ongoing discussion/collaboration with partners.</p> <p>Relationships are well established with neighbouring authorities as is learning from other approaches and ensuring that progress is on track.</p>	4	4	16	<p>Continue to ensure regular planned governance meetings with focussed actions and reporting on key priorities take place.</p> <p>Continue to review the planning and preparation for full implementation by 2020.</p> <p>Ongoing work with council departments to ensure key priorities are met.</p> <p>Liaison with SG to ensure that risks are flagged and that the service is aware of expectations and demands.</p>	3	4	12	<p>Head of Education</p> <p>Head of Council Resources</p> <p>Head of Finance</p> <p>Chief Operating Officer</p>	<p>August 2019</p> <p>2020</p> <p>August 2019</p> <p>August 2019</p>	<p>Risk reviewed by Head of Education January 2019 with no change to assessment of current score.</p> <p>New risk created August 2017 by Education Senior Management Team.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I			
		<p>Strong focus on the quality of existing provision alongside the expansion and enhancement of the number of staff focussed on both areas.</p> <p>Positive engagement with partner nursery providers of early learning and childcare to ensure planning meets the SG brief regarding parental choice, flexibility, quality and accessibility.</p> <p>Work stream groups established, including cross sector representation and network meetings to feed in to the project board to ensure collective detailed planning across service areas & consider risks associated with delay.</p>										
ED 3	<p>Additional Support Needs</p> <p>Population growth across the County and increased awareness and assessment of Children and Young people's Additional Support Needs resulting in increased demand on the ASN Service Area and specialist provision.</p>	<p>The Council is monitoring and tracking the nature and level of need across all establishments in order to target resources effectively.</p> <p>Regular budget monitoring meetings with Education and Finance managers as well as school reviews to monitor and review compliance with policies and guidance.</p> <p>Key policies in place to reflect national guidance & statutory duties in line with ASL Act 2009 and Equality Act 2010 and training in place to support the implementation of all new policies and guidance.</p> <p>The Educational Psychology Service resource allocation model operates across all educational establishments and is targeted at the children and young people with the greatest need.</p> <p>Accessibility Strategy (2017 -2020) and Autism Strategy are in place.</p> <p>ASN External Review completed and recommendations being taken forward.</p> <p>Increasing capacity within specialist provisions.</p> <p>Monthly monitoring of attendance, exclusion and physical restraint data at school level.</p>	4	4	16	<p>Joint work with Children's Services to develop new approaches through earlier intervention strategies reducing the number of out-with residential placements.</p> <p>Continue with monitoring and tracking ASN transport and review procedures to secure best value.</p> <p>Improved identification and reporting of the numbers of Children and Young People with ASN to inform future budgetary requirements and service needs.</p> <p>Ongoing review of Council's Additional Support Needs provision being carried out to determine current and future need.</p>	3	4	12	Head of Education	<p>December 2019</p> <p>June 2019</p> <p>June 2019</p> <p>March 2019</p>	<p>New risk identified by Acting Service Manager - Education (ASN & EPS) and updated by Head of Education January 2019.</p>

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			L	I	L x I		L	I	L x I			
ED 4	<p>Changing demographics of East Lothian Population – proposed LDP housing development, population growth and subsequent need to expand the schools' estate.</p> <p>Failure to respond to the changing demographics of the East Lothian population such as unexpected or unpredicted fluctuations in the make-up of the population e.g. the number of pupils with Additional Support Needs. This may lead to not having suitable school provision available in the short term.</p> <p>Risk to uncertainty with forward planning for new establishments where house development completion rates are slower than expected delaying the start date for new school buildings.</p>	<p>Strategic Asset and Capital Plan Management (SACPM) is responsible for the managing and planning for the School Estate Management. Education feed into this activity by preparing pupil roll projections and class organisation profiles.</p> <p>Regular monitoring in place in SACPM Plan Management to review programme for school requirements. Changes which may impact on capital investment escalated to Education & Finance for consideration.</p> <p>Strong communication links with parent councils and wider parent forums. Regular Education Asset Management meetings are held to manage the impact of potential housing development on the schools' estate.</p> <p>Schools' Estate Planning Officer post filled – capacity monitoring in place.</p>	4	4	16	<p>The Council is making provision for significant capital expenditure to provide sufficient capacity for the expansion of the schools estate. A capital programme of c.£150 Million is identified for the period to 2024, partially funded by S75 contributions from new housing development.</p> <p>A Learning Estate Investment Management plan will be created to reflect the programme being taken forward identified as a result of the LDP and set out a plan for the future sustainability and management of the whole School Estate.</p> <p>Contingency plans being developed to mitigate against risk, including recruitment of additional temporary technical staff by March 2019.</p> <p>Review of Council's Additional Support Needs Strategy.</p>	3	3	9	<p>Chief Operating Officer</p> <p>Service Manager - Strategic Asset & Capital Plan Management</p>	<p>2024</p> <p>March 2019</p> <p>March 2019</p> <p>April 2019</p>	<p>Risk further reviewed and updated January 2019 with Residual Risk Score reduced from 12 to 9.</p> <p>Risk refreshed by Head of Education January 2018 with Current score increased from 12 to 16 and residual score from 8 to 12.</p> <p>Risk refreshed August 2017 by Service Manager – SA&CPM current score increased from 8 to 12 and predictive scores from 4 to 8.</p>
ED 5	<p>School Estate Management</p> <p>Failure to maintain up-to-date information on the Condition and Suitability of the schools' estate may result in having insufficient data to inform planned maintenance budgets and essential building works as well as potentially leading to increased insurance claims.</p> <p>Failure to provide adequate financial and staffing resources to maintain the school estate to the required standard could result in schools falling into an unsatisfactory condition and being unsuitable for current use.</p>	<p>Rolling programme of condition and suitability surveys for the Primary schools are reported on annually to provide SPI data.</p> <p>Property Inspectors and the Asset Team identify priorities on a 3 year rolling programme and implement within available budgets. Work is prioritised on a risk management basis, addressing statutory compliance matters first (fire safety, electrical, safety DDA etc.).</p> <p>Reports to Corporate Asset Group will highlight risks which cannot be managed and may impact on the operation or safety of the school estate.</p>	3	4	12	<p>Condition and Suitability surveys for all Primary schools are almost complete, with only newer schools to be completed for 2018/19. These are reported on annually to Scottish Government through SPI data return.</p> <p>Suitability Surveys – new Government guidance has been produced, and a refresh of assessments will be conducted, these will be reported in May 2019.</p> <p>Capital bids made to get additional budget in order to upgrade and maintain to a satisfactory Condition. Ability to maintain and upgrade School buildings, dependent on approval of funding.</p>	3	3	9	<p>Depute Chief Executive – Resources and People Services</p> <p>Service Manager - Strategic Asset & Capital Plan Management</p>	<p>March 2019</p> <p>May 2019</p> <p>May 2019</p>	<p>Risk further reviewed and updated January 2019 by Service Manager (Strategic Asset & Capital Plan Management) with residual score increased from 8 to 9.</p> <p>Risk transferred from Corporate Risk Register May 2014 then refreshed July 2014.</p>
ED 6	<p>Statutory Requirements</p> <p>A failure to meet our statutory requirements and other targets due to budget constraints or conversely overspending our budget in order to meet said statutory requirements and targets.</p> <p>There are increasing requirements from the Government e.g. teacher numbers guarantee and 600/1140 hours of childcare and early education and there is a need to think creatively around budget deployment to meet needs.</p> <p>If appropriate solutions are not implemented, this could result in children and young people not receiving their entitlement to education and lead to a reduction in opportunities for young people with the consequence of parental</p>	<p>Annual budget allocation is prioritised and monitored, while the Scheme of Devolved School Management determines allocation at School level.</p> <p>Detailed budget planning measures are in place together with monthly monitoring and validation.</p> <p>Benchmarking against other authority initiatives and devolved school management schemes to ensure efficiencies.</p> <p>Working with Finance colleagues at early stage to highlight and address possible budget pressures.</p> <p>Working with Head Teachers to support their understanding of financial climate impact on School Based Budgeting.</p>	3	4	12	<p>Continue to increase Head Teacher awareness of Pupil: Teacher ratios and monitor staffing levels more rigorously to mitigate against not meeting the required ratio.</p>	3	3	9	<p>Head of Education</p> <p>Head of Council Resources</p> <p>Deputy Chief Executive – Resources and People Services</p> <p>Head of Finance</p> <p>Chief Operating Officer</p>	<p>August 2019</p>	<p>Risk further reviewed and updated November 2018 with current risk score reduced from 16 to 12.</p> <p>Risk further reviewed and updated August 2017 with no change to assessment of scores.</p> <p>Risk Refreshed August 2016 with no change to score.</p> <p>Refreshed September 2015 –</p>

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	dissatisfaction and damage the reputation of the Council. The opportunity is to create new propositions and service offerings.	Staffing is continually monitored to ensure we meet the required Pupil to Teacher ratio at September Census point. Close working with schools regarding established staffing compliments and continual updating of SEEMIS records to ensure accurate and up to date information is held. Early Years Strategy includes the required capital and revenue investment to deliver the Scottish Government's 1140hrs programme.										Current Risk Score increased from 8 to 16 and residual score from 4 to 9. Risk reviewed August 2017 with no change to the score.
ED 7	Educational Attainment Failure to raise the standards of educational attainment for all will lead to a reduction in opportunities for young people such as entrance to Further and Higher Education or employment, with a consequence of parental dissatisfaction and damage to reputation of individual schools and the Education service. A failure to report positive findings in relation to the four national priorities set out within the national improvement framework and in the use of Pupil Equity Funding to close the attainment gap will lead to further scrutiny by external organisations such as Audit Scotland, Education Scotland and Scottish Government.	Each school has a School Improvement Plan, guided by the revised annual Education Service Plan (developed and delivered by Education Steering group in consultation with key stakeholders) with target setting for attainment. More rigorous and robust approaches for quality assuring school performance have been implemented and take into account new national guidance e.g. Pupil Equity Fund and National Improvement Framework. Curriculum frameworks have been developed across all areas to improve continuity and progression in learning with the broad general education. School strategies in place for increasing expectations of pupils and families (including tackling the barriers to improving achievement and ensure pupil attendance i.e. reducing the attainment gap). A suite of data continues to be developed and refined to highlight KPIs, share with schools and agree performance improvement. Activities to improve attainment are reported at Education Committee as appropriate. Continue to improve the transition of young people from mainstream education to work, training, further and higher education through working with secondary schools and East Lothian Works who are now part of the Education service.	3	4	12	New improvement targets to be set for schools to increase attainment and improve performance. Continue to develop an authority wide model for the Senior Phase that incorporates all elements of the curriculum. Continue to develop partnership arrangements with QMU and Edinburgh College to broaden the curriculum as part of the DYW recommendations by 2020. Ongoing monitoring of the effectiveness of the Future Technologies Centre (Construction Academy). East Lothian Works to work with Early Learning and Childcare Team to develop a career path for potential future Early Years Practitioners.	3	3	9	Head of Education	August 2019 August 2019 2020 June 2019 June 2019	Risk further reviewed and updated November 2018 with current risk score reduced from 16 to 12. Risk further reviewed and updated August 2017 with no change to assessment of scores. Refreshed August 2014 with current risk score increased from 6 to 16 and residual risk score increased from 4 to 9.
ED 8	East Lothian Works (ELW) – Impact of Brexit on Grant Funding (European Social Fund - ESF) ELW relies heavily on ESF funding to support delivery of employability programmes for adults. The draft Withdrawal Agreement between UK and EU (March'18) states the UK would continue to participate in the ESF programme until 2023, meaning we would continue to receive the same level of funding as if the UK was a member of the	UK government has indicated that it is committed to ensuring there is no gap in funding in the event of a no deal. In July 2018, the UK government extended a guarantee to cover all projects, including European Social Fund Projects funded by EU under the 2014-2020 programme period. The extension means that Scottish government will continue to sign and fund new projects after EU Exit until programme closure providing additional certainty, guaranteeing investment in skills and	3	4	12	Undertaking an East Lothian Works Service Review to identify staffing levels required to maximise use of ESF funding. Continue to monitor Brexit scenario and review implications on levels of funding if required.	2	4	8	Head of Education	March 2019 March 2019	New risk identified by Chief Operating Officer (Education) February 2019

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			L	I	L x I		L	I	L x I					
	EU until the end of the 2014-2020 programme period. In the event of a no deal scenario, the UK's departure from the EU would mean we would be unable to access EU funding for European Social Fund projects after exit day.	employment to the end of the current European Social Fund programme period.												
ED 9	<p>Management of Resources</p> <p>Failure to manage a delegated budget in a fair, equitable and transparent way and risk that school's budget is not deployed in accordance with best value principles. As a result financial expenditure is not well planned and resources are not used effectively to meet the needs of learners. Failure to adhere to Local Authority procurement arrangements.</p> <p>Potential risk of short-term funding being used to employ additional members of staff who through continuous service will achieve permanency in their role and the cost pressures associated with retaining them when the PEF funding ceases. Additional budgetary pressures may arise in relation to the retention of staff who could be surplus to requirements.</p> <p>Reputational damage to the Council should schools fail to deliver a positive outcome for those children and young people the funding has been awarded to. No improvement in attainment, no closing of the attainment gap ultimately failing to meet the requirements of the Attainment Challenge</p> <p>Risk of not receiving positive inspections as there is insufficient evidence of impact on closing the attainment gap evaluated under QI 3.1 – Ensuring wellbeing, equality and inclusion. This could lead to increased scrutiny by external scrutiny bodies such as Education Scotland.</p>	<p>Clear DSM guidance is in place and support provided to HTs and Business Managers through the Education Service and Finance colleagues.</p> <p>Budget spend is monitored by the Education Service and any issues are discussed with HTs with support from the QIT as required. Budget validations carried out by Principal Officer.</p> <p>Guidance and support provided from Council Procurement team. Clear guidance available for HTs.</p> <p>Head Teachers have submitted proposals on how they intend to use the funding, indicating the expected impacts/outcomes it will have in relation to closing the attainment gap. Central department officers have worked collaboratively with Head Teachers to support and challenge to ensure the proposals are robust and that they will be monitored throughout the course of the school session to measure impact.</p> <p>Database of staff appointments held within the department to identify those funded through PEF. Close working with HR and Finance colleagues to manage the impact this additional workforce will have longer term.</p> <p>Additional resources allocated to central Education, HR, Finance and Procurement services to support and implement the effective use of PEF.</p> <p>Monitoring of the impact additional resources are having in relation to the supports/interventions put in place.</p> <p>Regular monitoring of additional staffing appointed under PEF as well as additional resources being incurred.</p> <p>Close liaison with Head Teachers and colleagues in Finance, HR and Procurement to support, monitor and record the additional staffing and other resources put in place.</p>				3	4	12	2	4	8	<p>Head of Education</p> <p>Chief Operating Officer</p> <p>Head Teachers</p>	<p>August 2019</p> <p>August 2019</p>	<p>Risk further reviewed February 2019 by Head of Education and Chief Operating Officer.</p> <p>Risk reviewed November 2018 with current risk score reduced from 16 to 12 and residual score reduced from 12 to 8 due to more established working practices being in place.</p> <p>New risk identified August 2017 by Education Senior Management Team.</p>

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		Quality Improvement Team monitor the impact at school level through discussions with Head Teachers and looking at attainment data results. Regular meetings with Education Scotland Attainment Advisor to discuss and monitor progress.										
ED 10	IT Infrastructure The IT infrastructure may not be sufficient to support the use of digital technologies moving forward. A failure to address this could result in a lack of infrastructure to address the use of digital technology and impact on the ability to enhance learners' digital literacy skills.	Collaborative working between IT ICT and Education continues in respect of addressing the needs of schools and the wider services. Review undertaken and paper produced on Digital Learning and Teaching Strategy. An on-line learning environment for all students to reflect the way young people can now learn is in place and proving successful. The Council has a partnership agreement with Education Scotland Technology Team to assist with the delivery of enhancing staff and pupils' digital skills.	3	4	12	Finalise and implement the Digital Learning and Teaching Strategy which is dependent upon appropriate finance. Work with schools to encourage them to promote the effective use of current and future ICT resources. An Education Support Officer (Digital Learning) will be recruited to support taking forward new approaches to deliver the curriculum in the senior phase using digital technology.	2	4	8	Head of Education Service Manager Education (Strategy & Ops) Service Manager - IT Infrastructure Quality Improvement Manager	August 2019 August 2019 May 2019	Risk refreshed November 2018 with no change to assessment of current scores. Risk further reviewed and updated August 2017 with no change to assessment of current scores. New risk created August 2016.
Original date produced (Version 1)		1st March 2012										
File Name		Education Risk Register										
Original Author(s)		S Kennedy										
Current Revision Author(s)		S Kennedy										
Version		Date	Author(s)			Notes on Revisions						
12		February 2018	S Kennedy			Updates made by Head of Education and Service Manager following comments made when presented to Audit and Governance Committee.						
13		November 2018	S Kennedy			Risks updated by Service Manager – Education (Strategy & Ops) and Chief Operating Officer (Education)						
14		January 2019	S Kennedy			Risks updated by Principal Educational Psychologist and Service Manager (Strategic Asset & Capital Plan Management) and new risk ED1 created by Acting Service Manager - Education (ASN & EPS).						
15		January 2019	S Kennedy			Risk Register updated by Head of Education and new risk added on East Lothian Works						
16		February 2019	S Kennedy			Final updates made by Chief Executive and Head of Education						
Overall Rating												
20-25 Very High												
10-19 High												
5-9 Medium												
1-4 Low												

East Lothian Council

Risk Matrix

Likelihood Description

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

Impact Description

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

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

Key

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

MEETING DATE: 19 February 2019

BY: Depute Chief Executive (Partnerships and Community Services)

SUBJECT: Local Government in Scotland: Financial Overview 2017/18
(Accounts Commission, November 2018)

7

1 PURPOSE

- 1.1 To review East Lothian Council's position in relation to the findings of the Accounts Commission report, *'Local Government in Scotland: Financial Overview 2017/18'*.

2 RECOMMENDATIONS

- 2.1 The Committee should:
- Note the position of East Lothian Council in regard to the key messages in the Accounts Commission report, 'Local Government in Scotland: Financial Overview 2017/18'
 - Use the recommendations in the Accounts Commission report to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

3 BACKGROUND

- 3.1 Each year the Accounts Commission produces a financial overview of issues that have arisen from the local authority audits conducted by Audit Scotland. In line with the previous year, this report focuses on financial matters, with a separate report on Councils' performance and outcomes due to be published in April 2019. The latest report, 'Local Government in Scotland: Financial Overview 2017/18' was published in November 2018 (Appendix 1).

- 3.2 The report itself is structured in four parts:
- Part 1: Councils' budgets and spending in 2016/18
 - Part 2: Councils' financial position
 - Part 3: Integration Joint Boards' overview 2017/18
 - Part 4: Council's financial outlook.
- 3.3 Each part of the report includes key messages backed up by evidence and exhibits sourced mainly from local authority annual accounts.
- 3.4 This report provides a summary of the key messages and evidence from the Financial Overview with some explanation or commentary on the position in East Lothian Council.

Part 1: Councils' budgets and spending in 2017/18

- 3.5 The key message of Part 1 of the report is that Scottish Government revenue funding to councils reduced by 2.3% (£0.2billion) in real terms in 2017/18 (see Exhibit 2, page 11), but Council Tax, grants to services and fees and charges increased, and overall budgets grew by £0.3billion. Between 2013/14 and 2017/18, funding from the Scottish Government to local government decreased by a faster rate, 6.92%, than the Scottish Government revenue budget at 1.65% (see Exhibit 3, page 12).
- 3.6 In 2017/18, councils managed funding gaps of 4% in their real expenditure budgets of £12billion, mainly through savings and planned use of reserves. Budget outturns at the year-end were better than budgeted, although overall increases in spending in Education and Social Work were offset by reductions in other services.
- 3.7 Key features of Council finances in 2017/18 were the lifting of the Council tax freeze, (although the Scottish Government set a maximum increase of 3%) and national changes to Council Tax Bands E – H and removal of second-home discounts. This measure increased income from Council Tax by about £140m across all Scottish local authorities and benefitted councils, including East Lothian, with a relatively higher proportion of higher banded properties. Exhibit 5 (page 14) shows the percentage increase in Council Tax income by council – 12% for East Lothian.
- 3.8 The report highlights that there is a significant variation between councils in charges for services and points out that some councils are making significant increases to groups of fees and charges and/ or introducing new fees and charges, including for example, charges for garden waste collection, car parking charges and public toilets. East Lothian Council did not levy any significant new charges in 2017/18.
- 3.9 Analysis of Councils' 2017/18 budgets identified some common themes in the pressures that councils, including East Lothian Council, identified:

- Staff costs including pay inflation and the introduction of the Living wage and sleepover arrangements
- Other inflationary cost pressures
- Financing costs – the cost of financing capital investment through borrowing
- The Apprenticeship Levy – 0.5% of pay bills above £3m
- Demand costs – increasing demand for some key services such as adult care services

Part 2: Councils' financial position

- 3.10 The second part of the report focuses on Councils' financial position as shown in their 2017/18 audited accounts.
- 3.11 Eighteen councils drew on their useable reserves in 2017/18, but overall by a relatively small amount - £18m. Some councils were able to add to their useable reserves.
- 3.12 There is a significant variation in the relative size and nature of reserves held by councils. Exhibit 7 (page 20) shows that East Lothian Council is at the lower end of the spectrum of reserves held as a percentage of council annual revenue (c. 10%). In 2017/18 the council's actual useable reserves decreased by £1.496 million, £1.034 million less than planned, to £19.038 million.
- 3.13 Some councils have relatively higher debt than others. Exhibit 8 (page 21) shows council gross and net external debt compared to annual revenue with net borrowing varying from 203% in West Dunbartonshire to 45% in Shetland Isles Council. East Lothian is shown as having net borrowing of just over 150% of net revenue.
- 3.14 Capital expenditure in 2017/18 decreased by 5% in real terms and the number of social houses provided by councils continues to fall.
- 3.15 Some councils had significant increases in their net debt provision. The report highlights three councils with notable increases – Argyll & Bute, Aberdeen City and Perth & Kinross
- 3.16 There were delays with the valuation of pensions liabilities in councils across Scotland. Scottish councils' net pension liability reduced substantially in 2017/18 compared to 2016/17 and the unfunded pension scheme liabilities vary significantly across councils. Exhibit 12 (page 25) shows East Lothian Council has amongst the lowest levels of unfunded liability – under 10% of revenue.
- 3.17 The quality of management commentaries in councils' accounts varies and some could do more to explain financial outturn against budget. Comhairle Nan Eilean Siar's management commentary is highlighted as an example of good practice. East Lothian Council's annual accounts include a

management commentary that provides a detailed account of the Council's financial performance, governance arrangements and other key information such as performance and council priorities.

Part 3: Integration Joint Boards' Overview 2017/18

- 3.18 This is a new section of the Financial Overview report, reflecting Audit Scotland's increasing interest in, and focus on, IJBs and their financial position.
- 3.19 Funding to IJBs increased in 2017/18 by 3% in cash terms. Most of this increase came from additional Scottish Government funding direct through the NHS.
- 3.20 The majority of IJBs have underlying financial sustainability issues. Eleven IJBs had deficits in 2017/18 and a further eight would have had deficits without additional ('deficit') funding from their partners. The reserve positions of IJBs vary enormously. East Lothian's IJB does not hold any reserves.
- 3.21 The report highlights that funding gaps in 2018/19 are significant in IJBs and many do not have balanced budgets.

Part 4: Councils' Financial Outlook

- 3.22 The final part of the report outlines the financial outlook and challenges Councils face in setting their future budgets.
- 3.23 It highlights that in 2018/19 Scottish Government revenue funding to local government increased by 1.7% in cash terms and 0.2% after two years of real-terms reductions.
- 3.24 However the 2018/19 settlement was late due to the late announcement of an additional £160m of general revenue grant funding, which included early payment of £35m from projected underspends which contributed to a lack of transparency.
- 3.25 Although the Scottish Government published a five-year financial strategy in May 2018, funding settlements to councils continue to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term.
- 3.26 Analysis of the Scottish Government's financial strategy suggests that whilst some areas of local government spending – early learning and childcare and education attainment – will increase, other 'non-protected' expenditure areas will face further reductions; possibly falling by between 1% - 16% in real terms over the period to 2022/23.
- 3.27 Councils continue to recognise significant financial challenges in the medium term in line with the pressures identified in 2017/18 budgets (see para 3.8 above). In order to meet these challenges and pressures over half of councils have begun new or refreshed transformation or change

programmes in the past year and one-third (including East Lothian Council) within the past three years.

- 3.28 The report points out that the Accounts Commission recognises that councils' financial pressures mean that councillors need to make difficult decisions. This will require effective political, leadership and communications and all councillors working effectively with officers and other stakeholders to identify and deliver necessary savings. This will require effective engagement with communities about plans for savings and service redesign.
- 3.29 In previous reports Audit Scotland has emphasised the importance of medium and long-term financial planning. Almost all councils now have medium-term (5-year) financial plans, but only five councils have long-term plans covering ten years or more.
- 3.30 East Lothian Council has adopted a five-year financial strategy, which is refreshed annually to reflect any changes in the financial planning landscape. The latest Strategy, covering the 2019-2024, was approved by Council in December 2018. The Council's capital planning is based on longer-term projections based on delivering the Local Development Plan.
- 3.31 The penultimate section of the report outlines the broad measures that councils have put in place to meet funding gaps – planned savings/reductions in services, temporary use of unearmarked reserves, additional fees and charges and Council Tax increases – all of which form part of East Lothian Council's 2018/19 budget.
- 3.32 The report concludes with a short summary of the potential impact of withdrawal from the EU. This is an issue which will also be dealt with in the forthcoming overview report Local Government in Scotland: Challenges and Performance due to be published in March 2019.

4 POLICY IMPLICATIONS

- 4.1 The report has no direct policy implications for the council. 'Local Government in Scotland: Financial Overview 2017/18' will assist the Council in recognising the challenges that it faces in achieving financial stability and sustainability in the future.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 This report is not applicable to the 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: Financial Overview 2017/18’, Accounts Commission, November 2018

7.2 ‘Financial Strategy 2019-2024’, East Lothian Council, 11 December 2018

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DATE	9 th February 2019

Local government in Scotland

Financial overview 2017/18



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
November 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 

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

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Exhibit data

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

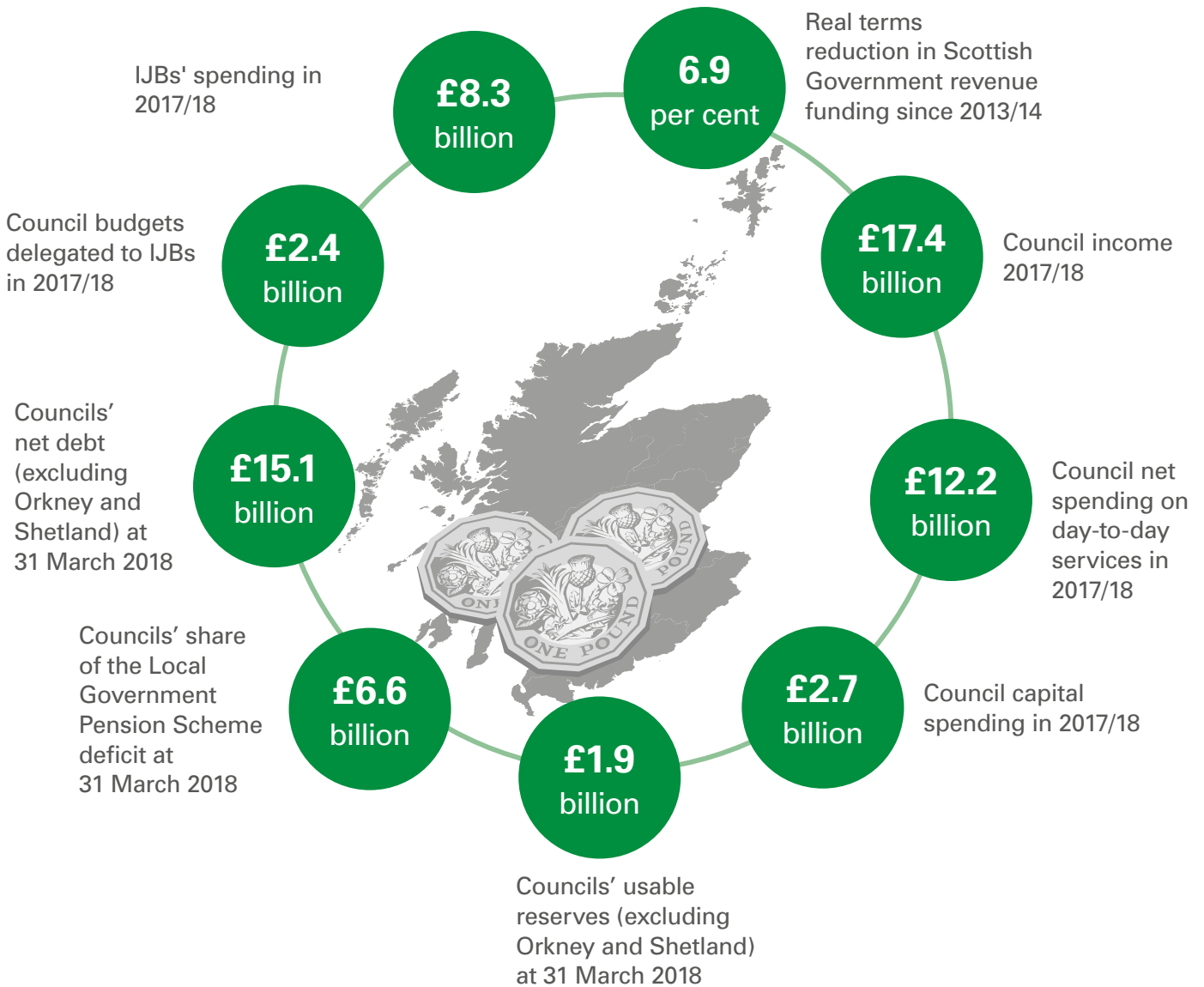


These question mark icons appear throughout this report and represent questions for councillors.

Audit team

The core team consisted of: Carol Calder, Kathrine Sibbald, Ashleigh Madjitey, Ruth Azzam and David Docherty, with support from other colleagues and under the direction of Brian Howarth.

Key facts



Chair's introduction



Welcome to the Accounts Commission's 2018 financial overview report for local government.


This report reflects a similar situation to last year as councils face an increasingly complex range of challenges and continuing pressure on finances. Challenges include increasing demand across many of the wide range of services councils deliver to local communities. Demand has to be met against tightening budgets in many service areas along with uncertainty stemming from external factors such as EU withdrawal.

One of the most significant issues for councils continues to be funding. In 2017/18, funding from the Scottish Government, councils' main source of funding, again reduced in real terms. The reduction was largely offset by increases in council tax and councils' fee income, with most councils applying the maximum three per cent increase to council tax. In total, the net effect of Scottish Government and council action was a reduction in funding of only 0.1 per cent in real terms although the impact on individual councils varied. In general, increased spending in education and social work was offset by reductions in other services. I would also note that the relationship of funding of individual councils to areas of deprivation remains unclear.

The forecast trend is for further reductions in funding from the Scottish Government in the medium term. Pressure therefore remains on councils to make further savings and find ways to meet service demand more efficiently and effectively. This will require difficult decisions and innovative thinking by councillors and senior management working together.

It is important that these decisions are taken in a planned and coordinated way. It is positive progress that almost all councils now have medium-term financial planning in place and some have made progress with long-term financial projections. I would encourage all councils to build on medium-term plans and develop suitable long-term financial planning. This supports consistency in financial decisions with corporate priorities and outcome aims, as well as supporting transformation initiatives. Councillors also need to be clear about the potential impact of planned savings or changes to fees and charges on the local community and economy as well as on achieving corporate objectives.

Last year, we highlighted the risk for some councils plans to use significant amounts of their reserves to manage funding gaps. I am pleased that this year, although overall reserves have continued to reduce, no council is using its reserves at a level that risks their financial sustainability in the next two to three years. We will continue to have an interest in how councils set their reserves policy and utilise reserves as funding pressures continue in the coming years.

The Commission recognises that one of the other most significant challenges for councils are financial issues associated with the Integration Joint Boards (IJBs). The majority of IJBs have underlying financial sustainability issues and without year-end support from the NHS and council partners, 20 out of the 30 IJBs would have reported deficits. In November 2018, we published a report on progress with [Health and social care integration](#) . This highlighted areas for improvement, including financial management and financial planning. The Commission will continue to keep a focus on IJBs and consider how best to monitor their progress in future.

Finally, we welcome that the audits of annual accounts from all 32 councils were signed off with no qualifications. This is testament to the hard work of council staff, especially those within the finance function, and of our auditors. We also note that again there has been some progress with the quality of reporting on financial matters. However, we encourage councils to continue to improve the transparency and clarity of financial information provided to councillors and the public.

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

Graham Sharp

Chair of Accounts Commission

Summary





Key messages

- 1** Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced in 2017/18, in cash terms by 0.6 per cent (£0.06 billion) and in real terms, by 2.3 per cent (£0.22 billion). Council tax increases and increased fees and charges were used by councils to increase overall budgets by £0.3 billion (cash terms).
- 2** In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Councils are under pressure to find different ways to fund and deliver services. In 2017/18, 24 councils increased council tax, whereas in 2018/19, all councils increased council tax.
- 3** Overall increases in spending in Education and Social Work were offset by reductions in other services.
- 4** Eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year. Total usable reserves fell by £18 million, a relatively small amount.
- 5** Funding to the Integration Joint Boards (IJBs) increased in 2017/18 by three per cent in cash terms (1.4 per cent in real terms), including additional funding from the NHS. The majority of IJBs have underlying financial sustainability issues, with 20 incurring deficits or dependent on additional ('deficit') funding from their partners.
- 6** The financial outlook is for reductions in Scottish Government revenue funding to councils. This will mean continued and increasing financial pressures on council services, especially those that are not protected.
- 7** The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks.

councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during 2017/18 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published at the end of the financial year, in March 2019.
2. Our primary sources of information for the financial overview are councils' 2017/18 audited accounts, including management commentaries and the 2017/18 external annual audit reports for each council. We have supplemented this with data submitted by councils to the Scottish Government through local finance returns (LFRs) and Provisional Outturn and Budget Estimates (POBE). LFRs present spending information on a different basis from the spending information that councils record in their annual accounts. We do not audit data contained in the LFRs.
3. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2017/18 prices (and 2018/19 prices where 2018/19 comparisons are made), adjusted for inflation so that they are comparable. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.
4. Throughout the report, we identify examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. The Accounts Commission encourages councillors to use an appropriate level of scepticism in scrutiny and ensure they receive sufficient information to answer their questions fully. The example questions are also available on our website in [Supplement 1: Scrutiny tool for councillors](#) .
5. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our [website](#) . The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders. We will also publish a separate supplement on the Local Government Pensions Scheme (LGPS) in December 2018.
6. Orkney and Shetland have been excluded from some exhibits that show usable reserves and debt. This is because their values would make it difficult to see the relative positions of other councils. Most councils hold usable reserves of between seven and 36 per cent of their annual revenue, whereas Shetland's reserves were 260 per cent of its annual revenue and Orkney's 329 per cent of its annual revenue. These large reserves relate to oil, gas and harbour-related activities. Both Orkney and Shetland also have significant investments rather than borrowing, unlike other councils.

Part 1

Councils' budgets and spending in 2017/18



Key messages

- 1** Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced by 2.3 per cent (£0.2 billion) in real terms in 2017/18, but council tax, grants to services and fees and charges increased, and overall budgets grew by £0.3 billion in cash terms.
- 2** Between 2013/14 and 2017/18, funding from the Scottish Government to local government decreased at a faster rate, 6.92 per cent, than the Scottish Government revenue budget at 1.65 per cent.
- 3** Distribution of funding from the Scottish Government is based mainly on population but could be more transparent to ensure clarity about how funding distribution reflects factors that drive demand and costs in councils.
- 4** In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Their outturn at the year-end was better than budgeted.
- 5** Overall increases in spending in Education and Social Work were offset by reductions in other services

Scottish Government revenue funding to councils reduced by 2.3 per cent (£0.2 billion) in real terms in 2017/18

Council funding

The main source of councils' funding is the Scottish Government

7. Scottish councils get their annual funding and income from a range of sources ([Exhibit 1, page 10](#)). In 2017/18, these totalled £17.4 billion. The main source of funding is the Scottish Government, contributing 55 per cent. In 2017/18, the Scottish Government provided £9.65 billion (compared to £9.71 billion in 2016/17). Within this total, a relatively small element (two per cent, £211 million) is for specific policy areas, such as the Pupil Equity Fund, previously known as the Attainment Scotland Fund. This has increased from £91 million (one per cent) in 2016/17.

Although Scottish Government funding reduced, increases in council tax and charges increased the total amount available to councils to meet expenditure

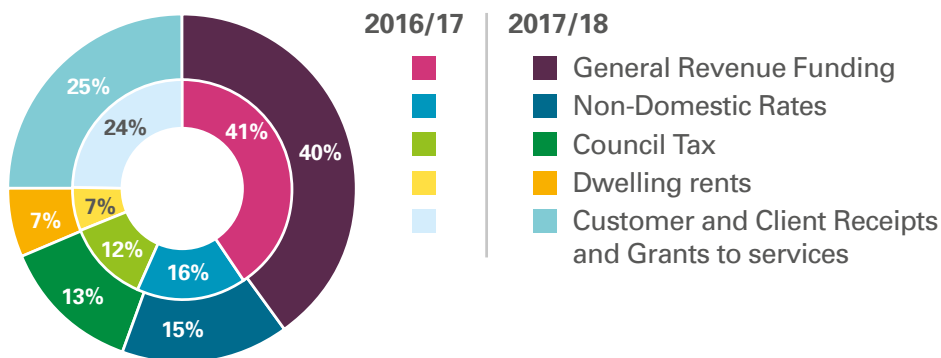
8. Total income and funding of £17.4 billion is an increase from £17.1 billion in 2016/17. Reductions in Scottish Government funding of £57 million have been

more than countered by increases in charges and grants to services, dwelling rents and council tax totalling £328 million. In total, this means that total income and funding is £271 million more in 2017/18 than 2016/17. Across Scotland in 2017/18, 13 per cent of income, £2.3 billion, was generated through council tax and 25 per cent, £4.3 billion, through fees, charges and grants credited to services.

Exhibit 1

Sources of council revenue income, 2017/18

Total funding and income to councils in 2017/18 was £17.4 billion.



Source: Finance Circulars and Audited Financial Statements



An element of Scottish Government 2017/18 funding was agreed late, limiting councils' ability to properly plan and agree their budgets

9. Provisional funding allocations for 2017/18 were issued to councils on 15 December 2016 and further increases were agreed and communicated to councils in a letter from the Finance Minister, on 2 February. The financial circular of 9 March 2017 confirmed these changes. The amount to be distributed to councils as revenue funding increased by £182 million (1.9 per cent). Councils agree their budgets at meetings during February and March. One council noted in its budget papers that 'In the last few days, (the Finance Minister) announced ...change(s) on 2nd February, the day before the administration's budget proposals were due to be signed off'. Another council noted that a 'very late and material revision was made to the revenue grant settlement... present(ing) challenges in terms of configuring a balanced budget at short notice and ensuring value for money spending proposals'. Receiving significant changes at a late stage in the budgeting process limits the time available to councils to plan, discuss and agree budgets.

Scottish Government Revenue funding fell by 2.3 per cent in real terms in 2017/18

10. Exhibit 2 (page 11) shows that in 2017/18 the **total revenue funding** ⁱ from the Scottish Government reduced by 0.6 per cent in cash and 2.3 per cent in real terms. Including additional funding of £34.5 million and health and social care funding via the NHS, Scottish Government funding was reduced by 0.8 per cent in real terms in 2017/18, compared to the previous year.



Total revenue funding:

This consists of general resource grants, specific revenue grants (together known as revenue grants), and Non-Domestic Rates income (NDR).

Total revenue funding does not include the additional £34.5 million added at Stage 1 of the Budget Bill to be paid in 2017/18 in respect of 2018/19. It also does not include health and social care funding paid to local government via the NHS.

Exhibit 2

Changes in Scottish Government funding in 2017/18

Scottish Government Revenue funding fell by 2.3 per cent in real terms in 2017/18.

	2016/17 £m	2017/18 £m	Cash %	Real %
Revenue Grant	6,939	6,985	0.7 ▲	-1.0 ▼
NDR	2,769	2,666	-3.7 ▼	-5.3 ▼
Total revenue funding	9,708	9,651	-0.6 ▼	-2.3 ▼
Further funding		35 ¹		
Health & social care funding via NHS	250	357		
	9,958	10,043	+0.9 ▲	-0.8 ▼

Note: £34.5 million was added at Stage 1 of the Budget Bill to be paid in 2017/18 and 2018/19. Accounting standards meant that this was correctly treated as 2017/18 income by councils.

Source: Finance Circulars 1/2017 and 4/2018

11. In 2017/18, the Scottish Government paid an additional £107 million to NHS boards to assist with health and social care. This was used mostly to offset new living wage and sleepover costs of care workers in local government.

Local government funding has reduced at a faster rate than other areas of the Scottish public sector

12. In May 2018, the Scottish Parliament Information Centre (SPICe) reported that between 2013/14 and 2017/18, funding from the Scottish Government to local government decreased at a faster rate than the Scottish Government revenue budget; 7.1 per cent and 1.8 per cent respectively. Using a similar approach, but with up-to-date inflators, the reductions have been 6.92 per cent and 1.65 per cent ([Exhibit 3, page 12](#)). This demonstrates a significantly higher impact on total local government funding compared to the total Scottish Government revenue budget. In cash terms, the funding from the Scottish Government to local government has fallen by 1.18 per cent while the Scottish Government revenue budget has grown by 4.41 per cent.

Distribution of funding from the Scottish Government could be clearer about how it reflects factors that drive costs in councils

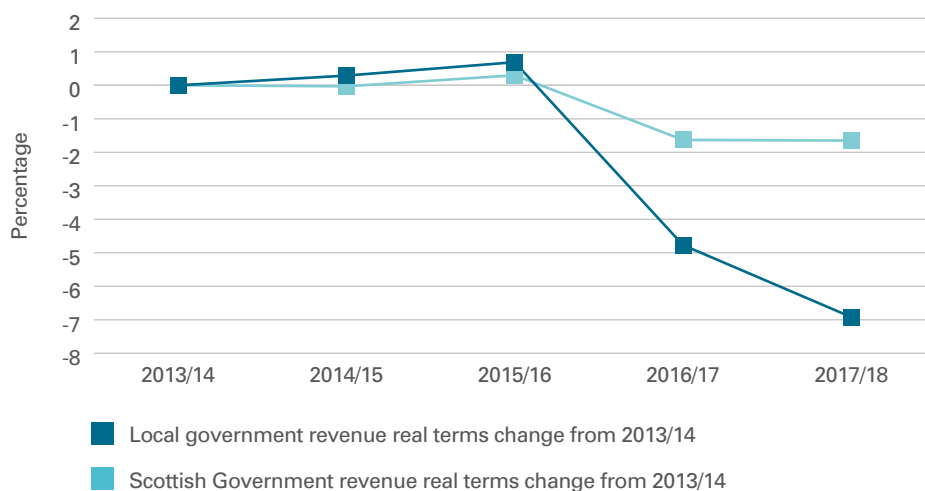
13. As we reported last year, the Scottish Government and COSLA's mechanism for distributing funding to councils is the main determinant of a councils' overall funding. Grant-aided Expenditure, or GAE, is a needs-based methodology, used to allocate the Scottish Government's pre-determined spending review totals among councils. It is made up of 89 indicators such as 'services for people with disabilities' and 'road maintenance'. These indicators are weighted to reflect factors that impact on the demand for and cost of delivering services, for example, 'the size of the 16 to 64 year-old population' and 'length of roads to maintain'.

14. The weighting factors determine the proportion of GAE funding that goes to each council. It is important to note that GAE is purely a methodology to redistribute spending review totals: councils are not obligated to spend the specific amounts on each area identified in the methodology.

Exhibit 3

Real terms change in revenue funding for Scottish Government and councils since 2013/14

Scottish Government revenue budget has fallen by 1.65 per cent between 2013/14 and 2017/18, while revenue funding to councils has fallen by 6.92 per cent over the same period.



Note: Local government funding shown is General Revenue Grant funding, other ring-fenced funding, and NDR.

Source: Audit Scotland; and SPICe



15. Since 2008/09, the total amount of GAE has remained at £7.9 billion and the weighting allocated to each GAE indicator has stayed the same. Each year the councils' relative proportion of funding has been recalculated using the 89 indicators, which means that the amount each council receives may change as its 'population', 'number of teachers', or value of other indicators change. However, the methodology used, and relative importance of each indicator used in arriving at the overall distribution of GAE has not changed in ten years.

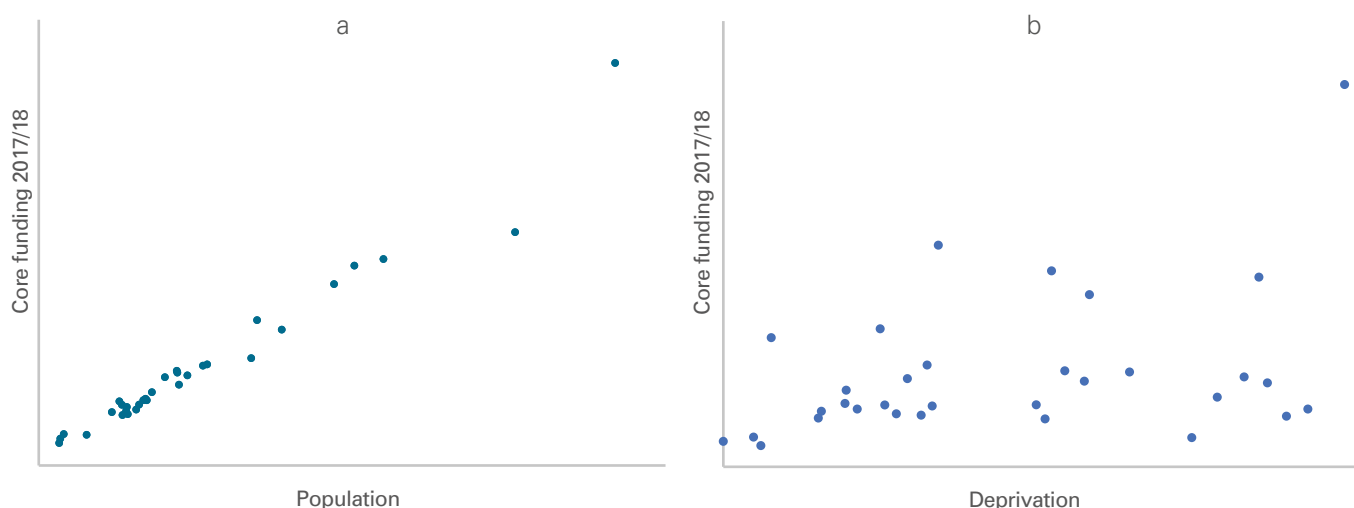
16. The majority of GAE is allocated according to population-based factors. Other factors are far less significant influences on total funding. For example, those which might be considered to link to deprivation, for example 'the number of current income deprived', are linked to a much smaller proportion of funding than population-based weighting factors.

17. This is demonstrated when we consider the relationship between how much funding a council receives and its population size and deprivation levels. The former is a very strong determinant of overall funding and the latter is only a moderate to weak factor ([Exhibit 4, page 13](#)). Given Scotland's demographic changes and the Scottish Government's commitment to tackling social and economic inequality, there is a risk that the GAE weightings no longer sufficiently represent need.

Exhibit 4

Scottish Government core funding compared to council population size and deprivation levels

The majority of core funding is allocated to councils according to population-based factors. A much smaller proportion of factors linked to deprivation influences funding levels.



Note: Deprivation has been calculated using the percentage of datazones in the council which are in the 30 per cent most deprived datazones in Scotland. Based on the Scottish index of multiple deprivation (SIMD).

Source: Scottish Government finance circulars; National Records for Scotland 2017 population estimates; and Scottish Index of Multiple Deprivation.



18. Scottish Government funding provided to councils on top of the GAE funding allocation, £3.7 billion in 2017/18, is either distributed using the same proportions as the GAE funding or through a separate methodology agreed by the Scottish Government and COSLA. The Scottish Government advises that in 2017/18, £0.2 billion was distributed using the GAE methodology and £3.5 billion through individual separate methodologies. The basis of the calculations for the separate methodologies are not publicly available and should be more transparent.

19. The £3.7 billion funding includes former ring-fenced grants, new policy commitments (since 2008/09), additional funding from the government spending reviews, special island needs allowance and loan charges. This funding, alongside the GAE, makes up the 'total estimated expenditure' which is then adjusted to take account of expected council tax and non-domestic rates income and specific ring-fenced grants such as the Pupil Equity Fund.

20. The Scottish Government and COSLA have two groups that consider the funding distribution allocations on a regular basis, the settlement and distribution group (SDG) which is supported by the data issues working group (DIWG). These groups work on understanding the strategic issues behind the distribution of funding and updating the data behind the indicators. Both groups include membership from Scottish Government, COSLA and several Directors of Finance. We recognise that a review of funding distribution is difficult in times of reducing budgets, as there will inevitably be some councils that end up with smaller allocations of funding, putting further strain on already tight budgets. But we continue to believe that it is important that the Scottish Government and COSLA assure themselves that the funding formula remains fit for purpose.

Council tax changes raised a further £189 million in 2017/18

21. Council tax is another important source of income for councils. In 2017/18, £2.3 billion, 13 per cent of council funding came from council tax, which is set by individual councils. Councils raised a further £189 million in 2017/18 through council tax, compared to 2016/17.

22. In 2017/18, the Scottish Government’s council tax freeze was lifted but with a maximum increase of three per cent. Twenty-four councils chose to increase council tax, with twenty-one increasing rates by the maximum three per cent ([Exhibit 5](#)). This raised an estimated £49 million.

23. The national changes in 2017/18, also included increases to the council tax bands E to H and removal of second-home discounts. These changes raised the remaining £140 million and benefited councils with a relatively higher proportion of higher banded properties.

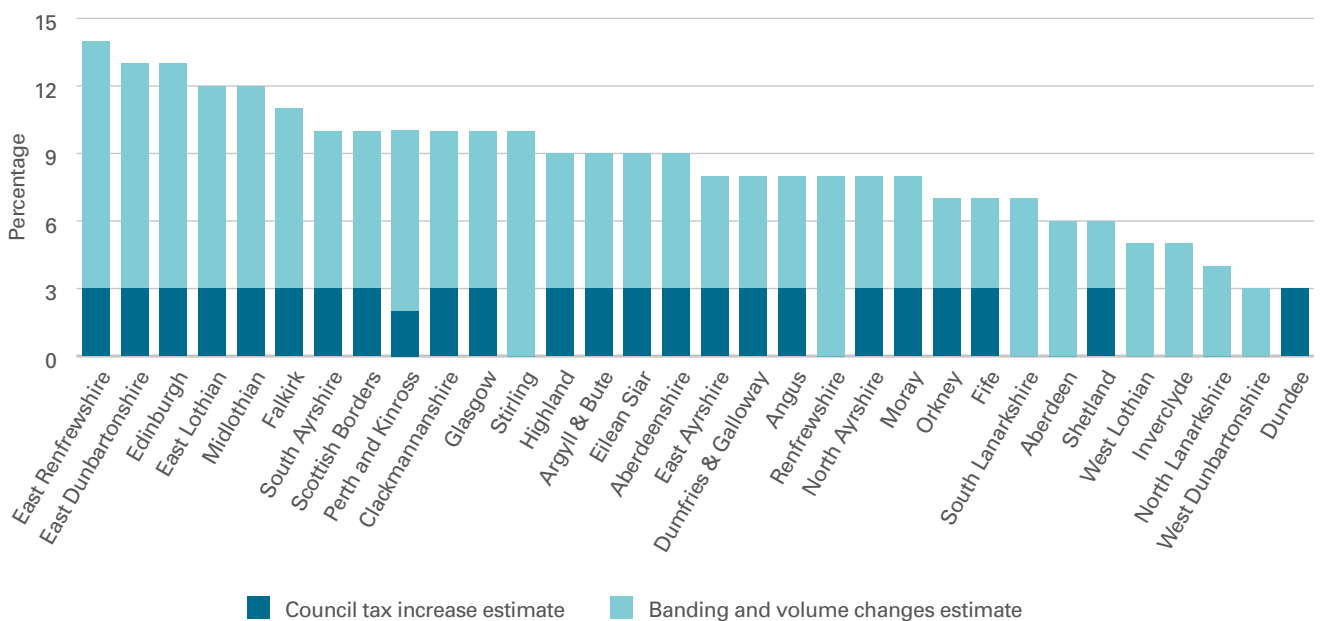
A significant element of income comes from fees, charges, house rent and grants taken directly to services

24. In 2017/18, 32 per cent (£5.4 billion) of councils’ income was generated from fees, charges, rents and grants taken to services. The majority of this sum comes from two sources including house rents and grants from government and other bodies, such as the Department of Work and Pensions, which are credited to services. A smaller proportion of this money is raised from a wide range of charges for services including parking charges, music tuition in schools and fees for road closure consent. These are not easily distinguishable in the audited financial statements.

Exhibit 5

Increase in council tax income by council, 2017/18

Council tax changes raised a further £189 million in 2017/18.



Source: Audited financial statements 2017/18



There is significant variation between councils in charges for services

25. There is wide variation in what councils charge for and the level of charge made for services. In 2017/18 and 2018/19, there is variation in how councils are making increases to their income from fees and charges. Some councils are making incremental increases across the range of charges and fees they use. Some councils are making significant increases to groups of fees and charges, such as those related to commercial waste, harbour management or to burial and cremation. Some councils are introducing new fees and charges, these include, for example, charges for garden waste collection, use of residential centres, car parking charges, public toilets, and for pest control.

26. An analysis of a sample of 16 types of charges, from data provided by local audit teams in each council, indicates that from 2016/17 to 2018/19, 11 increased by more than the rate of inflation. Inflation over the two-year period has been calculated at 4.7 per cent. The service charges which showed the highest increases were:

- purchase of grave (lair), where of the 22 councils that had provided information on fees, the average increase was 20 per cent
- adult burial (interment), where 23 councils reported an average increase of 12 per cent
- junior swimming access, where 11 councils reported an average increase of 11 per cent.

Councils' budgets 2017/18

Councils identified some consistent pressures in setting their 2017/18 budgets

27. Councils' 2017/18 budget papers identified some common themes in the pressures that councils were identifying. These include:

- Staff costs – as the single most significant expenditure for councils, changes to staff-related costs can generate significant pressure on budgets. Specific pressures included:
 - Pay inflation was a consistent pressure across councils. The Highland Council identified pay and pensions pressures of £4.2 million (0.7 per cent of its budget).
 - The introduction of the living wage and sleepover arrangements: this affected adult care services particularly. Renfrewshire Council's budget identified this pressure as £2.0 million (0.5 per cent of its budget)
- Other costs – inflationary pressures. Renfrewshire Council identified the ending of commissioned contracts and the renegotiation of new national care home contracts in adult care services as a budget pressure of £1.2 million (0.3 per cent of its budget).
- Financing costs – when a council borrows or invests in assets it can incur additional financing costs that become a new annual budget pressure. The Highland Council budgeted for additional pressures of £4.3 million (0.7 per cent of its budget) (including additional loans charges and unitary charges).



Does your council have a charging policy?

Is it in line with corporate plans and objectives?

When was this last reviewed?

Do you receive sufficient information about the potential impact on the service and wider community when making decisions about changing fees and charges?

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



How do you engage with the budget-setting process and ensure you have the opportunity to influence the development and content of a strategic budget?

- Apprenticeship levy – this is a new levy on bodies of 0.5 per cent of pay bills above £3 million. The Highland Council identified this as a pressure of £1.2 million (0.2 per cent of its budget), East Ayrshire as £0.8 million (0.2 per cent of its budget) and Dundee City Council £1.0 million (0.3 per cent of its budget). Budgets tended not to assume receipt of funding or grants from the Scottish Government or Scottish Apprenticeship Advisory Board in respect of the levy.
- Demand costs – increasing demand for services was noted as a cost pressure. This was most distinct in adult care services. Renfrewshire Council identified this as £1.2 million (0.3 per cent of its budget). East Ayrshire Council agreed to fund demand pressures in adult social care of £2.0 million (0.6 per cent of its budget).

Budgeted net expenditure of £12.4 billion included 'funding gaps' of four per cent

28. Councils' 2017/18 budgets identified total final net expenditure budgets of £12.4 billion. This is after fees, charges and grants are credited to services as budgeted income. These total net expenditure budgets were not fully met by remaining income from core Scottish Government funding, including NDR, and council tax. The shortfall or 'funding gap' was £0.5 billion (four per cent).

Funding gaps were managed by planned savings and temporary use of reserves

29. Councils identified funding gaps of up to six per cent of total revenue, but still managed to present balanced budgets through:

- planned budget savings of £0.4 billion (three per cent of revenue funding). These included management and staff reductions and restructuring, service redesign and procurement
- planned use of £0.1 billion of unearmarked reserves.

Some councils reverted to a temporary planned use of reserves due to the uncertainty presented by the local government elections in May 2017

30. The local government elections in May 2017 had a bearing on some councils' approach to budget-setting. With outgoing administrations and the possibility of changed incoming administrations, officers did not feel able to agree transformational savings plans with outgoing administrations or have confidence that these could be sustained with new incoming administrations. This meant that reserves were used as a short-term contingency to manage funding gaps in 2017/18 until wider transformational plans could be agreed with new administrations. This demonstrates why medium and long-term financial planning is important.

Councils' outturn against their 2017/18 budget was more favourable than planned

31. 2017/18 net expenditure was £12.2 billion compared to the final budget of £12.4 billion. Common themes for this improved position were savings on staff costs and loan charges.

32. As we noted above the planned use of reserves was £105 million. The actual use of revenue reserves was much lower at £38 million and those that planned to use unearmarked General Fund reserves to balance the budget did not need to use reserves in line with their plan.



How does annual budget-setting link to medium and long-term financial planning in your council?



Does your council have a savings plan?

What are the options to close future funding gaps?

How well are you kept informed about progress in delivering those savings?

Overall increases in spending in education and social work were offset by reductions in other services

33. Scottish Government provisional outturn data identified expenditure grew by 1.1 per cent in cash terms, compared to 2016/17. In real terms it fell by 0.6 per cent. There were significant differences in expenditure between services:

- Education expenditure increased by 3.2 per cent (1.5 per cent in real terms). This reflects several national priorities including raising attainment.
- Social Work expenditure increased by 2.4 per cent (0.7 per cent in real terms). This included funding the living wage and demand pressures.
- Other 'non-protected' services fell by 2.6 per cent (4.3 per cent in real terms). This includes environmental services, culture and related services, planning and development services, and roads and transport.



Which service areas are under the most pressure to make savings?

What impact will savings have on the delivery of services and outcomes for service users, the wider community and the local economy?

What are the potential risks?

Part 2

Councils' financial position



Key messages

- 1** Eighteen councils drew on their usable reserves in 2017/18, overall by a relatively small amount.
- 2** Some councils have relatively higher levels of debt for their size.
- 3** Local policies vary on whether cash and investments are held to support reserves. This could increase the need for further future borrowing.
- 4** Capital expenditure in 2017/18 decreased by five per cent in real terms. Housing and education were the main areas of investment. Despite this the number of social houses provided by councils continues to fall.
- 5** Some councils have had significant increases in their debt positions.
- 6** There were delays with the valuation of pensions liabilities in councils across Scotland in 2017/18, but the net pension liability has reduced substantially in 2017/18.
- 7** Management commentaries in councils' accounts should do more to explain financial outturn against budget.

in 2017/18, councils drew on their usable reserves by £18 million, a relatively small element of usable reserves

Councils' financial position

In 2017/18, councils drew on their usable reserves by £18 million, a relatively small element of usable reserves

34. In last year's overview report we noted that more councils were drawing on their usable reserves. This trend continued in 2017/18, with 18 councils ending 2017/18 with lower levels of usable reserves than they had at the start of the year. In 2016/17, 20 councils were in this position.

35. Some councils added to their usable reserves including South Lanarkshire (increased by £15 million, 15 per cent), Stirling (increased by £6 million, 22 per cent) and Dundee (increased by £7 million, 35 per cent), due to significant in-year surpluses relative to the usable reserve balance. One council had a significant reduction in usable reserves: Aberdeen City reduced its usable reserve by £21 million (25 per cent), through a combination of a General Fund deficit and using part of its capital reserve.



What is the council's reserve policy?

What have reserves been used for in recent years?

Supporting services and bridging the funding gap or transforming services?

36. It is important that councillors are aware how usable reserves are being used each year, especially where the cumulative scale of this is potentially significant to financial sustainability. Northamptonshire County Council, in its 2017/18 financial statements, identifies that 'financial pressureshave led to a position where the council has had to utilise almost all of its General Fund (£12 million) and earmarked reserves (£5.5 million) in order to deliver a balanced year-end outturn for 2017-18.' Our analysis based on 2018/19 budgets and levels of General Fund reserves indicates there are no short-term concerns in Scottish councils.

The overall total General Fund position is consistent with 2016/17 at £1.15 billion

37. Usable reserves held by councils totalled £2.4 billion. This includes General Fund balances and other statutory reserves. Within this total the General Fund balance remains relatively unchanged from 2016/17 at £1.15 billion. The nature and value of usable reserves are shown in [Exhibit 6](#).



What are the different types of usable reserves your council holds?

Do you know what these can be spent on?

Is it clear that the reserves are needed for the purposes they are assigned?

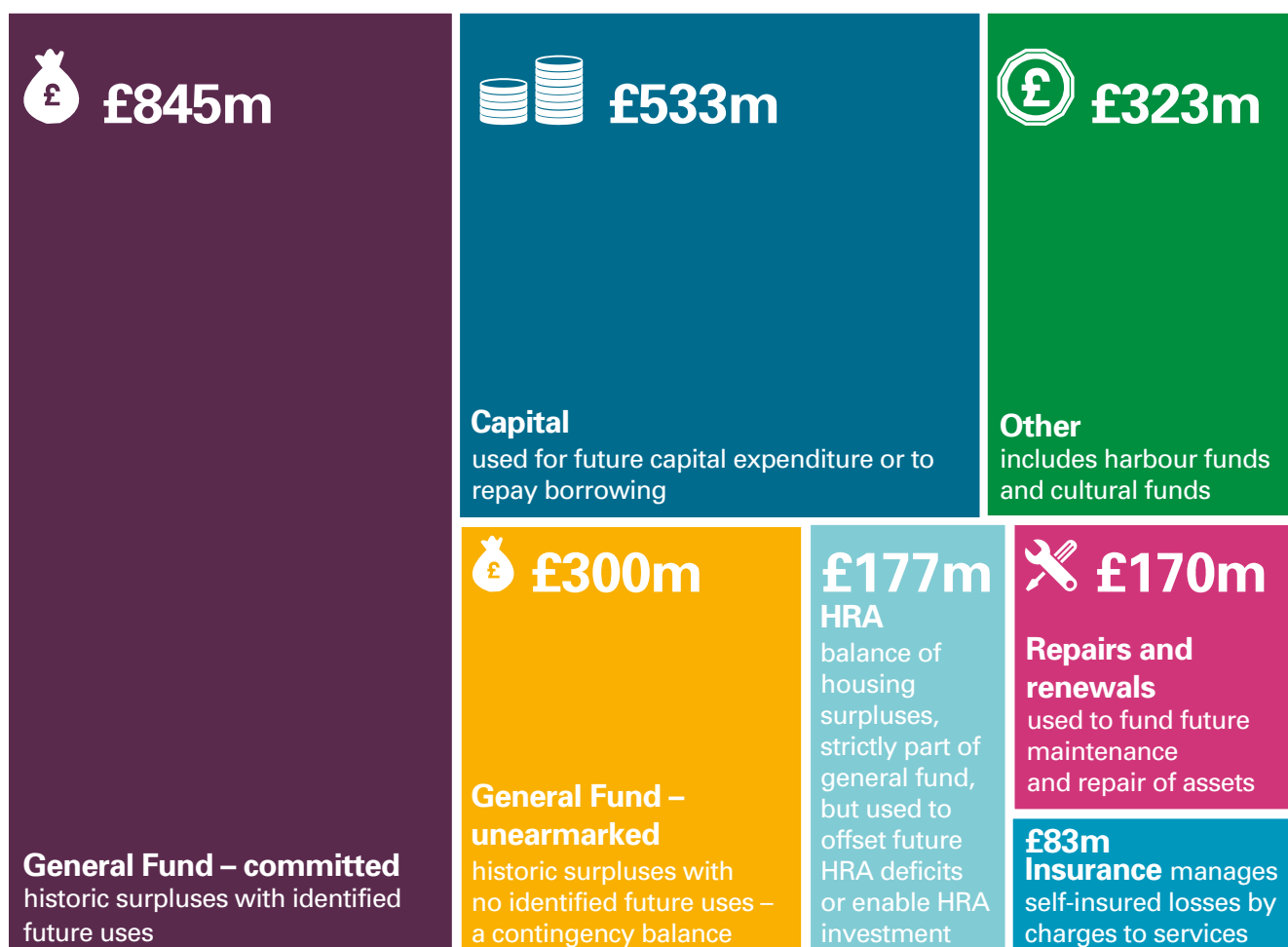
Are the reserves sufficient for those purposes?

Could the reserves be better used for something else?

Exhibit 6

The relative size and nature of council's usable reserves


In 2017/18, usable reserves held by councils totalled £2.4 billion.



There is significant variation in the relative size and the nature of reserves held

38. Councils adopt different strategies for creating and managing their reserves, with some councils operating significant capital funds with associated investment plans. This provides a significant variation in the nature and extent of funds held ([Exhibit 7](#)). Councillors should scrutinise the nature, extent and timing of plans for using specific and committed funds to ensure that these remain valid, appropriate and reasonable.

Some councils have relatively higher debt than others

39. Councils' **net debt**  varies by between 45 per cent of annual revenue in Shetland to 203 per cent in West Dunbartonshire ([Exhibit 8, page 21](#)). Higher levels of debt lead to higher annual costs of servicing this debt and councils need to ensure this is affordable. West Dunbartonshire has total debt of £535 million offset by cash assets of £22 million. This is a net external debt of £513 million compared to annual revenue of £253 million (from council tax, NDR, revenue support grant and dwelling rents).



Gross debt/net debt:

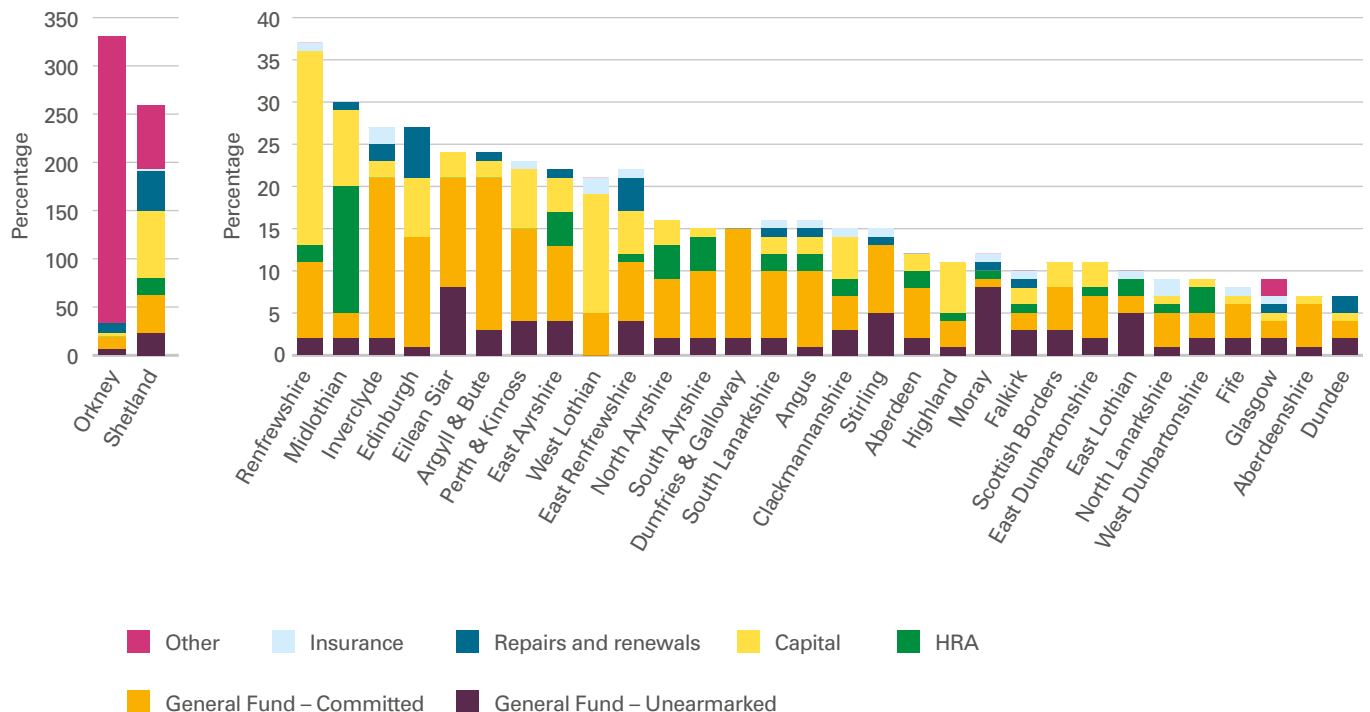
Gross debt is the total outstanding borrowing and the liabilities associated with PFI/PPP/NPDO and HuB schemes.¹ This includes both long and short-term balances.

Net debt is 'gross debt' less any cash or investments, which form part of the council's overall approach to treasury management.

Exhibit 7

Usable reserves as a percentage of council annual revenue

There is significant variation in the relative size and the nature of reserves held.



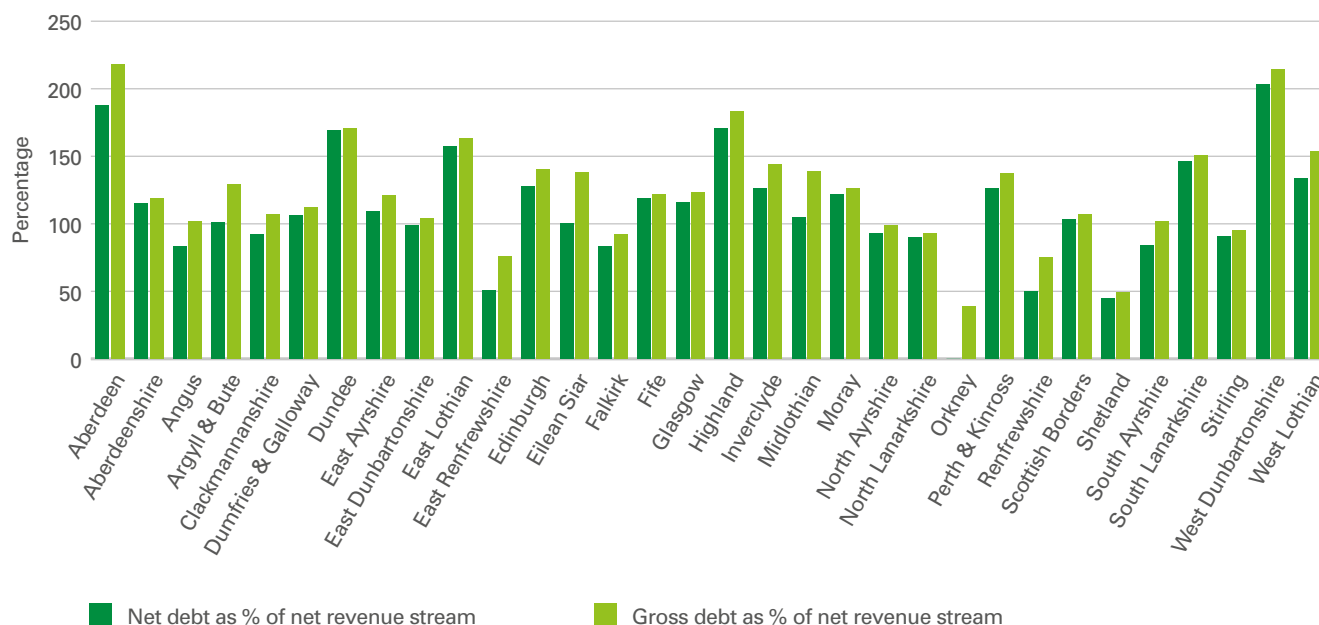
Source: Audited financial statements 2017/18 (Orkney and Shetland have reserves which are above 250 per cent of their annual revenue)



Exhibit 8

Council gross and net external debt compared to its annual revenue

Councils' net borrowing varies between 45 per cent of annual revenue in Shetland to 203 per cent in West Dunbartonshire.




Note: NRS is the net revenue stream, ie the net spending used for day-to-day delivery of council operations.

Source: Audited financial statements 2017/18 (Orkney is excluded as it has net investments)



Councils don't always have cash to support reserves and might need to borrow further

40. Thirteen councils have significant cash or investments that can be used to support the reserves position ([Exhibit 9, page 22](#)): spending reserves would reduce the cash or investments held. However, other councils have chosen in the past to use their cash or investments to fund capital spending rather than take on further borrowing. This means that some councils would need to borrow further over the longer term to provide the cash to spend on commitments identified in their reserves. This borrowing would increase their 'underlying' debt position from the position shown in [Exhibit 9](#).

41. Councillors should be aware of the current borrowing position and the potential need for future borrowing when agreeing authorised borrowing limits as part of the [prudential code](#) .

Capital spending in real terms reduced by five per cent in 2017/18

42. In real terms, capital expenditure decreased by £138 million (five per cent) between 2016/17 and 2017/18 to £2,698 million. [Exhibit 10 \(page 22\)](#), illustrates the level of capital expenditure across the main services areas. The majority of investment is in schools' estate, new social housing and major refurbishment of social housing.



What is the council's current debt position?

Do you have clear information about the potential need for future borrowing when agreeing authorised borrowing limits?

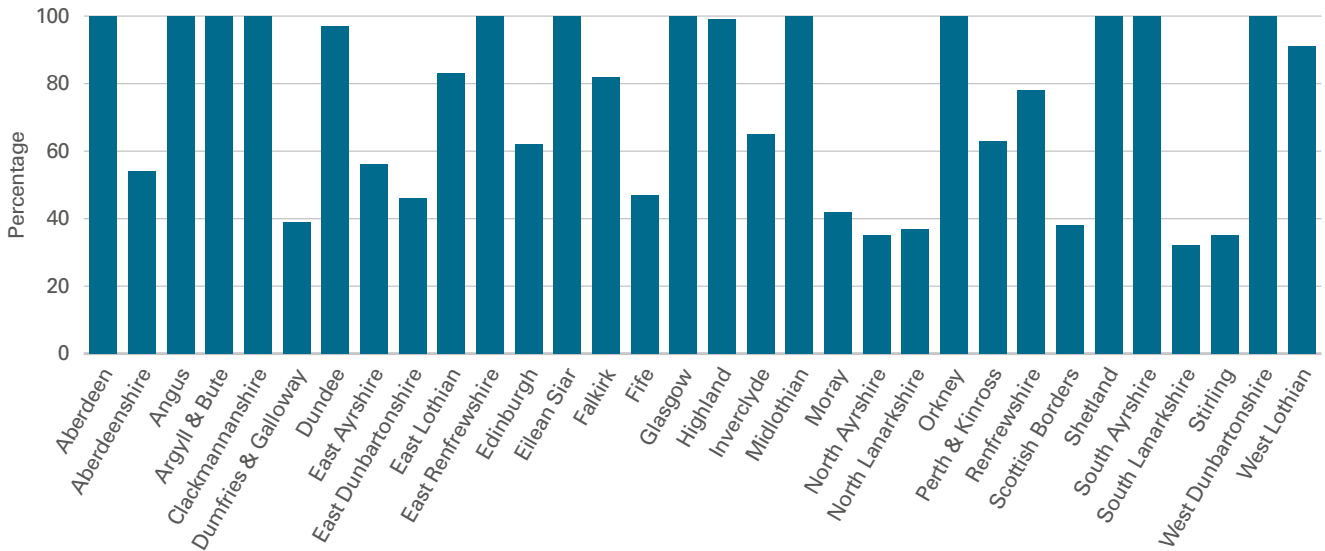
What share of the council's budget is taken up with interest payments and debt repayment?

What proportion of the council's debt is linked to inflation or at fixed rates? What does this mean for longer-term affordability?

Exhibit 9

Extent that usable reserves are represented by cash or investments

Thirteen councils have significant cash or investments that can be used to support the reserves position.



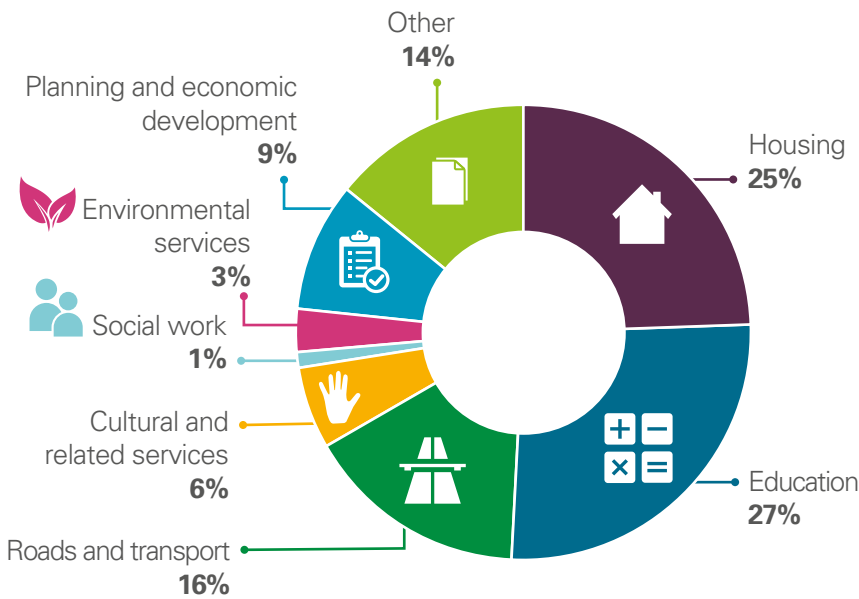
Source: Audited financial statements 2017/18 (100 per cent shown as max. amount, some councils exceed 100 per cent)



Exhibit 10

Capital expenditure by service area, 2017/18

The majority of investment is in schools' estate, new social housing and major refurbishment of social housing.



Source: Scottish Government POBE provisional outturn by service

Despite investment in social housing overall, numbers of council houses continue to fall

43. Across Scotland, social housing is provided by a mix of housing associations and by councils. In 24 areas, councils continue to be significant housing providers. The number of council houses in Scotland continued to fall slightly in 2017/18, down a further 334 houses (0.1 per cent of stock), although the rate of decrease has slowed. The right-to-buy council housing ended in Scotland on 31 July 2016, but applications submitted by that date are still being processed during 2017/18, with 1,640 sales in the first three quarters of 2017/18. Sales and other contributing factors, such as demolitions, continue to offset the number of new houses being completed by councils (with housing stock). This net movement varied between councils: 16 councils saw a decrease in house numbers and ten increased in 2017/18 (six councils no longer have housing stock following stock transfer).

Government grants and amounts from revenue continue to be the main sources of funding for capital expenditure

44. Sources of capital expenditure funding included ([Exhibit 11, page 24](#)):

- £1 billion of government grants (£138 million or 16 per cent higher than in 2016/17)
- £0.6 billion of internal charges to services (loans fund principal repayments) (£0.7 billion in 2016/17)
- £0.6 billion increase in the underlying need to borrow² (£0.7 billion in 2016/17) with £0.3 billion of this resulting in an increase in external borrowing.

Some councils had significant increases in their net debt position

45. Councils' net debt increased in 2017/18 by £0.6 billion to £15.1 billion. Twenty councils increased their net debt by a total of £0.8 billion, with another 11 councils reducing their net debt by £0.2 billion.

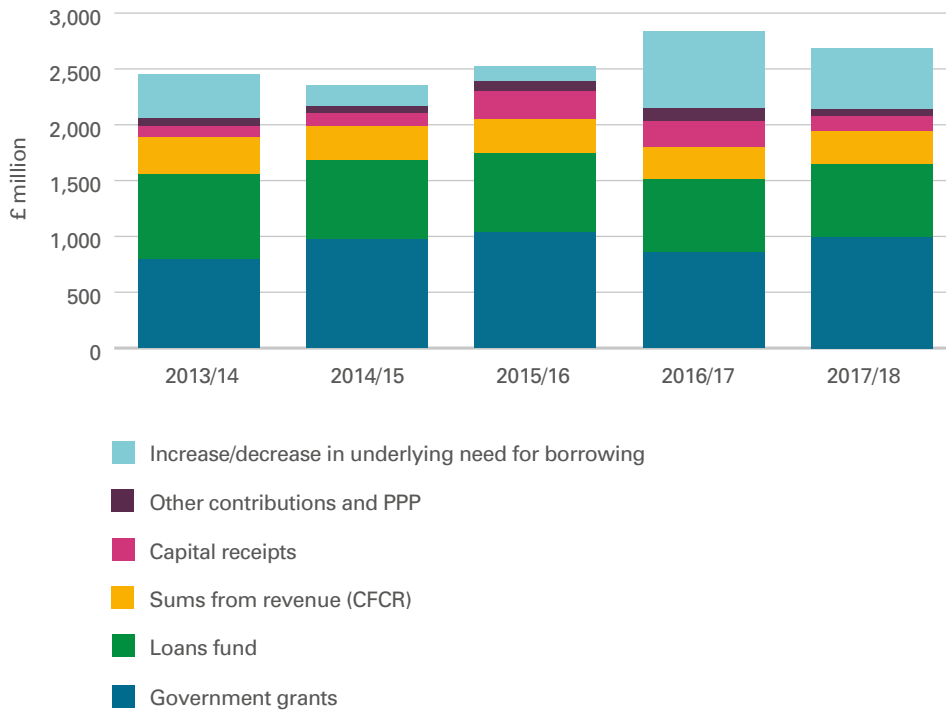
46. The councils with notable increases included:

- Argyll and Bute Council – a £58 million increase (31 per cent) due to increase in primary school finance leases and increased long-term borrowing.
- Aberdeen City Council – with the largest increase in net debt of £211 million (28 per cent) represented by a reduction in investments and an increase in finance leases, associated with Marischal Square and the ongoing capital investment and use of reserves to support delivery of the transition to its 'Target Operating Model'.
- Perth and Kinross Council – increased debt by £75 million (21 per cent) represented by an increase in long-term borrowing for capital expenditure.

Exhibit 11

Sources of funding for capital expenditure, 2013/14 to 2017/18 (real terms)

Government grants and amounts from revenue continue to be the main sources of funding for capital expenditure.



Source: Audited financial statements, sources of capital financing in real terms 2017/18 prices



Other key elements in the audited financial statements

There were delays with the valuation of pensions liabilities in councils across Scotland in 2017/18

47. Councils account for their share of the Local Government Pension Funds (LGPS) in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme’s actuary. Actuarial reports across Scotland used estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns, as a result of significant changes in markets. This resulted in pension fund assets reported in the council’s balance sheet being understated in the unaudited accounts. This issue was corrected in the majority of audited accounts across Scotland.

48. In updating the IAS19 report, an actuary also identified an omission in the original calculation of liabilities in three councils resulting in an increase to the council’s net pension liability.

49. This issue affected councils and a significant number of subsidiary bodies that are also members of the LGPS.

The net pension liability has reduced substantially in 2017/18 compared to 2016/17

50. In 2017/18, councils' total net pension liabilities in the Scottish Local Government Pension Scheme (LGPS) reduced by 43 per cent from £11.5 billion in 2016/17 to £6.6 billion in 2017/18. All councils reduced their liability, except for Aberdeen City Council. This significant improvement was due to:

- an increase in pension fund assets of £1.1 billion, an increase of four per cent
- a reduction in scheme liabilities of £3.8 billion due to reductions in life expectancy, lower than assumed salary increases and increases in the discount factor used to value future benefits, based on bond rates.

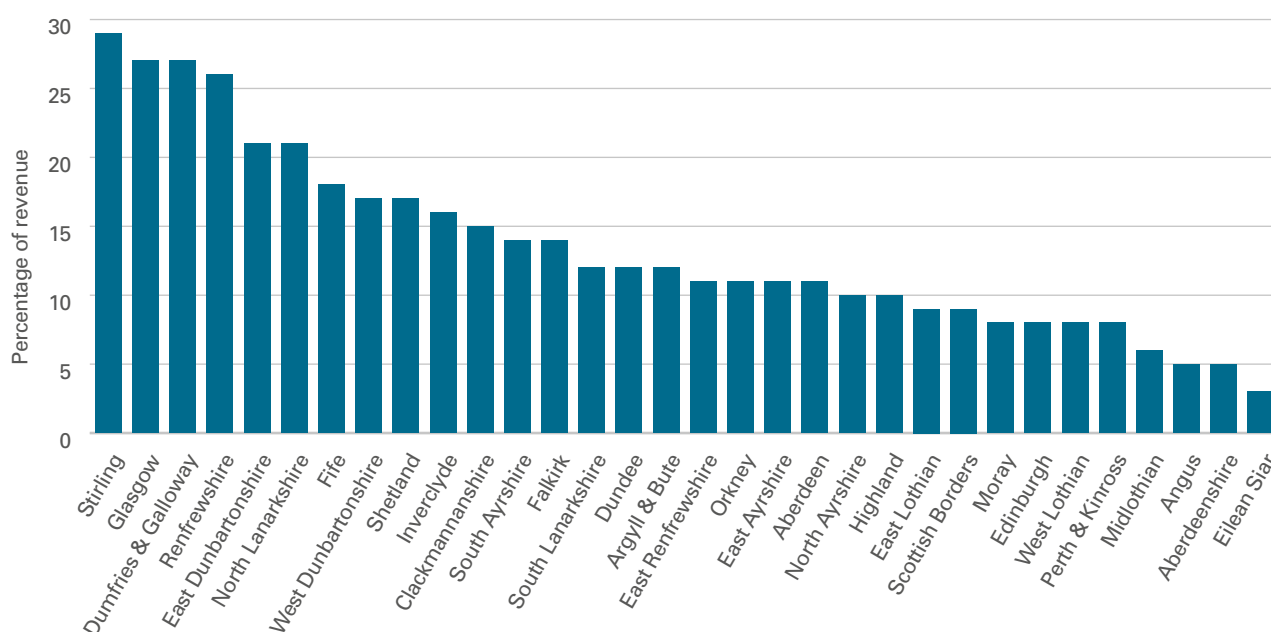
Unfunded LGPS liabilities vary significantly across councils

51. Unfunded liabilities are amounts that are not met by the Local Government Pension Schemes, but by individual employers. These can occur when an employer approves an early retirement, without actuarial reduction or with enhanced pension. [Exhibit 12](#) shows that value of these unfunded benefits as a percentage of the annual revenues of each council. These ongoing commitments can represent annual payments of one to two per cent of revenue.

Exhibit 12

The total liability for LGPS unfunded liabilities as a percentage of annual council revenue


The amounts councils are committed to pay to pension funds for historic early retirements over the medium to long-term varies significantly.



Source: Audited financial statements 2017/18 and IAS19 valuation reports by actuaries



Glasgow City Council reports additional financial pressures that may arise from further equal pay claims

52. In our *Equal Pay in Scottish councils*  report, we identified that all employers have a legal responsibility to ensure that women and men receive equal pay for equal work. In 1999, Scottish councils and trade unions reached the Single Status Agreement to harmonise local government pay and employment terms and conditions and eliminate pay inequality. Implementing the Single Status Agreement was a complex process that required all councils to undertake a large-scale job evaluation exercise. Councils underestimated the risks in this process and legal challenges continue to identify further issues.

53. Glasgow City Council has identified a new contingent liability³ disclosure in 2017/18 for equal pay claims, which it is unable to estimate. This is based on a May 2017 ruling by the Court of Session on pay protection claims, affecting around 8,000 claimants and an August 2017 ruling on the council's Job Evaluation Scheme. This will take time to resolve and the potential scale is likely to be significant and impact on the council's financial planning.

Financial management, governance and transparency

Management commentaries could do more to explain council outturns in the accounts

54. Auditors' reviews of accounts are increasingly concerned with the transparency and clarity of the narrative contained within the management commentary that accompanies the financial statements. There are a few key aspects to an assessment of whether financial reporting is transparent in the narrative:

- Is the outturn against budget position for the year clearly shown with the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in General Fund contained in the financial statements and major differences explained?
- Some councils do not specifically report on progress against agreed savings in their accounts. Therefore, it is difficult to demonstrate if planned savings were achieved. Councils that did report this said they achieved 105 per cent of their planned savings.

55. We identified Comhairle Nan Eilean Siar's management commentary as an example of good practice. Financial performance in 2017/18 was clearly identified in the management commentary. This included the income, expenditure and surplus/deficit positions for significant elements of the council's budget that was consistent with overall movements on the General Fund.

56. There were improvements in this area in 2017/18. However, there are still circumstances where these basic expectations of transparency are not met and the financial outturn in the management commentary does not help the reader understand clearly how the council has performed against budget and how this is reconciled to the accounts.



Do budget monitoring reports clearly explain financial performance against plans and any changes to plans, including the reasons for change?

Does the management commentary clearly explain the council's financial performance and the changes to plans and reasons for those changes?

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


Part 3

Integration Joint Boards' overview 2017/18



Key messages

- 1** Funding to the IJBs increased in 2017/18 by three per cent in cash terms. Most of this additional funding came from the NHS and includes additional Scottish Government funding to the NHS for IJBs of £107 million.
- 2** The majority of IJBs have underlying financial sustainability issues, with 11 out of 30 incurring deficits in 2017/18. A further eight would have incurred deficits without additional ('deficit') funding from their partners.
- 3** Reserve positions vary enormously between IJBs.
- 4** Medium-term financial planning is not used by most IJBs and further improvements to financial management should be introduced.

57. Funding to the IJBs increased in 2017/18 by three per cent in cash terms. Including additional Scottish Government funding to the NHS for IJBs of £107 million. IJBs were established as a result of the Public Bodies (Joint Working) (Scotland) Act 2014 (the Act). They are partnerships between NHS boards and councils and are responsible for the delivery of adult health and social care, and in some council areas, for other services, such as children's services. We reported on progress in November 2018 in our report, [Health and social care integration – update on progress](#) .

58. In 2017/18, IJBs were responsible for directing £8.3 billion of health and social care resources, money that was previously separately managed by councils and NHS boards. In total, 29 per cent or £2.4 billion of IJB funding was allocated from councils, and £5.9 billion or 71 per cent from the NHS ([Exhibit 13, page 28](#)).

59. The total resources available to IJBs has increased by three per cent, in cash terms, from £8.1 billion in 2016/17. The majority of this £240 million was allocated from the NHS:

- £107 million was provided by Scottish Government to the NHS to direct towards social care services delivered by councils.
- In some cases, NHS boards directed additional funding to address overspends in prescribing.

the majority of IJBs have underlying financial sustainability issues



What is the IJB's financial position? Is it financially sustainable?

What are the levels of reserve held by the IJB?

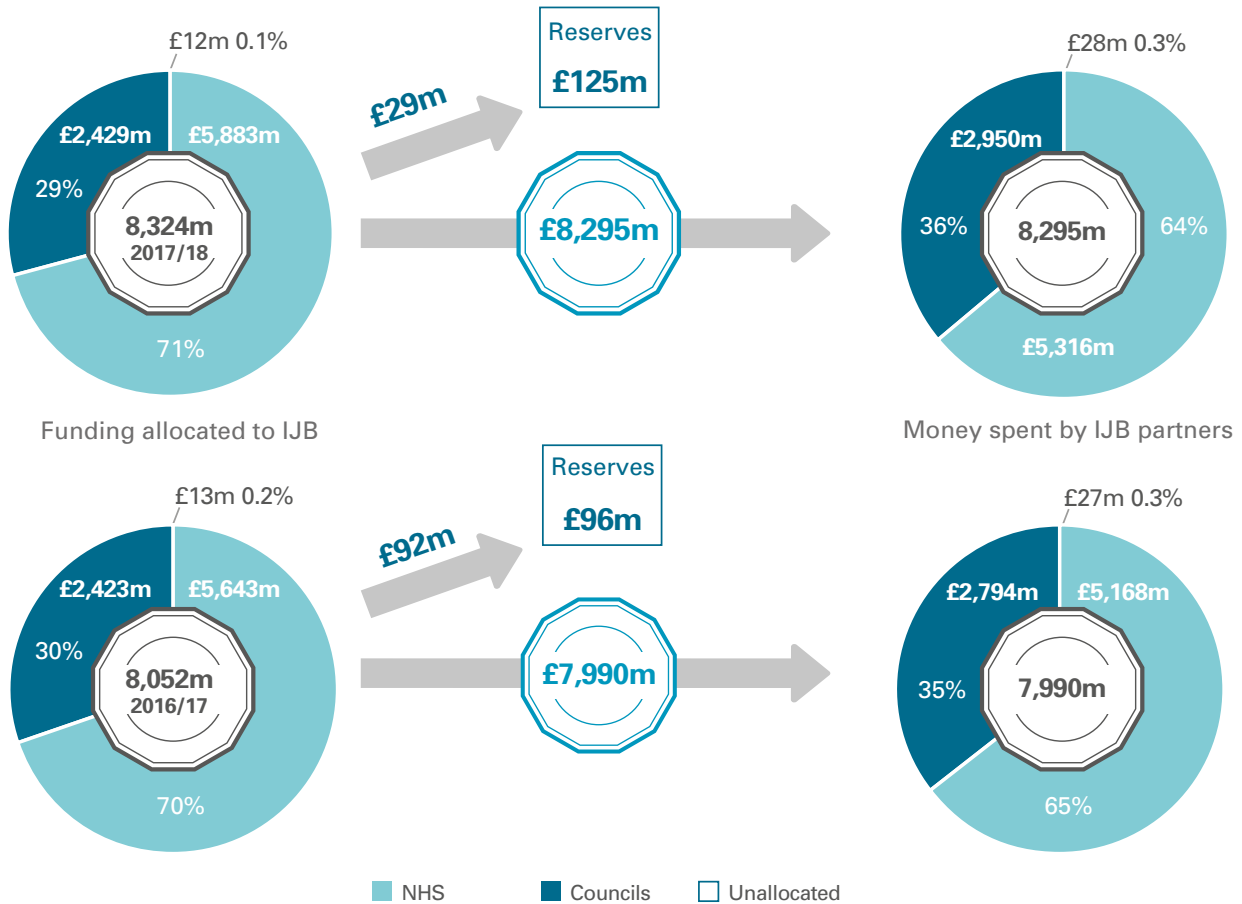
Are these in line with the IJB's reserve policy?

What does the IJB's financial position mean for the council and for the delivery of services?

Exhibit 13

Income and expenditure of Integration Joint Boards in 2016/17 and 2017/18

IJBs spent £8.3 billion on delivering health and social care services in 2017/18, 3.8 per cent (£305 million) more than in 2016/17. Of this 36 per cent was spent by councils and 64 per cent by the NHS.



Note: Some aspects of funding and expenditure is not attributed to either NHS or councils in a few audits. This represents about £15m and £12m of income in 2016/17 and 2017/18 respectively and around £28m of expenditure in both years.

Source: IJB audited accounts

60. IJBs spent £8.3 billion on delivering health and social care services in 2017/18, 3.8 per cent (£305 million) more than in 2016/17. Of this, 36 per cent was spent by councils and 64 per cent by the NHS.

61. The aim of the reform is to meet the challenges of Scotland’s ageing population by shifting resources to community-based and preventative care at home, or in a homely setting. Therefore, it would be reasonable to expect the difference between what the NHS allocates to IJBs and what it receives for acute services to increase. In 2017/18, the difference was 6.6 percentage points compared to 5.1 percentage points in 2016/17, but this does not necessarily represent any operational shift in how services are provided.

The majority of IJBs have underlying financial sustainability issues and without year-end support from partners, 20 out of 30 would have reported deficits

62. Fourteen IJBs had a surplus in 2017/18 compared to 23 in 2016/17. Those with a surplus added a further £42 million to their reserves (£95 million in 2016/17). This does not properly identify the underlying position, as 19 IJBs had additional funding from their partners, which improved their outturn position by £51 million. Without additional funding, a further eight IJBs would have reported a loss in 2017/18, rather than the 11 that did. Eight of the IJBs drew on reserves from previous years to meet in-year deficits.

63. Auditors report that prescribing costs and adult social care costs appear to be the main reasons for overspends. Auditors noted that in NHS Greater Glasgow and Clyde a 'risk-share' agreement on prescribing pressures with the health board has ended in 2017/18 and this will present IJBs in that area with greater financial risk in 2018/19.

Reserve positions vary enormously

64. The total of reserves held by IJBs has grown from £96 million in 2016/17 to £125 million over 2017/18, and now represents 1.5 per cent of total income (compared to 1.2 per cent in 2016/17).

65. IJBs hold reserves for two main purposes that assist strategic financial management and risk management:

- to earmark, or build up, funds which are to be used for specific purposes in the future
- to provide a contingency fund to cushion the impact of unexpected events or emergencies.

66. Forty per cent of the total reserves are held by two IJBs: £31 million in Glasgow and £18 million in North Lanarkshire. Comhairle nan Eilean Siar has the highest reserve relative to its income at ten per cent ([Exhibit 14, page 30](#)). North Ayrshire is unusual in having a negative reserve of £5.8 million.

67. The auditor for North Ayrshire IJB highlighted concerns that 'in the medium term, the IJB is faced with an extremely challenging financial position'. In line with many other IJBs, it has not achieved short-term financial balance, but it has not been deficit funded by its partners.

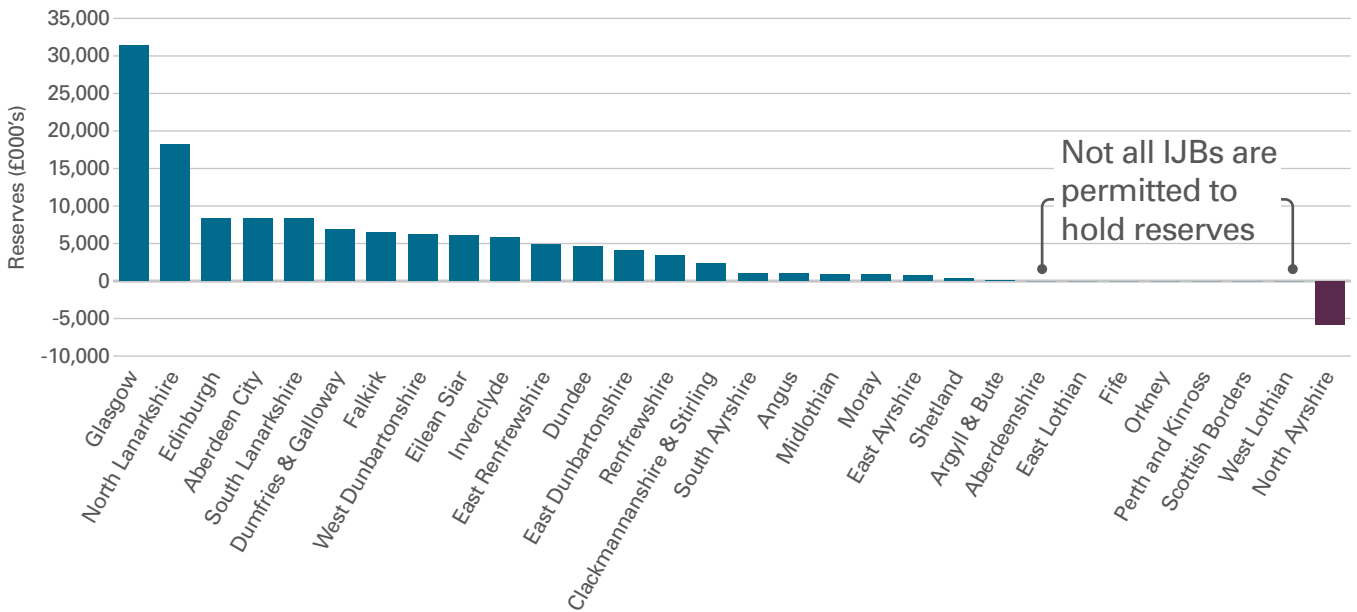
Funding gaps in 2018/19 are significant in IJBs and many do not have balanced budgets

68. Most auditors identified significant financial pressures in 2018/19 in their 2017/18 annual audit reports. The estimated funding gap for IJBs in 2018/19 was £248 million (three per cent of total income). Which is greater than identified in councils. Twelve of the IJBs still do not have balanced budgets for 2018/19 and a further four plan to incur deficits which will be met by accumulated reserves. We reported in November 2018, that these financial pressures make it difficult for IJBs to improve services.

Exhibit 14

Integration Joint Board reserves

Forty per cent of the total reserves are held by Glasgow and North Lanarkshire. North Ayrshire is unusual in having a negative reserve of £5.8 million.



Source: Audited financial statements 2017/18



IJB financial planning and financial management should be further improved

69. Only a third of IJBs have a medium-term financial plan, typically covering three years, and there is no evidence of longer term-financial planning.

70. Auditor’s identified issues with financial management in the IJBs including:

- a lack of agreement or a late agreement of budgets
- poor financial monitoring due to delays and inaccuracies during the year
- instances where the projected outturns forecasts during the last quarter of 2017/18 were very different from those actually achieved.

71. As we reported in our [Health and social care report](#) these are fundamental issue which will limit the ability of Integration Authorities to improve the health and social care system.

Part 4

Councils' financial outlook



Key messages

- 1** In 2018/19, Scottish Government revenue funding to local government increased by 0.2 per cent after two years of real-terms reductions.
- 2** The Scottish Government published a five-year financial strategy in May 2018, but multi-year budgets are not yet being developed. The financial strategy identifies greater future uncertainty and likely further reductions of nine per cent in real terms over the next five years in 'other non-protected' council funding.
- 3** Many councils are in the early stages of delivering transformational change.
- 4** Medium-term financial planning has been adopted by almost all councils, but less than half have significant long-term plans over five years.
- 5** Councils expect to manage smaller funding gaps in 2018/19 of £0.3 billion (two per cent), with all 32 councils raising council tax rates by three per cent in 2018/19. There are no councils where the budgeted use of reserves is a critical issue over the next three years.
- 6** The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks, as far as possible.

councils expect to manage smaller funding gaps in 2018/19 of £0.3 billion (two per cent)

Council future funding

Scottish Government revenue funding to local government increased by 0.2 per cent

72. The Local Government Settlement in 2018/19 increased by 1.7 per cent (cash terms) from 2017/18 to £9.8 billion. This was a real-terms increase of 0.2 per cent ([Exhibit 15, page 32](#)).

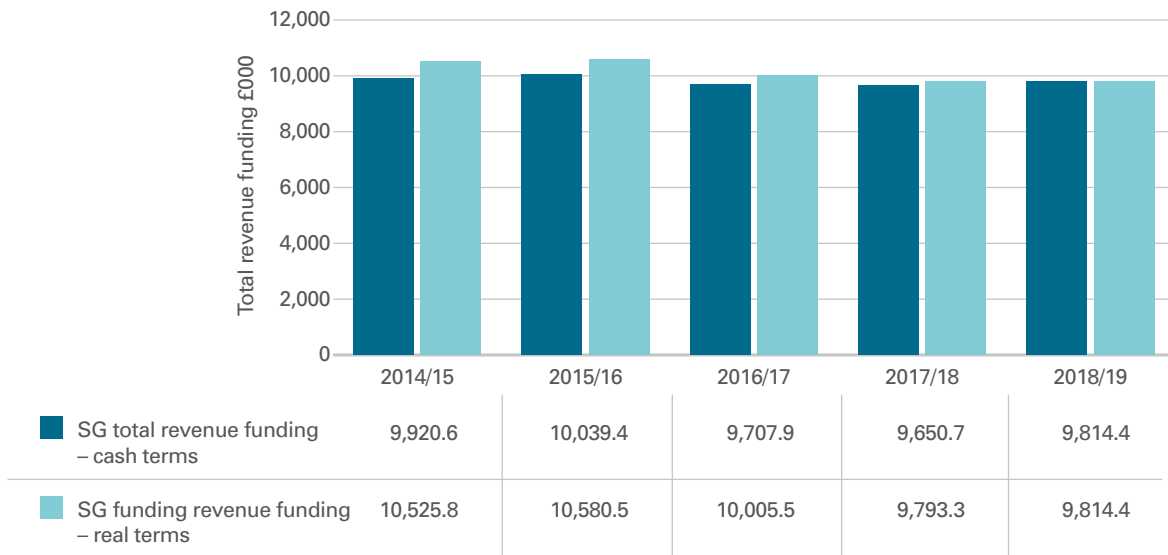
An increase in the 2018/19 settlement was late and the early payment of £35 million in 2017/18 reduced transparency in the funding available between the two years

73. On 31 January 2018, the Scottish Government announced an additional £160 million of general revenue grant funding for local authorities as part of the 2018/19 budget-setting process. Although welcomed by councils, this

Exhibit 15

Scottish Government funding to councils in real and cash terms

Scottish Government total revenue funding to councils increased in 2018/19 after two years of reduction.



Source: Audit Scotland; and Scottish Government financial circulars 2014/15 to 2018/19

announcement was late in the budget planning process (refer to [paragraph 9](#), for comments on late funding allocations). Of the additional £160 million, £35 million was reallocated from projected 2017/18 underspends within the Scottish Government and was paid to councils on 28 March 2018. For accounting purposes, following consultation with auditors, this was treated as 2017/18 income by councils. By paying 2018/19 funding allocations to local authorities in the previous financial year, this reduced transparency in the effective funding for each year to councils and increased the reserves carried by councils at 31 March 2018.

The Scottish Government published a five-year financial strategy in May 2018

74. Funding settlements to councils continue to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term, given such a significant proportion of their income comes from Scottish Government funding. On 30 June 2017, the Budget Process Review Group⁴ published its final report and this included a recommendation that the Scottish Government should develop a medium-term financial strategy. [The Scottish Government's five-year financial strategy](#)  was published in May 2018.

Multi-year budgets are not yet being developed by the Scottish Government.

75. The five-year financial strategy identifies that 'in recent years the Scottish Government has delivered a series of annual budgets, an approach which will continue for the 2019-20 budget process', but also identifies 'an expectation that the next UK Spending Review (in 2019) will ... provide the Scottish Government with the opportunity to develop a multi-year approach to the development of its budgets'.


76. The five-year financial strategy notes that 'as the Scottish Government moves away from being funded primarily through the block grant to a combination of devolved taxes and the block grant, the number of variables which will affect its longer-term funding outlook will increase'. Three key determinants are identified:

- changes in UK Government spending
- UK Government fiscal policy
- Scottish tax revenue relative to the rest of the UK.

77. The analysis suggests that, by 2022/23, the Scottish Budget could be around £37.6 billion, but scenario modelling indicates that the potential range for this could be between £35.5 billion and £39.7 billion, reflecting potential growth in the Scottish Budget between 2017/18 and 2022/23 of between £4.2 billion and £8.4 billion (in cash terms). The range of this variability amounts to around \pm six per cent of the overall budget.

78. The key resource budget commitments of the Scottish Government's social contract are Health, Police, Early Learning and Childcare, Attainment, Higher Education and Social Security. The financial strategy identifies greater future uncertainty and likely further reductions of nine per cent in real terms over the next five years in 'other non-protected' funding.

79. Two of these areas directly increase future local government funding settlements: early learning and childcare and attainment. Early learning and childcare commitments by the Scottish Government include further (recurring) uplifts in funding to councils of £210 million in 2019/20, £201 million in 2020/21 and £59 million in 2021/22. The Scottish Government has assumed a commitment to allocate additional specific revenue grants of £180 million in each of the three years 2018/19 to 2020/21 through the Pupil Equity Fund. However, other expenditure areas (non-protected areas), which are managed by councils, are not identified as a 'key resource budget commitment'.

80. The [SPICe briefing paper](#)  in June 2018, identified that 'The Scottish Government's Budget priority choices inevitably mean that other non-protected areas of spend must take up more of the slack from any future spending reductions. Under the range of scenarios provided by the Scottish Government, "other expenditure" will fall by between one and 16 per cent in real terms over the period to 2022/23, with the bulk of reductions occurring in 2019/20 and 2020/21... under the central scenario, other expenditure will fall in real terms by £1 billion (nine per cent). The largest element by far of "other expenditure" is the non-early learning and childcare part of Local Government.'

Financial pressures and planning

Councils continue to recognise significant financial challenges in the medium term

81. Most councils have identified financial challenges over the next few years including:


- decreasing revenue support grant and capital grant
- EU withdrawal and the risk of inflationary effects
- pay award pressures
- demand pressures, particularly the expected population growth in some council areas and the reduction in the relative proportion of working age to non-working age
- legislative changes which are not funded
- the economic performance of Scotland compared to the rest of the UK.

Many councils are in the early stages of delivering transformational change

82. Over half of councils began a new or refreshed transformation or change programme in the past year and one-third within the past three years. A few councils have yet to establish a programme. Because much of the transformation work is relatively recent it is too early to assess the effectiveness of the approaches taken.

83. The majority of work within transformational or change programmes is focused on service review and improvement work. Cross-organisational themes tend to focus on delivering, for example, staff and management restructures, office and property rationalisations, improvements in HR, payroll and finance systems. Some activity will have been more visible to the public such as digital approaches to customer services, increases in fees and charges, and redesign of waste management services. With funding expected to reduce further in the medium term, councils will need to consider more significant redesigns of how they operate and deliver services.

84. Transformation or change is challenging, and councils have highlighted a few common issues that have contributed to this including the effort and focus over recent years on establishing and progressing the health and social care arrangements with the NHS. Another factor is the long lead time and delays associated with ICT projects. With service and management redesign, the capacity of staff and management has been impacted. Over a third of councils have established training programmes to support transformation and change and over a third of councils have, or have recently agreed, to establish dedicated teams to support their programme.

85. The Accounts Commission recognises that with the financial pressures, councillors need to make difficult decisions. This requires effective political leadership and communications. It is essential that all councillors, not just the administration, work effectively with officers and other stakeholders to identify and deliver necessary savings. It is important that councils engage effectively with their communities about plans for savings and service redesign. We published a report [*Roles and working relationships in councils – are you still getting it right?*](#) , to support councillors in their role.



What is your council's financial position?

What particular challenges does the council face?

What new financial pressures are there for 2018/19 and 2019/20 and how much will these cost?



Does your council have a transformation plan?

Does it set out the aims and objectives and how and when these will be achieved?


Are projects within the transformation programme achieving their aims in terms of service quality, performance and cost?

How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?

Are detailed options appraisals or business cases set out for changes to services planned within transformation activity?

Medium-term financial planning has been adopted by almost all councils, but less than half have significant long-term plans over five years

86. In previous reports we have emphasised the importance of medium and long-term planning to effective financial management. Councils have made good progress: 30 councils now have a medium-term financial plan. Councils' long-term financial planning is not as well developed. Sixteen councils do not yet demonstrate any long-term financial planning, some councils have elements of long-term financial plans evident such as long-term forecasting. Five councils have long-term financial plans that cover ten years or more. Only five of the plans that exceed five years appear to have considered the financial impact of population/demographic/demand changes over the longer term.

87. In the *Best Value Assurance Report on Fife Council*  this year, we identified that the ten-year long-term financial model, based on demand forecasts, is an example of good practice among Scottish councils.

88. Around a third of councils use scenario planning within their medium or long-term financial planning. It is important that councils continue to consider potential funding scenarios and the implications for and options for services in the medium and longer term. Transformational change plans are likely to cover a number of years and should be consistent with financial planning. Financial plans should also consider the impact of demand changes over the longer term.

Councils' budgets 2018/19

Councils expect to manage smaller funding gaps in 2018/19 of £0.3 billion (two per cent)

89. Council's 2018/19 budgets identified total net expenditure budgets of £12.2 billion. These were not fully met by the remaining income from core Scottish Government and council tax. The shortfall or 'funding gap' was £0.3 billion (two per cent). The extent of funding gaps and savings plans is less in 2018/19 than 2017/18 and councils did not plan to use unearmarked reserves to support revenue budgets as they did in 2017/18.

90. All 32 councils raised council tax rates by three per cent in 2018/19, providing budgeted income of £2.5 billion.

91. In the 2018/19 budgets, all 32 councils increased council tax by the maximum three per cent, making the highest Band D rate, in Glasgow, at £1,286 and the lowest, in Eilean Siar, at £1,086.

Funding gaps are to be managed by planned savings, temporary use of reserves and additional fees and charges.

92. Councils presented balanced budgets with proposals to bridge the expected funding gap through:

- planned budget savings of £75 million (0.6 per cent of revenue funding)
- planned use of around £71 million of unearmarked reserves (0.9 per cent of net expenditure)
- increased fees and charges
- council tax increases.



Does the transformation programme of work aim to make positive change to improve outcomes for communities?

Is it about seeking opportunities to do things differently to maintain or improve performance or is the focus only on make savings?



Does your council have a long-term financial strategy (ten years or more) that reflects the anticipated changes in demographics and demands on services?

Do medium and long-term financial plans include a range of potential funding and financial scenarios?

Funding gaps vary between councils, there are no councils where the budgeted use of reserves would deplete them within three years

93. The number of councils budgeting to use unearmarked reserves in 2018/19 has reduced from 23 (in 2017/18) to 18. Last year we reported that three councils would run out of General Fund reserves within two to three years if they continued to use them at the levels planned in 2017/18. We are pleased to note that there are no councils in this position in 2018/19, with councils generally reducing their planned reliance on unearmarked General Fund reserves.

Withdrawal from the EU

94. The UK will leave the European Union (EU) on 29 March 2019. If the UK Government and EU agree the terms of the UK's withdrawal before this date, there will be a transition period to the end of 2020. Preparations for EU withdrawal across councils vary. Approaches commonly include monitoring and inclusion in risk registers as well as briefings and report to councillors. Some councils also reflect the risk in corporate and financial plans. Several councils have established working groups to focus on this issue.

95. If the UK Government and EU fail to agree arrangements for the UK's exit from the EU, there will be no transition period and organisations will need to respond immediately. There is an urgent need for all councils to identify the associated risks. It is critical they have contingency plans in place to allow them to manage these risks and respond rapidly in the event of the UK leaving the EU with no transition period.

96. The Scottish Government and COSLA are working with NHS boards, councils and other public bodies to draw together information on their workforces. This will be used to assess the potential impact of EU withdrawal on the delivery of services.

97. Audit Scotland produced a paper [*Withdrawal from the European Union, Key audit issues for the Scottish public sector*](#) , October 2018. We will consider further the implication of EU withdrawal for Scottish local government in our overview report *Local government in Scotland: Challenges and performance*, in March 2019. We have included questions from this key issues paper in [*Supplement 1: Scrutiny tool for councillors*](#)  accompanying this report.



What is the likely use of unearmarked reserves for 2018/19?

How does the remaining unearmarked reserve compare to forecast funding gaps?

What are the plans for using different reserve funds in 2019/20 and beyond?

Are these plans appropriate and reasonable?



What planning and measures has your council undertaken in preparation for EU withdrawal?

What are the risks and potential impacts of EU withdrawal for the functions of your council and for the wider communities of your council area, in terms of workforce, regulation and funding?

Endnotes




- 1 PFI/PPP/NPD/HuB - PFI is an approach financing public infrastructure where the private partner finances, designs, builds, and operates the infrastructure asset. PPPs, on the other hand, may refer to a wider range of public-private collaboration, and include several business structures and partnership arrangements such as joint ventures, concessions, outsourcing, and PFI. PFI and PPP generally involve a long-term contractual agreement between the public and private sectors with financing and risk sharing by the private partner. Scotland's Non-Profit Distributing (NPD) model is a type of PPP agreement. It differs from the PFI model in that that private sector returns are capped and any excess profit goes back to the public sector. NPDs also promote enhanced governance and transparency through the appointment of a public interest director to the project company.
- 2 An increase in the underlying need to borrow could be funded by a council over the short/medium term from working capital including reduced cash and investments. It may not result in external borrowing in year. In fact, many councils chose not to borrow as they did not consider current borrowing rates to be favourable.
- 3 Contingent Liability – a possible obligation that arises from past events and will be confirmed only by the occurrence or nonoccurrence of one-or more uncertain future events not wholly within the control of the council.
- 4 The remit of the group was 'to carry out a fundamental review of the Scottish Parliament's budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016'.

Local government in Scotland Financial overview 2017/18

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ISBN 978 1 911494 79 9