



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

**TUESDAY 26 NOVEMBER 2019  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

Councillor J Henderson (Convener)  
Councillor S Currie  
Councillor F Dugdale  
Councillor G Mackett  
Councillor K Mackie  
Councillor K McLeod  
Councillor J Williamson

**Other Elected Members Present:**

Councillor J Goodfellow (Item 1)  
Councillor J McMillan (Items 1 – 5)

**Council Officials Present:**

Mr A McCrorie, Chief Executive  
Ms M Patterson, Depute Chief Executive  
Mr J Lamond, Head of Council Resources  
Mr T Reid, Head of Infrastructure  
Mr D Proudfoot, Head of Development  
Ms S Fortune, Chief Operating Officer - Finance  
Mr P Vestri, Service Manager – Corporate Policy & Improvement  
Mr B Moffat, Service Manager – Transport & Waste  
Mr D Stainbank, Service Manager – Internal Audit  
Mr S Allan, Senior Auditor  
Mr P Moore, Senior Auditor  
Mr R Baty, Business Development Manager  
Mr S Kennedy, Emergency Planning, Risk and Resilience Officer

**Clerk:**

Miss F Currie

**Visitors Present:**

Ms E Scoburgh, Audit Scotland

**Apologies:**

Councillor C Hoy

**Declarations of Interest:**

None

The Clerk advised the Committee that due the General Manager of Enjoyleisure was unable to attend today's meeting and the report on Enjoyleisure's performance in 2018/19 (Item 4 on the Agenda) would be continued to the Committee's next meeting.

**1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 17 SEPTEMBER 2019**

The minutes of the Audit and Governance Committee meeting held on 17 September 2019 were approved as a true record, subject to one amendment:

- **Item 1 (Area Partnerships)** – The Convener requested that paragraph 6 be amended to reflect that the review of Area Partnerships was not a formal undertaking but rather an informal look at progress during the past five years.

**2. INTERNAL AUDIT REPORT – NOVEMBER 2019**

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of Internal Audit reports issued and follow-up work completed since the last meeting of the Committee and providing an update on the progress against the 2019/20 annual audit plan.

Duncan Stainbank, Service Manager – Internal Audit, presented the report outlining the purpose of the audits and indicating that as a result of this work an assessment of 'limited assurance' had been given on Fixed Assets; 'reasonable assurance' on both Payroll Deductions and Risk Management; and 'moderate assurance' on IR35 (Off-payroll Workers in the Public Sector). He summarised the main findings of each audit, highlighting areas where controls were met and those with scope for improvement. Officers responded to questions from Members.

**Fixed Assets**

Sarah Fortune, Chief Operating Officer (Finance), advised that the completion date of August 2020 for most of the recommendations was chosen as it aligned with the preparation of the annual accounts. However, work to address the actions identified by the audit was already taking place and would continue in the intervening period with final outcomes being reflected in the annual accounts in August 2020. She confirmed that discussions had taken place with Internal Audit to look at improvements to processes and that while not all actions were the responsibility of the Finance Team, officers from within the Team would coordinate and drive forward the work on the recommendations.

Councillor Currie asked about the inclusion within the report of any mitigating measures which had been put in place, particularly in the case of recommendations assessed as high risk. The Convener accepted his point and agreed that it was important to show action being taken and more detail would be helpful.

Jim Lamond, Head of Council Resources, acknowledged Members' concerns. He suggested that it may be more of an issue of how information was presented rather than any deficiencies in action, nonetheless it was clear that the current format did not give adequate assurance to Members. He agreed to give further consideration to this issue.

Referring to the wording of recommendation 3.2.1, Tom Reid, Head of Infrastructure, explained that currently information on Council assets was held on several different

systems; some of which required upgrading. Research would be required to identify a system which could hold all of this information in one place and such a system would be likely to incur a considerable cost. Ms Fortune agreed with Mr Reid and added that a review would have to be undertaken as to whether moving all information to one system would be likely to deliver substantive benefits to offset the potential cost.

Mr Stainbank confirmed that no issues had been identified during the audit which were material to the annual accounts.

Councillor McLeod asked if, when a follow up report was provided, it could include the previous Executive Summary to better demonstrate if progress was being made.

Mr Stainbank agreed to consider this when presenting the follow up report on Fixed Assets. The Convener thanked him and agreed that a comparison would be useful.

### **Payroll Deductions**

Mr Lamond welcomed the audit report as timely and helpful, particularly the assurance offered in relation to the new payroll system. He acknowledged that further improvements were required and would be undertaken as outlined in the Action Plan.

### **Risk Management**

Scott Kennedy, Emergency Planning, Risk, and Resilience Officer, advised that all risks were discussed with the appropriate managers as well as being reviewed and updated at regular management team meetings. Requests for updates were also sent to each 'risk owner' on a quarterly basis.

Mr Stainbank explained that the new risk management software would assist with this work by identifying any risks which had not been reviewed or updated for some time. Mr Kennedy added that the system would be in place by June 2020.

### **IR35**

Mr Stainbank agreed to look at the wording of recommendations in the Action Plan with a view to provided additional clarity for Members.

Mr Stainbank advised that there had been 234 off-payroll workers within the Council since 2017 but that it was difficult to say how many there were at any given time. He added that of the approximately 100 off-payroll workers per year only 20% fell within the scope of the IR35 rules. Each assessment under the rules lasted for the duration an employee's contract and had to be renewed each time that employee was re-engaged by the Council.

Stuart Allan, Senior Auditor, reported that 43 assessments were in scope over the past two years and a number of these individuals were no longer working for the Council. In terms of deductions on a monthly basis, 6 or 7 fell within the IR35 rules. He said that frameworks were in place for agency workers and the type of framework depended on the type of worker and number of supplier agencies. He confirmed that HR monitored these employees and kept a detailed spreadsheet which was updated on a monthly basis.

Mr Stainbank also drew attention to the Internal Audit progress report for 2019/20 which showed four completed audits, two in progress, two recently commenced and a further 14 to be completed by June 2020.

The Convener noted that this represented a significant amount of work for the Internal Audit Team and thanked officers for their report.

## Decision

The Committee agreed to note:

- (i) the main findings and recommendations from Internal Audit reports issued during the period from September 2019 to November 2019;
- (ii) the findings from Internal Audit's follow-up work;
- (iii) Internal Audit's progress against the annual audit plan for 2019/20.

### 3. TREASURY MANAGEMENT – MID YEAR REVIEW 2019-20

A report was submitted by the Depute Chief Executive (Resources & People Services) updating the Committee on Treasury Management activity during the first half of 2019-20.

Ms Fortune presented the report summarising the key points. She drew Members' attention to the current position regarding prudential indicators, capital expenditure and short and long-term borrowing. She reported that while the Council was currently operating in excess of approved boundaries in terms of its prudential indicators, largely due to assessment of developers' contributions, it was expected to remain well within authorised limits. She also advised that the Council was at present in an under borrowed position, however it was anticipated that additional external borrowing of £24m would be required during the second half of the financial year.

Responding to questions from Councillor Currie, Ms Fortune explained that the approved limits were set in line with the capital plans approved by Council as part of the annual budget. The operational boundary was quite fluid and reflected the in-year financial performance and the impact of slippage in capital projects, delays in developers' contributions and other factors would likely require the revision of approved limits going forward. She also acknowledged the need to look beyond the current year's capital spend and to take into account the capital programme over future years.

In response to further questions from Councillor Currie and Councillor Dugdale, Ms Fortune acknowledged that there had been an increase in the cost of new borrowing – 1% above the PWLB base rate – and that this could have a significant impact in future years. She explained that while the Council had anticipated an increase in rates the actual raise had been higher than expected. This would have to be taken into account when considering the affordability of the future capital programme.

Mr Lamond reiterated that the impact of the rate rise was mainly in relation to new borrowing, however the effect on affordability would have to be built into any refresh of capital budgets. Referring to the debt maturity profile, he stated that the Council's strategy on long-term borrowing provided solid protection against any temporary increase in rates. However, if the situation should persist in the longer term the current strategy would have to be reviewed.

In response to a question from the Convener, Mr Lamond confirmed that HM Treasury had introduced dampening as a control measure and while there was concern about the risk to some investments the actual impact had yet to be established.



Replying to Councillor McLeod Ms Fortune confirmed that the Council could only borrow for capital purposes and not in advance of need.

Councillor Currie said that the Council was fortunate that it had loans already locked into a low PWLB rate. While he understood the issues around slippage, he encouraged the Council to consider whether some capital projects could be brought forward to take advantage of what were still relatively low rates of interest for longer term borrowing. He added that it would be interesting to see the impact that the recent rate rise had on the budget proposals coming forward in February and whether the increase was temporary or longer term.

The Convener thanked officers for their report and noted that the impact of rate increase would be significant not just for borrowing but also for investments.

### **Decision**

The Committee agreed to note the content of the report.

#### **4. ENJOYLEISURE REPORT 2018/19**

This report was continued to the next meeting of the Committee.

#### **5. EAST Lothian Land Ltd 2018/19**

Alex McCrorie, Chief Executive, declared an interest as a Director of East Lothian Land Ltd and apologised for not making this declaration at the beginning of the meeting.

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 2018/19.

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 2018/19.

In response to questions from Councillor Currie, Mr Baty explained that East Lothian Land was separate from the Council and when their solicitors were negotiating on a property they did so anonymously. He also acknowledged that it was frustrating when a property which had previously been marketed as a commercial opportunity was eventually sold for potential residential use; the former Royal Bank of Scotland building in North Berwick was a recent example.

The Convener welcomed the conservative approach adopted by East Lothian Land and supported the continuation of this tried and tested model. She shared Mr Baty's frustration over the Royal Bank of Scotland site in North Berwick but she understood that it had been sold for well over the asking price.

Councillor Currie also welcomed the report. He observed that quality had been key to East Lothian Land's success and this was borne out by the occupancy rates in its properties. He said that where land was zoned for employment use it was essential that this was pursued. There was demand for good quality business premises in East Lothian and if this was not available then businesses would move to Edinburgh or elsewhere. He added that while attracting start-up businesses was important, it was

also necessary to ensure that a range of premises were available to allow businesses to expand without leaving the local area.

Mr Baty acknowledged Councillor Currie's point regarding expansion and said that there were three or four businesses within East Lothian which were currently seeking larger premises.

### **Decision**

The Committee agreed to note the contents of the report.

## **6. COMMUNITIES AND PARTNERSHIPS RISK REGISTER**

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

Mr Kennedy outlined the salient points in his report. He advised that the Register included 2 High risks, 25 Medium risks and 16 Low risks. Although the Council's Risk Strategy required only 'Very High' and 'High' risks to be reported to the Committee, he said that on this occasion all Medium risks scoring 8 or higher were also included.

Councillor Williamson queried the current risk control measures in place to mitigate against inappropriate use/damage to properties, as outlined in risk C&P 5, as it seemed that previous measures had been unsuccessful.

Paolo Vestri, Service Manager – Corporate Policy and Improvement, said he was not aware of any new measures put in place or of recent discussions with the problem solving partnership at the Brunton Hall. However, he agreed to refer the question to the Head of Communities & Partnerships for a detailed response.

Councillor Currie asked if any analysis of risk trends had been undertaken and, if so, whether this had shown any increases in particular areas.

Mr Kennedy advised that Brexit had resulted in some risks scoring higher and some reducing and that these changes were reflected across the Council's service risk registers. He said that the new risk register software should make it easier to show this type of analysis and he would be arranging a briefing session for Members on the system early in the New Year.

### **Decision**

The Committee agreed to note the Communities and Partnerships Risk Register and in doing so, noted that:

- i. the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk;
- ii. the total profile of the Communities and Partnerships risk could be borne by the Council at this time in relation to the Council's appetite for risk; and
- iii. although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Communities and Partnerships and were likely to be a feature of the risk register over a number of years.

## 7. COUNCIL RESOURCES RISK REGISTER

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

Mr Kennedy presented the report noting that the risk register included 2 Very High risks, 5 High risks, 23 Medium risks and 8 Low risks. In line with the Council's Risk Strategy only risks rated as 'Very High' and 'High' were being reported to the Committee.

Councillor McLeod asked about suspicious e-mails and whether the Council had incurred costs as a result of individuals accidentally opening corrupt e-mail links.

Mr Lamond acknowledged that some scam e-mails could be very sophisticated, however the Council had not incurred any direct costs as a result of staff mistakenly accessing messages or web links. He said that a number of measures were in place to mitigate against such eventualities and these were generally very successful. He added that his advice to staff and Councillors would be that if they are in any doubt about the source of an e-mail they should seek advice from IT.

### Decision

The Committee agreed to note the Council Resources Risk Register and in doing so, noted that:

- i. the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk;
- ii. the total profile of the Council Resources risk could be borne by the Council at this time in relation to the Council's appetite for risk; and
- iii. although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Council Resources and were likely to be a feature of the risk register over a number of years.

Signed .....

Councillor Jane Henderson  
Convener of the Audit and Governance Committee



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 18 February 2020  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – February 2020

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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 progress made against the 2019/20 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 November 2019 to February 2020 as contained in Appendix 1;
  - ii. the findings from Internal Audit's follow-up work;
  - iii. Internal Audit's progress against the annual audit plan for 2019/20 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: Procurement, Homecare Services, Records Management, Performance Indicators and Roads 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:
- Procurement – Moderate Assurance
  - Homecare Services – Moderate Assurance
  - Records Management – Moderate Assurance
  - Performance Indicators – Moderate Assurance
  - Roads Contracts – Reasonable Assurance
- 3.4 Internal Audit follows-up on 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 two audits that were reported in previous years. Our findings are detailed below.

### **Business Grants**

- 3.5 Internal Audit's report on Business Grants was issued in June 2019. Our follow-up review has highlighted that all ten recommendations made have been implemented.

### **Contracts**

- 3.6 Internal Audit's report on Contracts was issued in February 2019. Our follow-up review has highlighted that of the ten recommendations made, seven have been implemented and three partly implemented. For the three partly implemented recommendations, we note that a procurement process which has been developed in one service area is now being implemented in the other service area. Details of the partly implemented recommendations and the revised dates of completion are shown in Appendix 2.

### **Progress Report 2019/20**

- 3.7 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 2019/20.
- 3.8 The planned audit work on Fleet Management in 2019/20 will now be completed as part of the 2020/21 annual audit plan. This will allow for service implementation of a new fleet management system and incorporation of actions from the November 2019 Fixed Assets audit prior to the review commencing. Due to a change in weekly hours worked by one member of audit staff there has been a reduction of 10 weeks of audit resource available for the 2019/20 audit plan, however, only this one audit exercise is currently planned as not being achievable within the plan year.

## **4 POLICY IMPLICATIONS**

- 4.1 None

**5 INTEGRATED IMPACT ASSESSMENT**

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

**6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

**7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	01620 827353
<b>DATE</b>	7 February 2020





## EAST LOTHIAN COUNCIL – INTERNAL AUDIT PROCUREMENT

### 1. EXECUTIVE SUMMARY

#### 1.1 Introduction

As part of the Audit Plan for 2019/20, a review was undertaken of the Procurement arrangements operating with the Council. A summary of our main findings is outlined below.

#### 1.2 Areas where Expected Controls were Met

- The Council has a Corporate Procurement Strategy 2017-2022 in place, which was approved by Cabinet in November 2017.
- Appropriate contract registers are in place – a register of all regulated contracts is maintained on the Public Contracts Scotland website and a register is maintained internally of all contracts let by the Council.
- For Scotland Excel contracts, appropriate arrangements are in place to ensure that retrospective rebates are received – rebates are based on the level of spend and approximately £360,000 has been received by the Council since 2016.

#### 1.3 Areas with Scope for Improvement

- From 2016/17 the Procurement Reform (Scotland) Act 2014 required an annual Procurement Report to be published. For 2018/19 a report has not been published and Scottish Ministers have not been notified. *Risk – failure to comply with legislation.*
- The Council has detailed Corporate Procurement Procedures in place, however the current procedures date from 2014 and require to be reviewed and updated to ensure compliance with legislation and best practice. *Risk – failure to ensure that procedures are up to date.*
- In some cases, there was a lack of evidence to confirm that the Corporate Procurement Procedures had been followed during the tendering process. *Risk – failure to demonstrate best value.*
- Documentation relating to the procurement process is not being consistently held in a central location. *Risk – failure to maintain a complete record of all key stages in the procurement process.*
- In some cases, there was a lack of evidence to indicate how the preferred contractor had been identified. *Risk – failure to demonstrate best value.*
- There is a lack of evidence of effective contract management processes being in place, including regular meetings being held with contractors. *Risk – failure to ensure the effective management of contracts.*

#### 1.4 Summary

Based on our review of Procurement, 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.

**Duncan Stainbank**  
Service Manager – Internal Audit

**February 2020**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	Management should ensure that a review of the Procurement Strategy is carried out annually.	Medium	Commercial Programme Manager for Procurement	Agreed. The procurement strategy will be reviewed on an annual basis going forward.		May 2020
3.1.2	Management should ensure that an Annual Procurement Report is published.	Medium	Commercial Programme Manager for Procurement	Agreed. An annual procurement report will be produced from 2019/20 onwards.		October 2020 as required by Scottish Government.
3.1.3	Management should ensure that the Corporate Procurement Procedures manual is reviewed and updated for legislative and best practice changes.	Medium	Commercial Programme Manager for Procurement	Agreed. This will now be reviewed on a regular basis.		August 2020 to incorporate new contract management process.
3.2.2	Management should ensure that the Procurement Strategy is updated to reflect the amended publication of the contract register.	Medium	Commercial Programme Manager for Procurement	Agreed. This will be completed as part of the strategy review.		May 2020

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.3	Management should ensure that the internal contract register contains complete information for contracts.	Medium	Commercial Programme Manager for Procurement	Agreed. Some of the information on contract values and extension dates was not transferred over correctly as part of a recent software upgrade. Discussions on recovering this data are ongoing with IT. Information will then be reviewed and where possible with current systems functionality full details will be recorded.		May 2020
3.2.4	Management should ensure that all contracted suppliers are correctly flagged on the system.	Medium	Commercial Programme Manager for Procurement	Agreed. I am in the process of evaluating the contract spend information availability to establish if better quality and more frequently available information can be made available.		June 2020 also dependent on Finance / P2P and Spikes Cavell (external reporting system).



PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	Management should ensure that the Procurement Route selected is clearly stated on the Strategy Document or SSAF.	Medium	Commercial Programme Manager for Procurement	Agreed. This will be completed going forward for single source supplier procurement above service thresholds.		March 2020
3.3.5	Management should ensure that all tender submissions are evaluated in accordance with the Procurement Procedures and a central document confirming the scoring of each tender for cost and quality is retained with appropriate audit trail.  Management should ensure that all records are held in a central location.	Medium	Commercial Programme Manager for Procurement	Agreed. A pre-tender award document will be used to capture this information for all above threshold tenders and will be maintained in a central location within the procurement team.		May 2020
3.3.6	Management should ensure that contracts are cancelled on the contracts register promptly after the contract has expired.	Low	Commercial Programme Manager for Procurement	Agreed. When better expenditure information against contract is available contracts without spend will be reviewed with services and expired if required.		This will be ongoing and solutions may be implemented in stages. Q3 /2020 for review.

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.3.7	Management should ensure these historic tenders are closed on the PCS portal.	Low	Commercial Programme Manager for Procurement	Agreed		June 2020
3.4.1	Management should ensure that training is provided to ensure services monitor the rates being charged.  Management should ensure that rates are checked prior to contract monitoring meetings.	Medium	Commercial Programme Manager for Procurement	Agreed. Training and guidance on contract management is to be provided for service management to complete.		September 2020 for training to be rolled out across all service units.
3.5.2	Management should ensure that appropriate contract management processes are put in place for each contract, with procurement team involvement on a risk assessed basis.	Medium	Commercial Programme Manager for Procurement	Agreed. Contract management processes have not been completed due to very restricted procurement resource. From the end of February 2020 with a full complement of staff these can be recommenced on a risk assessed basis.		Contracts Risk segmentation complete March 2020.  Contract management tools available May 2020.  Contract management process finalised July 2020.

### **Grading of Recommendations**

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

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

### **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
<b>Substantial Assurance</b>	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.
<b>Reasonable Assurance</b>	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.
<b>Moderate Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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 HOMECARE SERVICES**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2019/20, a review was undertaken of the arrangements in place for the provision of the Council's in-house Homecare Service. A summary of our main findings is outlined below.

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

- The Council Homecare Service complies with the Health & Social Care Standards and the most recent, January 2019, Care Inspectorate report graded the service as very good for quality of care and support; and good for quality of staffing.
- For all clients in our sample a detailed Personal Plan was in place and all had been reviewed within the last six months.
- Homecare Support Services provide all clients with a documentation pack containing details of all key services information, and who to contact in the event of any queries, problems or emergencies.
- 98% of Homecare staff are Scottish Social Services Council registered and the remaining 2% of staff are in the process of registering, as required under the Regulation of Care (Scotland) Act 2001.

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

- ELC Homecare Services and NHS Hospital to Home Services are currently going through a service review to allow the services to work together to provide best value. It is noted that the review identified ELC Homecare Services as the most expensive provider. *Risk – failure to achieve best value.*
- The arrangements for communicating with members of staff require review. At present all weekly rotas are printed off and posted out 1<sup>st</sup> class to the relevant Homecare staff. The weekly rotas contain sensitive personal information. *Risk - loss of sensitive personal information resulting in loss to clients or the Council.*
- In October 2014 a "Rolling Hours Agreement" was implemented which allowed unused hours of work to be used in future periods, unused hours are no longer written off annually, but carried forward indefinitely. A lack of effective monitoring has been carried out on hours worked and at the end of December 2019 the total hours due to the council is 1,637 hours. *Risk – financial and operational loss of payments made in advance of work being completed.*
- From a sample of 19 homecare staff 9 were found to not be submitting timesheets on a regular basis. *Risk – failure to make accurate payroll payments.*
- Management of rotas and staff routes should be improved to reduce average travel time of 26% to provide greater time to focus on client support. *Risk – reduced service capacity and increased cost.*

#### **1.4 Summary**

Based on our review of Homecare Services, 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.

**Duncan Stainbank**  
Service Manager – Internal Audit

**February 2020**

## ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that procedures are updated, made available to all staff and are regularly reviewed.	Medium	Service Manager – Ongoing Care	Agreed – procedures will be updated and put in place.		November 2020
3.1.2	Management should ensure that the service review is completed and presented to the IJB following approval at the appropriate change board.	Medium	Service Manager – Ongoing Care	Agreed – this will be approved with an initial pilot in a rural area before full implementation.		July 2020
3.2.1	Management should ensure that copies of the signed and dated Personal Plans issued to clients are retained on file.  Management should ensure that review dates are accurately recorded in both the Staffplan system and on the review section on the file copy of client’s Personal Plans.	Medium	Service Manager – Ongoing Care	Agreed – will be in place.  Agreed – will be in place.		March 2020
3.3.1	Management should ensure that the pilot using encrypted iphones is completed, costed and evaluated against any other proposed management methodologies.  Management should ensure that processes are put in place to ensure there is a secure method of effectively communicating regular staff rotas with homecare staff that provides best value for the resources being utilised.	High	Service Manager – Ongoing Care	Agreed – will be put in place as a matter of urgency. Meeting already arranged with I.T. to discuss options available.		April 2020

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.3.3	<p>Management should ensure that all hours due by carers is worked.</p> <p>Management should review the Rolling Hours Policy and implement a limit to the amount of hours that can be underbanked in a period.</p> <p>Management should ensure that adequate monitoring is carried out to ensure that staff are complying with the Rolling Hours Agreement.</p>	Medium	Service Manager – Ongoing Care	<p>Agreed.</p> <p>Agreed – the Rolling Hours Policy is currently under review.</p> <p>Agreed.</p>		<p>February 2020</p> <p>March 2020</p> <p>February 2020</p>
3.4.1	<p>Management should ensure that all Homecare timesheets are fully completed, signed and submitted weekly.</p> <p>Management should ensure that all timesheets are retained on file for checking and review.</p>	Medium	Service Manager – Ongoing Care	<p>Agreed – put in place with immediate effect.</p> <p>Agreed – put in place with immediate effect.</p>		<p>February 2020</p> <p>February 2020</p>
3.4.2	<p>Management should review and report on all homecare staff claiming in excess of 25% travel time with an explanation of why this is required. Consideration should be given to setting Care Support Organisers a specific travel time reduction target on an annual basis.</p> <p>Management should also ensure that the record sheets are fully completed and maintained up to date.</p>	Medium	Service Manager – Ongoing Care	<p>Agreed – to be discussed with Organisers.</p> <p>Agreed.</p>		<p>April 2020</p> <p>February 2020</p>

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.5.1	Management should ensure that independent verification of travel time input to payroll spreadsheets is completed on a fortnightly basis.	Medium	Service Manager – Ongoing Care	Agreed – put in place with immediate effect.		February 2020
3.5.2	Management should ensure that all annual leave is approved and recorded in Staffplan in advance of annual leave being taken.  Management should ensure that the correct weekly dates are used to pull through annual leave from Staffplan.  Management should ensure that all annual leave records are held in a consistent format electronically.	Medium	Service Manager – Ongoing Care	Agreed.  Agreed.  Agreed.		April 2020  February 2020  February 2020
3.5.3	Management should ensure that the Payroll Summary sheet is checked and signed by the preparer and one member of management staff independent of the preparer who take responsibility for the accuracy of the information.	Low	Service Manager – Ongoing Care	Agreed.		February 2020
3.6.1	Management should continue to make progress and ensure that the small number of remaining Homecare Care Support staff have gained the relevant SVQ2 qualifications and are SSSC registered.	Medium	Service Manager – Ongoing Care	Agreed.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.2	<p>Management should ensure that accurate and up to date training records for Homecare Services staff are maintained.</p> <p>Staffplan should be upgraded to provide reports from the system when Homecare staff certificates are due for renewal.</p>	Medium	Service Manager – Ongoing Care	<p>Agreed.</p> <p>Agreed – will discuss the upgrade of Staffplan with the Systems Team.</p>		<p>February 2020</p> <p>April 2020</p>

### **Grading of Recommendations**

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

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

### **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
<b>Substantial Assurance</b>	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.
<b>Reasonable Assurance</b>	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.
<b>Moderate Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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 RECORDS MANAGEMENT**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2019/20, a review was undertaken of the arrangements in place within the Council for Records Management. A summary of our main findings is outlined below.

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

- A Records Management Plan 2014-2019 is in place to meet the requirements of the Public Records (Scotland) Act 2011 – the Plan was approved by Council on 28 October 2014. The Keeper of the Records of Scotland has recently launched a new model plan and following its publication, the Council intends to review and update the Records Management Plan.
- The Council was instrumental in the development of Progress Update Reports, which are being submitted regularly by the Council to the Keeper of the Records of Scotland, for assessment and comment by the Public Records (Scotland) Act 2011 Assessment Team.
- The Council has a Retention Schedule in place, which is available to staff within the Records Management section of the intranet. The Retention Schedule is linked to the Council's Business Classification Scheme, which identifies all functions and activities carried out by the Council, and is split into 26 functional areas – service areas have identified the record types that fall within their individual areas.

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

- The destruction and long term preservation of electronic records continues to be an area of weakness – there has been limited progress in developing protocols for file deletion with regards to records held in the Council's main systems, EDRMS or shared networks. *Risk – records may be retained beyond their retention periods or core digital records may become inaccessible over time.*
- For four of the elements within the Records Management Plan, the Council has been assessed as "Amber", indicating that further actions and stronger evidence are required to support the statements of improvement and how they are being measured. *Risk – failure to achieve compliance with the Public Records (Scotland) Act 2011 and to fulfil the Keeper's expectations.*
- The arrangements in place for monitoring and reporting on the implementation of the Council's Records Management Plan require review. *Risk – failure to deliver the Plan and to ensure the ongoing implementation of all agreed actions.*
- The online Records Management training module on LearnPro is currently not designated as a mandatory module and has a lower uptake than other modules, which are mandatory. *Risk – lack of staff awareness of Records Management, with follow-on impact on business processes, legal and regulatory compliance.*

#### **1.4 Summary**

Based on our review of Records Management, 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.

**Duncan Stainbank**  
Service Manager – Internal Audit

**February 2020**

## ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that the strategies, plans and protocols outlined in the Council's Records Management Plan are fully developed to assist staff in the effective implementation of Records Management throughout the Council.	Medium	Service Manager – People & Governance/ Team Manager – Information Governance	Agreed – a new Records Management Plan will be developed, in accordance with the Keeper's requirements, specifying actions required.		Ongoing, new Records Management Plan will be delivered at a timescale identified by the Keeper.
3.3.1	For those elements of the Records Management Plan, which are currently assessed as "Amber", Management should ensure that further actions are undertaken and evidence provided, to allow compliance with the Public Records (Scotland) Act 2011 to be achieved.	Medium	Service Manager – People & Governance/ Team Manager – Information Governance	Agreed – these areas will be prioritised and will be a key focus of the new Records Management Plan.		Ongoing, with progress reported annually.
3.4.1	A review should be carried out, across all service areas, to establish the level of adherence to the retention periods detailed in the Council's approved Retention Schedule.  The findings from the review should be communicated to Senior Management and an action plan should be put in place outlining the actions that require to be taken, to enable adherence to the specified retention periods.	High	Service Manager – People & Governance/ Team Manager – Information Governance/ Service Managers (Council-wide)	Agreed – following the development of an Information Asset Register, which is commencing with workshops early in 2020, individual asset owners will have responsibility for creating an action plan to enable adherence to retention periods. The Information Governance Team will then monitor and report annually.		Four workshops will be completed in 2020, ongoing monitoring and reporting of progress will take place at least annually.

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.5.1	Management should review the progress that is being made with regards to the management and destruction of electronic records and, where relevant, ensure that an appropriate risk assessed plan of implementation is put in place.	High	Service Manager – People & Governance/ Team Manager – Information Governance/ Service Managers (Council-wide)	Agreed – following the development of an Information Asset Register, which is commencing early in 2020, individual asset owners will have responsibility for the records in their area. The Information Governance Team will have a monitoring role.		Ongoing, with progress reported annually.
3.6.1	Management should ensure that the online Records Management training module on LearnPro is designated as a mandatory module, which will require to be completed by all members of staff every two years.	Medium	Service Manager – People & Governance/ Team Manager – Information Governance	Agreed – will ask CMT to make the training module mandatory, as part of a package underpinning Data Protection, FOI and Information Security.		April 2020
3.7.1	Management should ensure that appropriate arrangements are in place for monitoring and reporting on the delivery and ongoing implementation of the Council's Records Management Plan.	Medium	Service Manager – People & Governance/ Team Manager – Information Governance	Agreed – a report will be prepared on an annual basis.		June 2020

### **Grading of Recommendations**

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

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

### 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
<b>Substantial Assurance</b>	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.
<b>Reasonable Assurance</b>	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.
<b>Moderate Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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 PERFORMANCE INDICATORS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2019/20, Internal Audit reviewed a sample of Local Government Benchmarking Framework (LGBF) performance indicators for 2018/19, as published by the Improvement Service. The 2018/19 indicators reviewed, together with a comparison to the (inflation adjusted) figures for 2017/18, are shown below:

- CORP 4 – Cost per dwelling of collecting Council Tax. 2018/19 – £6.65 (2017/18 – £8.81)
- SW 1 – Older Persons (aged 65+) Home Care costs per hour. 2018/19 – £16.07 (2017/18 – £17.07)
- ENV 2a – Net cost of Waste Disposal per premise. 2018/19 – £66.61 (2017/18 – £73.83)
- ENV 4a – Cost of Roads per kilometre. 2018/19 – £6,751 (2017/18 – £9,523)
- ENV 5a – Cost of Trading Standards, Money Advice and Citizen Advice per 1,000 population. 2018/19 – £1,304 (2017/18 – £1,341)
- ECON 1 – % of unemployed people assisted into work from Council funded/operated employability programmes. 2018/19 – 5.65% (2017/18 – 3.05%)

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

- The Improvement Service calculate the indicators based on information prepared by the Council, including Local Financial Returns (LFRs) and the Scottish Government quarterly monitoring survey.
- An annual report on the Council's LGBF indicators is presented to the Council's Policy and Performance Review Committee (PPRC). Managers provide a commentary on reasons for changes in the indicators and the report provides a summary of the results for each indicator, including comparison to the previous year's performance, the Scottish average and the overall rank position.

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

- The reported cost of Trading Standards, Money Advice and Citizen Advice per 1,000 population is approximately 22% of the Scottish average and does not include the payments being made by the Council to the East Lothian Advice Consortium. *Risk – non-compliance with the LGBF metadata definition and a lack of comparability with other authorities.*
- The indicator for Older Persons (aged 65+) Home Care costs per hour requires review to ensure that all information being provided is on a comparable basis. *Risk – the reported indicator for Home Care costs per hour may be understated.*

#### **1.4 Summary**

Based on our review of Performance Indicators, 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.

**Duncan Stainbank**  
Service Manager – Internal Audit

**February 2020**

## ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/MANAGED	AGREED DATE OF COMPLETION
3.2.5	Management should review the indicator for Older Persons (aged 65+) Home Care costs per hour, to ensure that all information being provided is on a comparable basis.	Medium	Chief Operating Officer Finance/Group Service Manager – Planning and Performance	Agreed – this indicator will be reviewed jointly by staff within Finance and Health & Social Care.		April 2020
3.5.4	Management should ensure that the LGBF metadata definition is being complied with and that relevant third party payments are included in the reported cost of Trading Standards, Money Advice and Citizen Advice per 1,000 population.	Medium	Service Manager – Corporate Policy and Improvement/Chief Operating Officer Finance	Agreed – the 2019/20 indicator will include apportionment of funds to the East Lothian Advice Consortium for money advice and general advice. We will write to the Improvement Service to query the rationale behind including money advice and citizen advice in this indicator.		October 2020
3.6.5	Appropriate checking mechanisms should be put in place to ensure the accuracy of the data provided by the Council as part of the annual SLAED Indicators data return, which forms the basis of LGBF indicator ECON 1.	Medium	Service Development Officer	Agreed – will be implemented for the next return.		June 2020



### **Grading of Recommendations**

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

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

### 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
<b>Substantial Assurance</b>	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.
<b>Reasonable Assurance</b>	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.
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<b>No Assurance</b>	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 ROADS CONTRACTS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Roads Contracts was undertaken as part of the Audit Plan for 2019/20. A summary of our main findings is outlined below.

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

- For the sample of contracts reviewed, we found that that the Council's Corporate Procurement Procedures were being followed for Roads Contracts. A wider review of Council procurement has recently been completed, providing more extensive assurance on these procedures.
- Appropriate arrangements are in place to prioritise roads maintenance work required – an annual needs assessment, comprising a combination of internal and external assessments of road surface condition and usage, is carried out on a regular basis to assess the condition of all roads.
- From a sample of contracts reviewed, we found that appropriate arrangements are in place to ensure that payments made to contractors are in accordance with contracted rates – a clear audit trail is maintained to confirm that the rates charged agreed to the tender rates submitted.
- In all cases sampled, where a new rate was charged due to variations in the work required, appropriate evidence was held of the new rate being approved, prior to payments being made to the contractor.

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

- In some cases, roads maintenance was not being carried out in accordance with the needs assessment priorities identified and there was a lack of a clear audit trail outlining the reasons for this. *Risk – lack of evidence to support the rationale for deviations from the identified needs assessed priorities.*
- The Roads Maintenance Manual in place, which provides procedural guidance to members of staff on the processes to follow, requires to be reviewed and updated to reflect changes in legislation and the Code of Practice. *Risk – failure by members of staff to follow a consistent approach.*
- For one contract where additional work was carried out, we found a lack of evidence to confirm that a variation order had been issued. *Risk – errors or irregularities may occur and remain undetected.*

#### **1.4 Summary**

Based on our review of Roads Contracts, 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.

**Duncan Stainbank**  
Service Manager – Internal Audit

**February 2020**

## **ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.2	Management should ensure that the Roads Maintenance Manual is finalised and approved.	Medium	Team Manager – Assets & Regulatory	Agreed		September 2020
3.3.1	Management should ensure that a clear audit trail exists for all variations from priorities set by the needs assessment.  Management should take steps to ensure that the development of the electronic system is completed.	Medium	Team Manager – Engineering & Operations  Team Manager – Assets & Regulatory	Agreed  Agreed – completion is linked to the development of the web based system.		February 2020  February 2021
3.5.1	Management should ensure that adequate evidence is retained to explain the need for the variation.	Medium	Team Manager – Engineering & Operations	Agreed – to be discussed at Team meetings.		February 2020

### **Grading of Recommendations**

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

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

### 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.

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<b>No Assurance</b>	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  
CONTRACTS**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>AGREED DATE OF COMPLETION</b>	<b>REVISED DATE OF COMPLETION</b>
3.1.2	<u>Partly Implemented</u> 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	Agreed – work is now ongoing with procurement to ensure contracts are put in place on a prioritised basis.	Ongoing	March 2020
3.1.2	<u>Partly Implemented</u> 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	Agreed – work is now ongoing with procurement to ensure contracts are put in place on a prioritised basis.	Ongoing	March 2020
3.4.1	<u>Partly Implemented</u> Appropriate monitoring arrangements should be put in place to ensure that the correct rates are being charged by suppliers.	Medium	Service Manager – Engineering Services & Building Standards	Agreed – formal sample checking implemented with new procurement processes currently in progress.	March 2019	March 2020





**INTERNAL AUDIT PROGRESS REPORT 2019/20**

**APPENDIX 3**

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Purchase Cards	We will review the internal controls in place for the use of purchase cards, including the arrangements for monitoring expenditure.	September 2019	Completed
Payroll Deductions	We will review the procedures in place for ensuring the accuracy and completeness of payroll deductions, including Tax, NI and pension contributions.	November 2019	Completed
Home Care Services	We will review the in-house delivery of Home Care services to Adult Services clients.	February 2020	Completed
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.	November 2019	Completed
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.	November 2019	Completed
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.	June 2020	
Direct Payments	We will review the arrangements in place for the administration and monitoring of direct payments made to Children's Services and Adult Services clients.	June 2020	

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Records Management	We will review the arrangements operating within service areas for records management including the storage, retention and disposal of records.	February 2020	Completed
Roads Contracts	We will examine the arrangements in place for the procurement, tendering and monitoring of work awarded by Road Services.	February 2020	Completed
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.	February 2020	Completed
Property Maintenance Stores	We will review the arrangements operating at the Property Maintenance stores.	June 2020	Commenced
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2020	Completed
National Fraud Initiative	Time has been allocated for reviewing data matches identified by the 2018/19 National Fraud Initiative (NFI) exercise.	February 2020	Completed
Online Payments	We will review the internal controls surrounding the online payments system (SchoolPay), which was recently introduced in East Lothian schools.	June 2020	
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	June 2020	In Progress

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
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.	June 2020	Commenced
Transformation Programme	We will examine the implementation of the Council's Transformation Programme to ensure that the financial savings identified have been achieved.	June 2020	
Treasury Management	We will review the Council's approach to Treasury Management to ensure compliance with the CIPFA Code of Practice on Treasury Management.	June 2020	
Fostering and Kinship Care Allowances	We will review payments made to foster and kinship carers to ensure compliance with Council policies and procedures.	June 2020	
General Data Protection Regulations (GDPR)	We will review the arrangements in place within the Council for ensuring compliance with the provisions of GDPR.	June 2020	
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 Council funding.	June 2020	



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 18 February 2020  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Internal Audit Report – National Fraud Initiative

**3**

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the work undertaken on the 2018/19 National Fraud Initiative.

**2 RECOMMENDATION**

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

**3 BACKGROUND**

- 3.1 The National Fraud Initiative (NFI) is a data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data (e.g. names, addresses, Dates of Birth, National Insurance Numbers), both within and between participating bodies, to detect fraud and overpayments.

- 3.2 East Lothian Council, along with other local authorities and public sector bodies, participates in the NFI data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Cabinet Office on behalf of Audit Scotland.

- 3.3 As part of the 2018/19 NFI exercise, the Council submitted data for the following areas:

- Housing (Current Tenants and Waiting Lists)
- Payroll
- Care Home Residents
- Residents Parking Permits
- Council Tax and Electoral Register
- Direct Payments
- Creditors (Standing Data and Payment History)
- Licences (Market Trader, Taxi Driver and Personal Alcohol Licences)
- Council Tax Reduction Scheme

- 3.4 In addition, Benefits details were submitted by the DWP and Blue Badge details were submitted directly by Northgate Public Services on behalf of the Council.

- 3.5 The output of the data matching process (i.e. reports of data matches) is returned to the Council for consideration and investigation. Data matches do not in themselves indicate fraud, but rather identify cases, which may require further investigation.
- 3.6 This report provides a summary of the outcome of the investigations undertaken for the 2018/19 NFI matches. A total of 91 reports were received in respect of East Lothian Council – the reports contained 3,640 individual matches, of which 578 were high risk matches. Internal Audit have reviewed all 578 high risk matches. In addition, we have also reviewed other matches that were selected on a risk based approach.
- 3.7 As at 7 February 2020, 997 matches had been fully investigated and closed and 423 matches are currently in progress. Of the 997 matches, we found that:
- in 863 cases, no fraud or errors were identified;
  - in 129 cases, errors were identified in respect of Blue Badges and Residents Parking Permits and in each case appropriate action was taken by the Council's Transportation section to either cancel the permit/badge or to update the system with the correct information; and
  - in the remaining 5 cases, overpayments of £115,719.62 were identified which have all now been recovered by the Council.
- 3.8 The overpayments of £115,719.62 related to the following:
- £2,771.57 related to a payment which the Council made to a residential home after the resident's death. This amount has now been recovered from the residential home.
  - £98,615.05 related to 3 creditor payments (£71,018.68, £15,263.51 and £12,332.86) made to different contractors. The contractors have acknowledged and repaid these overpayments to the Council. Systems controls preventing payments of duplicate invoice numbers had not identified these payments as slightly different invoice numbers had been entered in each case.
  - £14,333.00, related to foster care payments to another authority, these are normally made in 3 instalments, in this case this had been paid in 2 instalments initially and a third invoice had been issued and paid in error.
- 3.9 In addition to the above, the Council's Revenues section receive separate reports on Council Tax and Electoral Register matches – the matches identify cases where Single Person Discount may have been incorrectly awarded.
- 3.10 The Council Tax and Electoral Register data was initially uploaded and the matches released in March 2019, of which 565 investigations have been undertaken and no fraud has been identified. The Council resubmitted data in January 2020 as part of the NFI Recheck process on the basis that the Electoral Register was likely to be more complete due to the General Election and the increase in people registering to vote. From this exercise 1,886 matches are now being investigated for completion by May 2020. A summary of the work being undertaken by the Revenues section is outlined below:
- All matches are being checked and the Council Tax and Benefits systems updated with details of action taken.
  - Checks are being undertaken on previous occupiers to eliminate those who

- have recently changed address.
- Letters were issued to relevant individuals – where no response was received the Single Person Discount was removed and a revised bill issued.

3.11 All other matches currently being investigated from the 2018/19 NFI exercise will be concluded prior to 31 March 2020.

#### **4 POLICY IMPLICATIONS**

4.1 None

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

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

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other – None

#### **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	01620 827353
<b>DATE</b>	7 February 2020





**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 18 February 2020

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

**SUBJECT:** Internal Audit Plan 2020/21

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**4**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2020/21.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2020/21.

## **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 performance and financial statements;
- changes in service delivery;
- the findings from previous years' audit work; and
- 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 2020/21 (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. Samples are selected according to an agreed sampling methodology.
- 3.7 For each individual audit, a detailed audit report is prepared for the relevant member(s) of the Council Management Team (CMT). Copies of the audit report are provided to the Chief Executive, External Audit and to members of the Audit and Governance Committee.
- 3.8 The reporting format for all audit reviews is currently being reviewed by Senior Officers in conjunction with the Chair of the Audit & Governance Committee. A revised reporting format will commence from the June 2020 Audit & Governance Committee. Reports will continue to provide details of recommendations made and record management responses and implementation timescales for all the recommendations.
- 3.9 Follow-up audits will be carried out to review the implementation of the recommendations made.

### **AUDIT COVERAGE**

- 3.10 Core Financial Systems, Risk Assessed Service and Corporate 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 risk assessed core financial systems 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. In addition work to provide assurances required by the Scottish Housing Regulator will also be completed.
- 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 2020/21, and provide a reactive service to investigate fraud and irregularity when appropriate.
- 3.14 Integration Joint Board (IJB) – The Committee is asked to note that in 2020/21 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 2020/21 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 2020/21.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	01620 827353
<b>DATE</b>	7 February 2020

**APPENDIX A – INTERNAL AUDIT PLAN 2020/21**

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<b>CORE FINANCIAL SYSTEMS AUDITS</b>			
Housing Rents	We will examine the processes and controls in place for the billing and reconciliation of housing rents.	Medium	5
Payroll Systems	We will review the procedures in place for ensuring the accuracy and completeness of payroll information and overall payments being made to staff following the implementation of the new payroll system in 2019/20.	Medium	5
Council Tax	We will continue our audit work on Council Tax – for 2020/21, our review will focus on the procedures in place for Council Tax valuation and billing.	Medium	5
Non-Domestic Rates	We will continue our audit work on Non-Domestic Rates (NDR) – in 2020/21, we will review the arrangements in place for NDR collections and refunds.	Medium	5
<b>RISK ASSESSED SERVICE AND CORPORATE AUDITS</b>			
EU Exit	We will review the actions identified to mitigate the risks of EU exit and examine the reported progress on implementation of these actions.	High	6
Section 75 (Developer Contributions)	Section 75 payments (developer contributions) bring significant funds to the Council for infrastructure projects. We will examine all control aspects of the Section 75 process.	High	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Homelessness Assessment & Housing Allocation	We will review the processes in place for the assessment of homelessness, provision of preventative advice and allocation of temporary accommodation and housing rents following recent changes.	High	5
Education Workforce Planning	We will review the policy, processes and procedures in place to develop and implement a workforce management plan within Education services.	High	5
Cyber Security	We will examine the evidence of compliance with appropriate cyber security standards including ISO27001, International Standard for Information Security and the Scottish Government Cyber Resilience Strategy for Scotland, Public Sector Action Plan.	High	5
Code of Conduct Implementation	Following submission of the revised code of conduct for the Council we will review the level to which the code of conduct is being appropriately utilised.	Medium	5
Property Maintenance	We will review the processes in place for ensuring reactive and planned maintenance of Council dwellings is completed in accordance with Council policies and best value.	Medium	5
Capital Projects	We will review the processes in place for managing Capital Projects with a focus on the management of budgets, variances and timescales.	Medium	6
ALEO's	We will review the governance processes in place to ensure that the Council has appropriate assurance over risk management, control and governance processes in place for significant ALEO's.	Medium	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Residential & Non Residential Care Charges	We will review the controls in place for charging for residential & non-residential care charges to ensure that all charges are being made and collected in accordance with policy.	Medium	5
Fleet Management	We will review the arrangements in place for the replacement, purchase, disposal and maintenance scheduling of vehicles through the new fleet management system.	Medium	5
Attendance Management	We will review the processes in place to ensure consistent compliance with the Council's Managing Attendance Policy and utilisation of the MyHR system.	Medium	5
Procurement	Review of procurement contracts on a risk assessed basis.	Medium	5
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	–	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	2
<b>STATUTORY AUDITS</b>			
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

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Scottish Housing Regulator Assurance Statement	Work required to provide assurance of the regulatory requirements set out in the Scottish Housing Regulators Chapter 3 of the Regulatory Framework.	Medium	2
<b>BEST VALUE AUDIT</b>			
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	Medium	4
<b>INVESTIGATIONS</b>			
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	10
Whistleblowing	We will investigate concerns raised under the Council's Whistleblowing Policy.	High	5
National Fraud Initiative	Time has been allocated for coordinating and submitting data for the 2020/21 National Fraud Initiative (NFI) exercise.	Medium	5
<b>OTHER AUDIT WORK</b>			
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



AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	Medium	1
Community Councils and Management Committees	Community Councils – Internal Audit provide advice and support to Community Councils. Management Committees – Internal Audit will independently examine the annual accounts of Management Committees where applicable.	Medium	2
Advice and Consultancy	Consultation on New Systems – for new systems implemented, Internal Audit will provide advice on internal control matters. Returned Cheques – investigating and recording the reasons for returned cheques. Financial Reports – providing service areas with financial information about companies and offering advice where applicable. Consultancy – providing advice and consultancy on internal control issues.	Medium	5
<b>TRAINING</b>			
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 to attend the Scottish Local Authority Chief Internal Auditor Group (SLACIAG) and Computer Audit Sub Group, also for staff to undertake continuous professional development (CPD).	–	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



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 18 February 2020  
**BY:** Service Manager – Internal Audit  
**SUBJECT:** CIPFA role of the Head of Internal Audit

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**5**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the CIPFA Statement on the role of the head of internal audit in Public Service Organisations (2019 edition) and to highlight the key organisational responsibilities associated with the Audit and Governance Committee within the statement.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note:
- i. the two key principles through which the head of internal audit (HIA) (for East Lothian Council this is currently the Service Manager – Internal Audit), plays a critical role in delivering the strategic objectives;
  - ii. the three key principles that the HIA must comply with to perform this role; and
  - iii. the identified areas of interaction between the HIA and the audit committee that support these principles.

## **3 BACKGROUND**

- 3.1 The CIPFA Statement on the role of the head of internal audit in Public Service Organisations (2019 edition) has been written to ensure alignment to the Public Sector Internal Audit Standards (PSIAS) 2017.
- 3.2 The intended audience for the statement is not just HIA's in the public services. It should also be read by all those with a leadership role in public bodies and by members of audit committees.
- 3.3 The statement highlights the following five key principles which are in place for East Lothian Council, on page 5, that the HIA should:
- objectively assess the adequacy and effectiveness of governance and management of risks, giving an evidence based opinion on all aspects of governance, risk management and internal control;

- champion best practice in governance and comment on responses to emerging risks and proposed developments;
- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
- lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively;
- be professionally qualified and suitably experienced.

### **Audit Committee interaction responsibilities**

3.4 The key areas highlighted for the HIA and the Audit Committee are to ensure that:

- there are established clear lines of reporting of the HIA to the leadership team and to the audit committee (Page 6);
- the internal audit charter (June 2020 Committee) and plan (Agenda Item 4) are approved by the audit committee in accordance with the PSIAS (Page 6);
- the audit committee terms of reference includes oversight of internal audit including the monitoring of adherence to professional standards (Page 11);
- the HIA's reporting relationship with the audit committee and its chair as set out in the internal audit charter is applied (Page 11);
- the organisation's governance arrangements give the HIA direct access to the chief executive, other leadership team members, the audit committee and external audit (Page 11);
- the audit committee contributes to a performance framework for the HIA and the internal audit service and takes action as appropriate (Page 13);
- the audit committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS (Page 13);

3.5 Page 12 of the statement provides specific commentary on the engagement that the HIA should have with the audit committee, which is:

*“The HIA’s relationship with the audit committee, and especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The HIA must work closely with the audit committee chair so that they are clear about their respective roles and make best use of internal audit.”*

## **4 POLICY IMPLICATIONS**

4.1 None

**5 INTEGRATED IMPACT ASSESSMENT**

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

**6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

**7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	01620 827353
<b>DATE</b>	7 February 2020



CIPFA Statement on

# the role of the head of internal audit

in Public Service Organisations

(2019 edition)

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

### **Head of internal audit**

The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. This could be someone from another organisation where internal audit is contracted out or shared with others. In PSIAS this role is referred to as the chief audit executive.

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# \ introduction

The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.

The UK Public Sector Internal Audit Standards (PSIAS) provide clear standards for internal audit but heads of internal audit in the public services face challenges ensuring professional standards are maintained and their internal audit teams remain effective. One key reason for this is that the organisation in which they operate has a direct impact on the resources, scope and authority given to internal audit. While HIAs must step up and deliver a professional service to the best of their ability, it is important to recognise this responsibility does not lie solely with the HIA. As one of the setters of the PSIAS, CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards.

For this reason it is critical that the CIPFA statement sets out not only the responsibilities of the HIA but also those of the organisation. CIPFA champions good governance and strong public financial management in public services and believes internal audit has an essential role to play in supporting those objectives. CIPFA considers that HIAs need recognition for their contributions, together with support and encouragement. For these reasons we believe the time is right for an updated CIPFA Statement.

Many heads of internal audit have already risen to the challenges and so alongside the updated CIPFA Statement we are publishing examples of how they are putting principles into practice, providing excellent support and assurance to their organisations and clients. We hope the Statement and this resource will both inspire and support internal audit going forward.

This edition ensures there is alignment to the PSIAS 2017. It explicitly links to the Core Principles for the Professional Practice of Internal Auditing, helping to demonstrate how the HIA role supports internal audit effectiveness.

The intended audience for this statement is not just HIAs in the public services. It should be read by all those with a leadership role in public bodies and by members of audit committees. CIPFA recommends those bodies evaluate their organisational arrangements for internal audit and consider the extent to which they align to the principles. We hope it will be the basis of conversations between the HIA, the leadership team and the audit committee and that the vital role of the HIA is given its due recognition and support.

Let's create the conditions in which heads of internal audit and their teams can thrive.

**Rob Whiteman**  
Chief Executive, CIPFA

# status of the CIPFA Statement

The Statement is principle-based and should be relevant to all public service organisations and their HIAs. It is intended to be helpful to a wide audience including leadership teams, chief executives, audit committees and other stakeholders as well as HIAs themselves.

We believe organisations should see the Statement as best practice and use it to support their HIA arrangements and drive up audit quality and governance arrangements.

We also commend the Statement to individual internal audit professionals. It articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need.

## The CIPFA Statement and the Public Sector Internal Audit Standards

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> mandate the PSIAS for their respective areas of responsibility in the public services. They work together to agree standards taking advice from the Internal Audit Standards Advisory Board.

In PSIAS, as in the International Professional Practices Framework, the term chief audit executive is used to describe the role of the person responsible for managing internal audit. CIPFA has decided to use the more familiar term head of internal audit for the benefit of the wider readership of this Statement.

## Statement approach and structure

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- the organisation
- the role
- the individual.

For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA, consistent with PSIAS. Where responsibilities are delegated the nominated HIA retains overall accountability.

Summaries of personal skills and professional standards then detail the leadership competencies and technical expertise organisations can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and the PSIAS Code of Ethics to which the HIA is bound. The personal skills support all five principles and are shown together, providing a handy reference for the person specification of the HIA.

<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

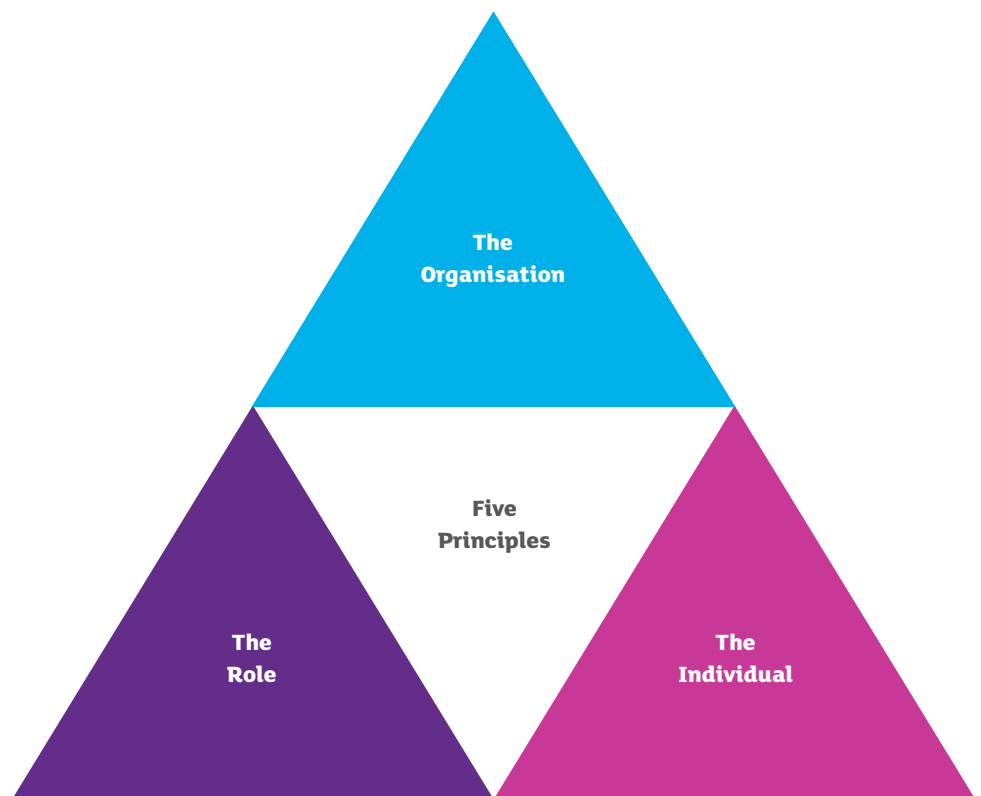
## The Principles

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

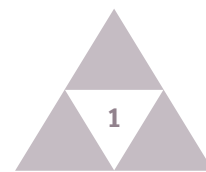
- 1 objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
- 2 championing best practice in governance and commenting on responses to emerging risks and proposed developments.

To perform this role the head of internal audit must:

- 3 be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee
- 4 lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively
- 5 be professionally qualified and suitably experienced.



# \ principle 1



The head of internal audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.

The UK Public Sector Internal Audit Standards (PSIAS) set out the mission of internal audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. They also set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness.

The following core principles are of particular relevance for Principle 1 of the CIPFA Statement:

- Provides risk based assurance.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should ensure they:**

- set out the responsibilities of the leadership team for internal audit
- establish an internal accountability and assurance framework including how internal audit works with other providers of assurance
- set out how the framework of assurance supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for the statement
- set out the responsibilities of the HIA and ensure the independence of the role is preserved. If additional responsibilities are taken on then appropriate safeguards should be put in place
- ensure internal audit is independent of external audit
- establish clear lines of reporting of the HIA to the leadership team and to the audit committee
- ensure the HIA reports in their own right and that the annual internal audit opinion and report are issued in the name of the HIA
- ensure the internal audit charter and plan are approved by the audit committee in accordance with the PSIAS.



## Core HIA responsibilities

### To fulfil Principle 1 the HIA should:

- ensure that internal audit's work is risk-based and aligned to the organisation's strategic objectives and will support the annual internal audit opinion
- identify where internal audit assurance will add the most value or do most to facilitate improvement
- produce an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## Commentary

### Independence and objectivity

The leadership team is responsible for the organisation achieving its objectives and for the underlying governance arrangements and effective frameworks of risk management and internal control. The HIA's unique role is to evaluate these arrangements and provide independent assurance on their effectiveness. So it is important that the HIA is independent of operational management and is seen to provide objective views and opinions. Where the HIA has responsibilities beyond internal audit the risks to independence must be recognised and adequate safeguards need to be approved by the audit committee and put in place to protect independence and objectivity.

### Broad scope of assurance

The leadership team needs regular assurance that the organisation has good governance arrangements and is effectively managing its risks. The assurance framework that provides this will have a number of sources including a clearly defined management accountability framework, performance management and risk management, together with internal compliance functions such as legal, HR and health and safety. Assurance is also available from external inspectors and agencies and external auditors. Some organisations use the 'three lines of defence' model to explain these relationships. Setting out this framework of assurance should also help in explaining to others how internal audit fits into the wider governance picture.

The annual HIA opinion is on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with PSIAS. It is the most important output from the HIA and is one of the main sources of objective assurance that chief executives and the leadership team have for their annual governance statement. The HIA opinion is unique within the wider assurance framework in that it is independent and objective and in accordance with professional standards. This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has. To build a robust opinion on the adequacy of the governance, risk and control framework the HIA will need to review and if appropriate place reliance on the work of others.

### Evidence-based assurance

The HIA's opinion must be well founded if it is to give proper assurance to the organisation and improve governance and control arrangements. This means internal audit planning must be well focused and in accordance with professional standards.

The HIA may look to the work of other functions, partner organisations and other agencies as evidence for their assurance. Here the HIA must understand the basis for their assurances and its adequacy and whether the HIA needs to carry out any additional review work. A summary of assurances given and relied upon should be included in the HIA's annual report.

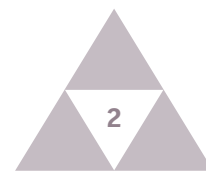
One of the HIA's key relationships must be with the external auditor. The role of the external auditor is to provide an opinion on the financial statements of the organisation together with wider reporting on value for money or best value. The external auditor will share internal audit's interest in the governance risk and control environment and both auditors should share their plans and findings on a regular basis.

### **Develop and implement a risk-based audit approach**

Risk management is key to the effective delivery of public services. Organisations are becoming more mature in how they identify, evaluate and manage risks and opportunities. The HIA should encourage the organisation to improve its approach to risk management and the HIA opinion on the adequacy and effectiveness of risk management will provide assurance on an annual basis.

The audit plan must identify the priorities for internal audit based on an assessment of the key risks to organisational objectives and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it. Responsibility for effective governance, risk management and control arrangements remains with the organisation; the HIA cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit plan cover all areas of risk across the organisation.

# \ principle 2



The head of internal audit (HIA) in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:

- Aligns with the strategies, objectives, and risks of the organisation.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should ensure that they:**

- establish top level commitment to the principles of good governance, recognising its importance for achieving strategic objectives
- set out the HIA's role in good governance and how this fits with the role of others
- recognise and support the role internal audit can play in providing advice and consultancy internally
- ensure that the HIA has the opportunity to advise on or provide assurance on all major projects, programmes and policy initiatives
- take account of the HIA's advice in new and developing systems.



## Core HIA responsibilities

### To fulfil Principle 2 the HIA should:

- work with others in the organisation to promote and support good governance
- help the organisation understand the risks to good governance
- give advice to the leadership team and others on the control arrangements and risks relating to proposed policies, programmes and projects
- promote the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality
- demonstrate the benefits of good governance for effective public service delivery and how the HIA can help
- offer advisory or consulting services where appropriate
- give advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence.

## Commentary

### Promoting good governance

Good governance is fundamental to establishing confidence in public services. All managers have a responsibility for exercising good governance but the HIA can promote the principles of good governance across the organisation through their assurance and advisory work, encouraging good practice. This is consistent with the Core Principles for the Professional Practice of Internal Auditing. The internal audit charter sets out the scope of internal audit activities and provides the opportunity to outline how the HIA will fulfil this role.

Good governance is core to achieving strategic aims and demonstrating that public money is used well. The HIA can support the leadership team in establishing, maintaining and improving governance by promoting the benefits of good governance, interpreting and advising on the application of governance principles as well as reporting on governance risks. There are also benefits for the HIA in taking such an approach as this helps staff and the audit committee see the wider purpose of internal audit's work and the support they can provide. While the HIA is not responsible for the organisation's public report on governance, the HIA can

provide support to ensure the assessment is robust and the statement itself is effective.

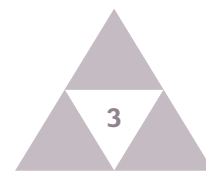
The HIA should understand the range of risks to good governance the organisation faces, such as entering into new collaborative arrangements, managing resource pressures or taking on new statutory responsibilities. The HIA should then assess how best to support good governance and organisational improvement.

### Advising on proposed developments

The HIA will seek to ensure the work of internal audit is aligned to the organisation's strategic goals and governance responsibilities. To facilitate this HIAs must be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. HIAs should be made aware of major new systems and proposed initiatives such as new collaborative or commercial arrangements to help ensure risks are properly identified and evaluated and appropriate controls built in. Managers and the HIA must therefore be clear on the scope of any internal audit work here and of the kind of advice that is given to ensure the independence of other audit work and the HIA annual opinion is not compromised.



# \ principle 3



The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.

The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:

- Is objective and free from undue influence (independent).
- Is appropriately positioned and adequately resourced.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement
- ensure that where the HIA is an employee they report functionally to a member of the leadership team. The HIA should be sufficiently senior and independent within the organisation's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to management
- engage constructively with the HIA and facilitate their role throughout the organisation
- ensure the audit committee terms of reference<sup>2</sup> includes oversight of internal audit including the monitoring of adherence to professional standards
- ensure the HIA's reporting relationship with the audit committee and its chair as set out in the internal audit charter is applied
- ensure the organisation's governance arrangements give the HIA:
  - direct access to the chief executive, other leadership team members, the audit committee and external audit; and
  - attendance at meetings of the leadership team and management team when the HIA considers this to be appropriate
- set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in arms-length bodies
- set out the HIA's responsibilities relating to organisational partners including collaborations and outsourced and shared services.

<sup>2</sup> In Local Government and Police CIPFA's Position Statement and supporting guidance include examples of audit committee terms of reference, including the committee's responsibilities for internal audit. [Audit Committee Practical Guidance for Local Government and Police](#), CIPFA, 2018



## Core HIA responsibilities

### To fulfil Principle 3 the HIA should:

- ensure the internal audit charter clearly establishes appropriate reporting lines that facilitate engagement with the leadership team and audit committee
- escalate any concerns about maintaining independence through the line manager, chief executive, audit committee and leadership team or external auditor as appropriate
- contribute to the review of audit committee effectiveness, advising the chair and relevant managers of any suggested improvements
- consult stakeholders, including senior managers and non-executive directors/elected representatives on internal audit plans.

## Commentary

### Senior manager

Heads of internal audit face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. Regardless of how the internal audit is provided the HIA must be able to operate at the heart of the organisation, challenging and supporting the leadership team with authority and credibility. They should also be seen as a leader, promoting improvement and good governance. To do this effectively, make an impact and add value, the HIA position must be at a senior management level.

The HIA must also have unfettered access to key people across the organisation, especially to the chief executive, leadership team and audit committee chair.

The HIA role must be filled by a named individual so that all are clear about lines of responsibility. Where the service is provided in-house this should be straightforward. Where the service is contracted out or shared with others then the organisation must decide whether the HIA should come from within the organisation or from the supplier of the audit service. In the latter case the relationship between the HIA and the organisation, including the audit committee, must be clearly set out and arrangements made to ensure there is adequate access and visibility of the HIA to the leadership team. In practice it is likely that the HIA will be the person who is responsible for drawing up the internal audit charter

and plan, issuing the HIA annual internal audit opinion and engaging with the audit committee.

### Engagement with the leadership team

The leadership team in public service organisations takes many forms, with different mixes of executive and non-executive members, as well as elected representatives. Collectively the leadership team is responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. The HIA must also have a right of access to individual members of the leadership team and should expect the support of the team consistent with reporting relationships set out in PSIAS.

Wherever the HIA is in the organisational structure the HIA will need to ensure and demonstrate adequate independence and objectivity. A senior position supports this, alongside appropriate safeguards if they have other management responsibilities.

### Engagement with the audit committee

The HIA's relationship with the audit committee, and especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The HIA must work closely with the audit committee chair so that they are clear about their respective roles and make best use of internal audit.

# \ principle 4



The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:

- Demonstrates integrity.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- provide the HIA with the status, resources, expertise and systems necessary to perform their role effectively
- ensure the audit committee contributes to a performance framework for the HIA and the internal audit service and takes action as appropriate
- ensure an external review of internal audit quality is carried out at least once every five years in accordance with PSIAS
- ensure the audit committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS.



## Core HIA responsibilities

### To fulfil Principle 4 the HIA should:

- lead and direct the internal audit service so that it meets the needs of the organisation and external stakeholders and fulfils professional standards
- demonstrate how internal audit adds value to the organisation
- determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives
- inform the leadership team and audit committee as soon as they become aware of insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given
- ensure the professional and personal training needs for staff are assessed and that these needs are met
- establish a quality assurance and improvement programme that includes:
  - ensuring professional internal audit standards are complied with
  - reviewing the performance of internal audit and ensuring the service provided is in line with the expectations and needs of its stakeholders
  - providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and audit committee; annually reporting achievements against targets
  - putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence-based and of good quality
  - seeking continuous improvement in the internal audit service
- keep up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate.

## Commentary

### Meeting the needs of the business

Effective governance is critical in public service organisations and internal audit needs to play its part. The HIA must have a firm grasp and understanding of the organisation's business as well as its control environment. This will allow HIAs to give an opinion to the leadership team on how well these arrangements are working.

Whether internal audit is provided in-house, through a shared service or outsourced, the internal audit resources available must be proportionate to the size, complexity and risk profile of the organisation and must be enough for the HIA to give a reliable annual internal audit opinion on the organisation's framework of governance, risk management and control. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation.

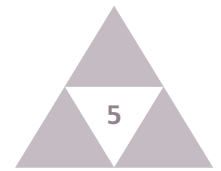
The HIA must set out the audit coverage and audit resources needed to give a sound, evidence-based annual audit opinion and must advise the audit committee and the leadership team where the available resources are inadequate and the consequences for the level of assurance that the HIA is able to give. Where concerns are raised by the HIA it is vital that they are listened to and the consequences understood.

### Appropriately developed internal audit skills

A great deal of reliance is placed on the work of internal audit and the HIA must ensure all the work, including planning and individual assignments, is consistently of a high quality and in line with professional standards. The HIA must also ensure that all staff demonstrate the highest ethical standards. The HIA therefore has a responsibility to ensure that internal audit staff have appropriate qualifications, knowledge, skills and competencies and have access to development opportunities.

The HIA must provide clear guidance for internal audit staff with appropriate quality assurance for internal audit as a whole and for each audit assignment. The HIA has a duty to ensure their staff comply with the PSIAS and must have systems to verify this. More widely the HIA should ensure they and the team are up to date on current issues affecting their organisation and on internal audit techniques and developments.

# \ principle 5



The HIA must be professionally qualified and suitably experienced.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:

- Demonstrates competence and due professional care.
- Communicates effectively.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- appoint a professionally qualified HIA<sup>3</sup> whose core responsibilities include those set out in the PSIAS as well as under the other principles in this statement and ensure that these are properly understood throughout the organisation
- ensure the HIA has the skills, knowledge and internal audit experience, together with sufficient resources to perform effectively in the role
- support continuing professional development of the HIA.



## Core HIA responsibilities

**To fulfil Principle 5 the HIA should:**

- be a full member of an appropriate professional body and have an active programme for personal professional development
- adhere to professional internal audit and ethical standards (and where appropriate accounting and auditing standards).

<sup>3</sup> PSIAS requires that the HIA must hold a professional qualification (CCAB, CMIIA or equivalent).

## Commentary

### Demonstrating professional and interpersonal skills

The HIA must be able to demonstrate their own professional credibility to exercise influence throughout the organisation. The HIA must be professionally qualified.

The HIA must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency, confidentiality, competence and reliability and promote these throughout the internal audit service.

The HIA must be able to operate effectively in different modes including directing, influencing, evaluating and informing. The HIA must be able to give objective opinions and advice even if this may be unwelcome and to intervene with authority where necessary. The HIA must be able to challenge the status quo and be a catalyst for change, achieving results through influence, without direct authority.

The HIA must be sensitive to the complexities and pressures facing organisations.

### Applying business and professional experience

The HIA must have an understanding and commitment to the organisation's wider business and its delivery objectives, to inspire respect, confidence and trust amongst colleagues, with the leadership team, audit committee and other stakeholders.

The HIA must have a good understanding of business processes and governance including strategic planning and performance, financial and risk management.

The HIA should be seen as a catalyst to improving governance and internal control and also supporting the organisation in its wider business objectives. The HIA's leadership must set the tone that good governance, risk management, and internal control matter to everyone in the organisation.

# personal skills and professional standards



This section sets out the personal skills and professional standards of the HIA that are necessary to support the five principles in practice.

## Principle 1

- Give clear, professional and objective advice.
- Report on what is found, without fear or favour.
- Demonstrate integrity to staff and others in the organisation.
- Exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are.
- Work well with others with specific responsibilities for internal control, risk management and governance including (as appropriate to the sector) the chief executive, chief legal officer, chief financial officer, audit committee, non-executive directors and elected representatives.
- Work positively and constructively, influencing the leadership team, audit committee and others to ensure the HIA's recommendations are implemented.
- Be a role model – dynamic, determined, positive and robust. They should demonstrate resilient leadership and the ability to inspire confidence and exemplify high standards of conduct.

## Principle 2

- Provide leadership by giving practical examples of good governance that will inspire others.
- Deploy effective facilitating and negotiating skills.
- Build and demonstrate commitment to supporting continuous improvement of the organisation.

## Principle 3

- Network effectively to raise the profile and status of internal audit.
- Adopt a flexible style, being able to collaborate, advise and challenge as appropriate.
- Build productive professional relationships both internally and externally.
- Work effectively with the leadership team and audit committee, showing political awareness and sensitivity.
- Be seen to be objective and independent but also pragmatic where appropriate.



## Principle 4

- Demonstrate leadership and be an ambassador for internal audit.
- Create, communicate and implement a vision for the internal audit service.
- Create a customer-focused internal audit service.
- Establish an open culture, built on effective coaching and a constructive approach.
- Promote effective communication within internal audit, across the broader organisation and with external stakeholders.
- Manage and coach staff effectively.
- Comply with professional standards and ethics.
- Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality.

## Principle 5

- Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consulting services.
- Understand and have experience of strategic objective setting and management.
- Understand the internal audit and regulatory environment applicable to public service organisations.
- Demonstrate a comprehensive understanding of governance, risk management and internal control.
- Undertake appropriate development or obtain relevant experience in order to demonstrate an understanding of the full range of the organisation's activities and processes.

# definitions used throughout the document

The public services have a wide variety of organisational structures and governance arrangements. The definitions used in this document are primarily based on those used in CIPFA's Role of the Chief Financial Officer Statement and in the Public Sector Internal Audit Standards (PSIAS).

## Annual governance report

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## Assurance

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.

Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the organisation's policies, processes and controls and the second being managers' own checks of this first line.

## Assurance framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## Audit committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## Board

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

## Chief financial officer

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

## Control environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## Governance<sup>4</sup>

The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

## Head of internal audit opinion

The opinion issued each year by the HIA on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The opinion is used by the chief executive in some public service organisations as a key source in drafting the annual governance report.

<sup>4</sup> The International Framework: Good Governance in the Public Services (CIPFA/IFAC, 2014)

### **Internal audit**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Leadership team**

Comprises the board and management team.

### **Managers**

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

### **Management team**

The group of executive staff comprising the senior management charged with the execution of strategy.

### **Public service organisation**

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned and receive public and/or charitable funding.

### **Risk management**

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.



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# East Lothian Council

Annual Audit Plan 2019/20

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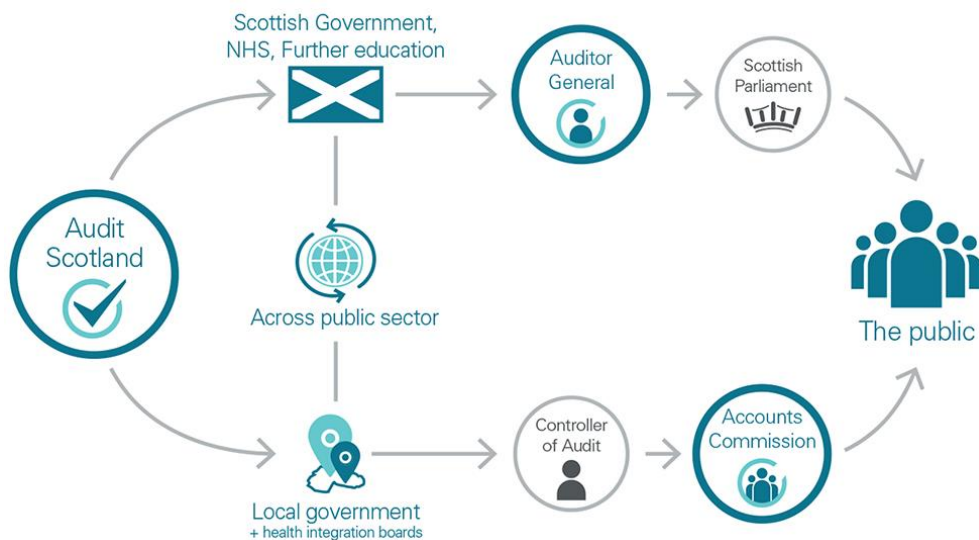
 AUDIT SCOTLAND

Prepared for East Lothian Council  
February 2020

## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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 significant risks for ELC. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent 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"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in income recognition.</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the</p>	<p>All income is reviewed monthly.</p> <p>Monthly monitoring and performance reporting for</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>



	Audit Risk	Source of assurance	Planned audit work
	<p>recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. 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 there is an inherent risk of fraud.</p>	<p>council tax and rental income.</p> <p>Specific grant/account codes used for other income and verified via monthly monitoring and bank reconciliations.</p>	
<b>3</b>	<p><b>Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. The extent of ELC's expenditure means 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"> <li>Review work on the National Fraud Initiative.</li> <li>Assess high level key controls in areas of significant expenditure.</li> <li>Focused substantive testing of expenditure and housing benefit transactions.</li> </ul>
<b>4</b>	<p><b>Estimation and judgements</b></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 five 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"> <li>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer(s).</li> <li>Focused substantive testing of asset valuations and asset useful lives.</li> <li>Focused substantive testing of provisions.</li> <li>Review of work by ELC to ensure adequate review, presentation and disclosure of provisions / contingent liabilities.</li> </ul>
<b>5</b>	<p><b>Financial management</b></p> <p>The 2019-20 Period 7 Financial Review highlights that £1.0 million of the £5.2 million planned savings in 2019-20 will not be delivered.</p> <p>The council reported an overspend of £2.5 million as at the end of October 2019, an increase of nearly £0.8 million from the Period 5 position.</p> <p>The Financial Review also identifies two service areas (Children's and Additional Support for Learning) as being at high risk of not operating within approved budgets.</p>	<p>Financial Prospects Report considered by Council in October 2019.</p> <p>Financial Strategy approved by Council in December 2019.</p> <p>Period 7 Financial Review approved by Council in December 2019.</p> <p>Budget Development Report and Administration draft proposals considered by Cabinet on 21 January 2020.</p>	<ul style="list-style-type: none"> <li>Review ELC's progress towards delivery of its transformation and savings plans as part of our normal audit procedures.</li> <li>Review of financial monitoring reports and the council's financial position.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>Collectively, service projections are forecasting an overspend of £5.0 million for 2019/20.</p> <p>There is a risk that the council will not operate within its 2019/20 budget and will not deliver the level of savings required.</p>	<p>Council budget to be considered by Council on 25 February 2020.</p> <p>2019-20 Q3 Financial Review to be considered by Council on 25 February 2020.</p> <p>The projected overspend of £5.0 million for 2019/20 will partially be offset by the savings from the Loans Fund Review carried out in 2018/19 (approximately £3.5 million). The remaining £1.5 million is being actively reviewed by CMT.</p> <p>Quarterly Financial Reviews presented to Council.</p> <p>Enhanced financial controls approved by Council in October 2019 will continue until the end of the financial year.</p> <p>Additional enhanced controls and monitoring are in place for service areas identified as high risk.</p>	
6	<p><b>Financial Management - Corporate Finance Review</b></p> <p>The council needs to conclude the finance service review / redesign to ensure that the service is fit for purpose and meets the needs of the council going forward.</p> <p>There is a risk that the review does not deliver the intended efficiencies or impact as desired.</p>	<p>A draft service review has been developed and this is being progressed as quickly as possible.</p>	<ul style="list-style-type: none"> <li>Ongoing review against progress of implementing the service review.</li> </ul>

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](http://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.

**8.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

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## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 February 2020	18 February 2020
Management Report	8 June 2020	16 June 2020
Independent Auditor's Report	22 September 2020	TBC
Annual Audit Report	22 September 2020	TBC

Source: Audit Scotland

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### The audit of trusts registered as Scottish charities

**9.** Members of ELC are sole trustees for the Dr Bruce Fund, a charitable trust registered as a Scottish charity, with total assets of £18,360 (2018/19). 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.

**10.** 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.

**11.** Based on our discussions with staff and planning work we have identified a risk relating to the overall operation of the Dr Bruce Fund. As of January 2020, the Dr Bruce Fund trustees had not met and there are no meetings planned for the remainder of the 2019/20 financial year. In addition, no grants have been awarded for 2019/20. The grants awarded in previous years were provided at Christmas (2018/19: £60; 2017/18 and 2016/17: £50) and to date no awards have been made in 2019/20. Given the lack of activity in the trust there is a risk that the trust is failing to meet its charitable objectives.

### Audit fee

**12.** The proposed audit fee for the 2019/20 audit of East Lothian Council, including the Dr Bruce Fund Charitable Trust is £247,080 (2018/19: £241,440). 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 by 30 June 2020.

**13.** 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

**14.** 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.

**15.** 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

**16.** 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.

**17.** 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.

# 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 in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 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 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**20.** We also review and report on statutory 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 review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## 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.

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
<b>Planning materiality</b> – This is the figure we calculate to assess 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 2020 based on the latest audited accounts.	£4.0 million
<b>Performance materiality</b> – 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
<b>Reporting threshold (i.e. clearly trivial)</b> – 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 report and accounts by those charged with governance	23 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	23 June 2020
Latest date for receipt of audited accounts for group components/ component auditor questionnaires	28 August 2020
Latest date for final clearance meeting with Head of Council Resources	7 September 2020
Issue of Letter of Representation and proposed independent auditor's report	14 September 2020
Agreement of audited unsigned annual report and accounts	By 30 September 2020
Issue of Annual Audit Report to those charged with governance	By 30 September 2020
Independent auditor's report signed	By 30 September 2020
Latest date for signing of WGA return	30 September 2020

## Internal audit

**25.** Internal audit is provided by ELC's Internal Audit section, overseen by the Internal Audit Service 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 the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**26.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**27.** 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.

**28.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work for payroll deductions, non-domestic rates and council tax. We will also place reliance on the procurement audit for our wider audit dimensions work as set out in [paragraph 32](#).

## 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.

### Financial sustainability

**31.** 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 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Financial management

**32.** 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 arrangements are in place to ensure systems of internal control are operating effectively
- whether the effectiveness of the budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how ELC has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption including arrangements in procurement.

### Governance and transparency

**33.** 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, and timely reporting of Group results to those charged with governance)
- whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Value for money

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.



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

### Best value

**35.** 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.

**36.** 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:

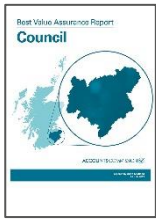
- the annual audit report for each council that will provide a rounded picture of the council overall
- an annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance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

**37.** The seven councils on which a BVAR will be published during the fourth 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 2020.

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## Exhibit 6

### 2019/20 Best Value Assurance Reports

	Aberdeenshire Council	Dundee Council
	Argyle and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

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**38.** ELC was the subject of a BVAR in 2017/18 published in October 2018. Best value work planned this year will focus on:

- ELC's arrangements for demonstrating best value in fairness and equalities
- the effectiveness and appropriateness of the arrangements in place for complying with the 2018 SPI Direction
- a follow up the 2017/18 ELC BVAR recommendations to ensure sufficient progress is being made against action plans.

### Independence and objectivity

**39.** 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.

**40.** The engagement lead (i.e. appointed auditor) for ELC is Gillian Woolman, Audit Director. The engagement lead for the Dr Bruce Fund is Esther Scoburgh, Senior Audit Manager. 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 or the Dr Bruce Fund.

## Quality control

**41.** 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.

**42.** 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.

**43.** 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.

# East Lothian Council

## Annual Audit Plan 2019/20

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

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Report	East Lothian Council Audit and Governance Committee
Author	Bill Axon
Date	18 February 2020
Action	To note

## Background – as previously this report generally covers the period 2018/2019

7

In October 2009, Enjoy East Lothian Limited (**Enjoy**) was established to manage, under contract, sports and leisure facilities and services on behalf of East Lothian Council (ELC). The current contract between **Enjoy** and ELC runs until 30 September 2021.

The facilities managed by **Enjoy** comprise six major sites and a number of satellites -

- Aubigny Sport Centre, Haddington.
- Loch Centre, Tranent.
- Musselburgh Sport Centre
- North Berwick Sport Centre
- Meadowmill Sport Centre, Tranent
- Dunbar Leisure Pool, Dunbar
- Recreation Park, North Berwick
- Foresters Park, Tranent
- Pinkie Playing Fields, Musselburgh
- Middleshott Square, Prestonpans
- Fisherow Bowling Green

**Enjoy** also manages a variety of other sports facilities throughout East Lothian, which includes -

- Grass Pitches and Pavilions
- Synthetic Pitches (2G, 3G and water based)
- Seasonal Facilities (putting, pitch and putt etc.)
- Tennis Courts
- Golf Courses (Musselburgh Old Course and Winterfield, Dunbar)
- Athletics Track
- Climbing Wall
- Stables Pavilion (catering provision)

All of the facilities are held on ELC's property portfolio with the exception of Dunbar Leisure Pool, which is wholly owned by Enjoy

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[www.Enjoyleisure.com](http://www.Enjoyleisure.com)

Delivering services for East Lothian Council. **Enjoy** East Lothian Ltd, also known as 'Enjoy' and 'Enjoyleisure'. Scottish Registered Charity Number: SC040527



**Enjoy** is a company limited by guarantee, governed by its memorandum and articles of association, and does not have a share capital. The company has charitable status under sections 466 to 493 Corporation Tax Act 2010 and its Scottish Charity Number is SC040527.

In order to secure charitable status, **Enjoy** must be entirely independent of ELC. Any perceived control exerted by ELC over **Enjoy's** business activities could threaten **Enjoy's** charitable status and be scrutinised by the Scottish Government.

The provision of services by **Enjoy** to ELC is governed by a contract between the two organisations. The only influence ELC is able to exert over **Enjoy** is in terms of this contractual arrangement for the management of its sport facilities, for which ELC makes a contract payment.

All of the employees engaged in the provision of the services are wholly employed by **Enjoy**.

**Enjoy** is Governed by a Board of voluntary Directors (non-executive) who have a wide and diverse range of skills and add value not only to Enjoy, but the partnership as a whole. East Lothian Council have four nominated representatives (Directors) on the Board who are, currently, Cllr John McMillan, Cllr Jim Goodfellow, Cllr Colin McGinn and Cllr Gordon Mackett. Enjoy is audited on an annual basis by an officially appointed professional auditor – currently Scott Moncrieff.

**Enjoy** has robust internal governance arrangements which are evidenced by a strong independent financial audit report. **Unqualified** Accounts for 2018/2019 were also reported. Additionally, Health and Safety and operating procedures are considered through external examination by our insurers.

In terms of contract governance:

- There are four Directors appointed by East Lothian Council to the Board of **Enjoy** (all Elected Members).
- The Council have an appointed contract monitoring officer at Senior Level.
- There are quarterly contract meetings held, chaired by ELC.
- Communication regarding service delivery between **Enjoy**, the Council and where necessary all local Elected Members is maintained at all times.
- Senior Council staff are also invited to attend Enjoy Board Meetings as observers.

The Business Executive led by Bill Axon is responsible for the day-to-day management of **Enjoy's** affairs, who are accountable to the Board of Directors.

The Non-Executive Board of Directors ensures that **Enjoy** conducts its affairs in accordance with its stated purpose. It sets the policies, strategies and objectives, and then presides over the Chief Executive and his staff who are responsible for delivering them.

The Board has been refreshed by the appointment of two new community representatives, namely Tim Day and Lesley Sutherland. At its AGM the Board elected Tim Day as Board Chair. As stated previously the Board consists of 4 Elected Members of East Lothian Council and a maximum of eight Community Representatives.

The Board is currently operating with a full complement of twelve Directors.

## Business Context

Enjoy's focus for the next 12 months is to work with its partners (ELC Property Maintenance) to resolve concerns regarding the Council's medium to long term asset maintenance programme for Sport and Leisure stock and drive forward improvements in terms of customer experience.

As reported last year, a key identified risk for business continuity is the lack of the Council's available capital investment for internal Sport Centre Services, which have been identified as becoming critical due to the age profile of facilities.

Enjoy will concentrate resources to deliver projects that will not only support the financial good of Enjoy but also attempt to bridge the Council's proposed reduction in contract payment to Enjoy for 2020/2021.

All opportunities to further develop commercial prospects will continue to be investigated, however, the approach to this requires to take account of the absolute requirement to provide a business model that provides quantifiable social benefit for the communities of East Lothian. Not to do so would compromise our approved charitable status as we would not be meeting stated objectives.

However, like other publically funded bodies, it would be foolish not to recognise the continued and significant challenge of reduced funds available for public services. We will continue to address this by:

- reducing management and administration costs
- targeted price increases
- developing new business opportunities
- workforce management

**Enjoy** fully accepts that to fulfil its commitment to the people of East Lothian, it needs to make up for any shortfall through efficiencies, management actions and income generation. However, it needs to be restated that due to the operational costs of managing such high demand facilities, it would be wholly unreasonable to rely on sport and leisure centres becoming self-sufficient /supporting anytime in the future.

**Enjoy** has previously been able to accommodate the annual reduction in the Council contract payment fee by significantly increased participation and membership numbers, which has created a business environment for the company of growth including income. Nevertheless, this has become more difficult due to the increase in health club provision, especially budget gyms on the perimeter of East Lothian, which have become a major competitor. There has been a reduction in gym memberships, however, some of those members who left have migrated back, due to the friendly environment offered and the significant variation and quality of services that are available to members.

It again needs to be recognised that with so many competing leisure activities within East Lothian, affordability is the key. Any significant increase in charges could be a deterrent to exercise for those suffering genuine financial hardship, and for whom increasing physical activity opportunities remains a priority target area for enjoy.

**Enjoy** and all its partners need to work together to look at alternative ways of increasing income. **Enjoy** needs to develop opportunities to collectively invest in a sport and leisure infrastructure, which will get more people physically active. It is accepted by all related professional bodies that such an approach will support and help to tackle some of the major health issues facing our region, such as obesity, diabetes and heart disease etc.

It should be noted that **Enjoy** delivers **annual** business rate saving to East Lothian Council, due to its charitable status, of circa **£750,000**. This is in addition to the reduction in contract payment, which equates circa £1million pounds 2009/2020, with **Enjoy** significantly increasing participation, opening hours and its support of local clubs during the same period.



**Enjoy** was formed to provide strategic and operational services throughout the whole of East Lothian, with the direct objective of ensuring that every key town was served by a major sport and leisure facility.

**Enjoy** is extremely proud that this objective has been achieved in extremely challenging circumstances.

It is clear that wider objectives are now being achieved by **Enjoy** which are demonstrated in this report. This adds resilience to **Enjoy** and delivers savings and strength to the Council in meeting its corporate goals. In addition to the contract performance/requirements, **Enjoy** continues to deliver 'added value' and success through local initiatives including working with Macmillan, NHS, local clubs and groups, employing a significant number of 'vocational trainees' and providing professional education courses.

## **Business Performance 2018/19**

Since its creation in 2009, **Enjoy** has seen continuing growth in its income streams, despite reductions in the contract payment by East Lothian Council year on year.

### **Contract Payment from East Lothian Council**

<b>2010 / 11 (first full year)</b>	<b>2018/19</b>
£2,787,612	£2,015,262

The above £2,015,262 contract payment equates to:

- 30% of **Enjoy's** total income

Since the first **full** financial year of operation 2010-11 to last year 2018-19 ELC's contract payment has decreased by 28% (£772,350).

Please note that if the figure for 2019/2020 is included, the above rises further and based on the proposed reduction for 2020/2021, this will have reached circa £1 million.

This is a significant saving for the Council and Council Tax payers. However, **Enjoy** has also provided a positive outcome of increased accessibility, business activity and users.

## **Challenges**

2018-19 was **enjoy's** most challenging financial year to date, which started with a £150k reduction in its contract payment from East Lothian Council. **Enjoy** also started the financial year in a deficit position, and as such the strategic objective for 2018/19 was to deliver efficiency savings across the organisation, whilst developing income generation initiatives.

## **Efficiency Savings**

- **Streamlining of Staffing Rotas**  
With the aim of delivering a more efficient and effective staffing structure, an extensive exercise was carried out to review each Sports Centre's staffing rota, and align this to needs of the organisation in terms of the activity programme delivered at each site. This included analysing the centre programme in 15min segments to identify the appropriate number of staff required to achieve each task. In doing so we were able to identify opportunity for growth/expansion of our coached activity programmes, whilst also make efficiency savings on staffing costs.





In addition, sufficient time was allocated to the Assistant Service Managers to be able to undertake all of their necessary administrative responsibilities.

This process is now complete for 4 of the 6 main sites. A saving of between 5 and 8 % saving on staffing costs has been realised with an average 98% efficiency in Leisure Assistant time. Ways have been identified to ensure staffing levels are targeted at times of greatest need and ensured consistency across all sites. The ability to 'cover' shifts due to sickness or holiday absence has been improved. Factored in has been the need to provide cover for additional swimming lesson teachers to cope with the ambitious Learn to Swim programme development plans, although more teacher resource will be required in order to fully implement these expansion plans.

- **Memberships Agreement with Mercat Gait Centre**

A partnership agreement has been in place with the Mercat Gait Centre (MGC) in Prestonpans, (which is managed by a commercial entity FES FM), to include the MGC within the **enjoy**leisure membership scheme. This enables customers signing up to the membership scheme at the MGC to also gain access to the gyms / swimming pools / health suites & fitness classes at the 6 East Lothian Sports Centres managed by **enjoy**leisure and vice-versa. A financial agreement was reached with FES FM to retain and maintain this arrangement.

- **Access to Leisure Price Increase**

in July 2018, a slight increase of 50p was made to the off-peak admission rate to the Access to Leisure scheme. Previously set at £1 per visit, this increase, although significant in percentage terms, still maintained a considerable saving to eligible participants of the scheme to standard admission prices. The increase was agreed by the sponsor of the scheme, East Lothian Council and was ratified by elected members.

## Headline Figures

### Visitor Numbers

Total visits across **enjoy's** services between 1<sup>st</sup> April 2018 – 31<sup>st</sup> March 2019 totalled 1,259,004.

### Membership Figures

Membership figures at 12<sup>th</sup> November 2019 stand at the following:

1. Gym membership: **4,287**
2. Swimming Lesson Membership **2,250**
3. Golf Course Membership (two courses) **1,098**
4. Access to Leisure (low income scheme) **3,224**
5. Sports award scheme (free access to elite athletes approved by ELC) **256**
6. Leisure Pass Discount Card **262**
7. Swim Tickets **1,600**

This gives **enjoy** a total of **12,977** affiliates within East Lothian, which is approximately **10%** of the population.

In December 2018, a brand new 24hour 'Pure Gym' facility was opened on the Edinburgh / East Lothian border, at Fort Kinnaird Retail Park. This is the first time that **enjoy** had experienced the introduction of a 'budget gym' competitor. It was predicted that this would have an impact on membership figures, especially given their opening promotional offer of £9.99 a month gym membership. As predicted, membership figures did take a hit in Q4.

### Staffing Compliment

As of May 2019, **Enjoy** employed 374 members of staff, (223 female and 151 male).

- 160 Permanent Staff (91 female : 69 male)
- 214 Casual Staff (132 female : 82 male)

### Headline Achievements

## COUNCIL OBJECTIVE: INCLUSION / SOCIAL BENEFIT

Across East Lothian, **enjoy** actively supports and encourages the participation of all ages and abilities within our sports facilities. The focus is on providing active choices as well as developing and delivering opportunities for the communities at large to engage and participate in activities to improve their overall health and wellbeing.

As such, **enjoy** keeps the social benefit for East Lothian at the forefront of its day-to-day decision making. Some of these benefits can be challenging to directly quantify; however examples of specific initiatives that are in place include:

- Operation of fully disabled access facilities and a range of activities for people with disabilities
- Delivering the Access to Leisure Scheme for eligible customers which allows reduced rates including use of facilities at certain times for an enhanced reduced rate
- Offering female only swim sessions (one session per week)
- Availability of low impact classes / activities for users with limited or restricted movement
- Offering discounted rates for Community Clubs
- Commitment to providing Employability Placements & Vocational Volunteer opportunities within our communities.
- Developing links with the NHS & Macmillan to create a dedicated position within **enjoy**leisure to engage with local people living with cancer and beyond.
- Provision of a safe, comfortable environment within café areas for people to meet

### Disabled Access

**Enjoy** actively encourages participation by all ages and abilities. Disabled friendly and accessible activities provided by **enjoy**leisure and local clubs offers customers access to athletics, badminton, archery, bowling, multi-sports, fitness classes, swimming lessons (for both infants and children) and a dedicated swimming club which has members that compete at a national level.

Via the Access to Leisure Scheme, qualifying East Lothian applicants are able to enjoy significantly discounted rates to make use of the facilities, making physical activity both accessible and affordable.

Furthermore, support was offered to casual customers visiting our facilities for the first time through links with specialist websites [www.disabledgo.com](http://www.disabledgo.com) and [www.euansguide.com](http://www.euansguide.com) which provide detailed descriptions of access and facilities available within the Sports Centres.

### Administering the Access to Leisure Scheme

Throughout 2018/19 the Access to Leisure scheme, which **Enjoy** administers on behalf of East Lothian

Council, provided entry to **enjoy** leisure facilities for **£1.50** per activity between the hours of 9:30am – 4:30pm Monday - Friday and discounted entry at all other times.


The Access to Leisure Scheme continues to be a popular and a well-utilised pathway for disadvantaged individuals and families across East Lothian to access sport and leisure activities.

## Access to Leisure Admissions

		2016-17	2017-18	2018-19
<b>Access to Leisure</b>		<b>48,191</b>	<b>40,698</b>	<b>35,609</b>
Single Admissions	Bodyworks Gym	9,328	10,011	8,639
	Free Weights Room	811	787	571
	Swimming	13,946	12,512	11,498
	Health Suite	3,634	2,847	2,451
	Racket Sports	2,168	1,699	1,845
	Crèche	1,400	1,183	1,086
	NB Trampolines	631	745	425
Classes	ASN Activities	582	799	363
	Fitness Classes	6,622	5,415	4,790
Booked Activities	Gymnastics	2,140	2,038	2,565
	Climbing Wall	44	61	67
	Swimming Lessons	6,597	1,788	312
	Summer Activities	288	190	132

NB: The decline in swimming lessons is not a true reflection of the number of Access to Leisure customers in lessons. As the lesson programme is primarily paid by direct debit, (of which Access to Leisure customers account for 10%, they are now counted in a different way. The above figure includes “cash” payments for lessons, not those paid by direct debit.

## Availability of Low Impact Fitness Classes

Being able to provide a pathway and foundation for participation is an important aspect of **Enjoy's** pledge to “inspire active living”. As such, as of April 2019 **Enjoy's** fitness class offering included 77 introductory 'Low Impact' classes - 25% of the classes on offer. Highlighted with a  symbol, these classes are suitable for individuals looking to make a return to exercise, without putting too much stress on joints. These classes have also attracted a significant portion of the 'senior' market and are incredibly well attended.

These classes include: Aqua Circuits | AquaFit | Ballet Stretches | BodyBalance | Fitness for All Funky Fitness | Fitness Fun | Fitness Pilates | Functional Fitness | Pilates | Stretch & Strength | Swimming | Yoga.

## Discounted Rates for Community Clubs



Throughout its history, **enjoy** has worked in collaboration with the Sports Clubs and organisations and (since their creation) the East Lothian Sports Hubs, to deliver a commitment to provide community access to East Lothian's Sporting Facilities.

A key focus of maintaining these relationships is being able to offer the clubs and groups, fit for purpose, well maintained and importantly affordable facilities. This not only ensures the clubs' long-term viability, but further enhances our commitment to deliver more specialised coaching and development activities for the benefit of the community.

### **Modern Apprenticeships & Vocational Volunteer Opportunities**

**Enjoy** continues to develop its partnership links with Direct Partners and East Lothian Works to offer work placements and volunteering opportunities across the organisation.

**Enjoy** has maintained and enhanced its relationship with Direct Partners, through their offering of Modern Apprenticeship opportunities. Through these links, **enjoy** has been able to upskill members of staff from across the organisation with workplace Modern Apprenticeships in Facility Operations, Business and Administration and Digital Marketing courses.

Through its relationship with East Lothian Works, **enjoy** has 11 long-standing vocational volunteers who work alongside leisure and café staff within main sites. These individuals subsequently benefit from an invaluable social engagement opportunity in a workplace environment.

These partnerships allow **enjoy** to provide training, development and volunteering opportunities; therefore providing a meaningful contribution to employment within East Lothian.

### **Macmillan Move More Programme**

In late 2018 **enjoy**leisure successfully secured funding from Macmillan Cancer Research in order to establish a Move More programme in East Lothian. The initiative provides funding for 3 years, within which **enjoy**leisure will establish its own physical activity programme for those living with and beyond cancer. To date, Shauna Cunningham has been appointed as the Part Time Macmillan Move More Coordinator (February 2019). She will lead the project for **enjoy**, and will in time be assisted by a Part Time Move More Facilitator, to deliver tailored exercise classes.

## **COUNCIL OBJECTIVE: HEALTH & WELLBEING**

### **Sports Centre Visitor Numbers**

**Enjoy's** services and facilities are at the core of East Lothian's major neighbourhoods. It is committed, along with its partners, to continuing to improve facilities by making them sustainable, accessible and equipped to the highest standard. This includes an extensive outdoor portfolio.

Total visitor numbers, including school use, clubs, spectators, and event use and café visitors in 2018-19 totalled **1,259,004** across all Sports Centres, Pitches, Seasonal Facilities and both Golf Courses.

When comparing 'transactional customers' – those customers who physically interact with reception (listed below) **enjoy** saw an increase of 0.1%.

	2016-17	2017-18	2018-19
3G Synthetic Pitch	2,756	3,354	7,774
ASN Activities - Dry	9,841	9,931	3,895
Athletics	219	347	589
Birthday Party Activities	12,617	13,665	12,308
Bodyworks Gym	119,580	117,992	117,084
Climbing Wall Activities	3,840	3,924	3,132
Crèche Activities	4,528	3,265	3,107
Dry Coached Activities	1,204	908	704
FASIC	273	236	172
Fitness Classes	146,721	153,966	152,838
Free Weights Room	12,740	11,904	11,984
Golf Visits	48,055	51,497	53,814
Grass Pitch & Pavilion	14,103	12,487	13,724
Gymnastics	23,883	24,985	24,361
Hall Events	1,413	1,643	1,440
Hall Hire	11,261	10,756	9,066
Health Suite	24,455	19,344	18,505
NB Trampolines	12,167	10,888	9,016
NPLQ Courses	176	146	69
Racket Sports	39,324	34,136	33,579
Room Hire	12,935	13,310	13,935
Seasonal Facilities	13,829	15,377	15,313
Soft Play	17,421	15,528	15,174
Summer Activities	2,888	1,797	750
Swimming	262,278	258,087	242,317
Swimming Lessons	66,887	75,909	101,551
Synthetic Pitch	2,744	3,274	1,940
<b>Grand Total</b>	<b>868,138</b>	<b>868,656</b>	<b>869,202</b>
		<b>0.5%</b>	<b>0.1%</b>

Some notable differences:

- Swimming lessons moved from 4 x 8-10 week blocks to running continuously 48 weeks of the year in Sept 17. 2018-19 subsequently is the first full financial year of running a programme of such duration, and this is reflected in the significant rise in swimming lesson figures.
- ASN Activities are now recorded and invoiced differently, and therefore are no longer recorded under 'transactional' customers but under group visits. As such, the drop in numbers indicated above only relates to 'pay and play' rather than ASN activities as a whole.
- The opening of Pure Gym at Fort Kinnaird Retail Park in December 2018 had an impact on membership figures, and particularly gym & fitness class visits in Q4, when a peak in uptake is normally anticipated.

## Gymnastics

The gymnastics programme continues to remain strong across the county, with the programme delivered at 4 sports centres; Aubigny, Loch Centre, Musselburgh Sports Centre and Meadowmill. For the first time we have encountered a competitor to the programme. Saltire Team Gymnastics, an East Lothian Club which continues to utilise **enjoy's** facilities, has set up its own premises at the neighbouring former Meadowmill Golf Range, and is now actively delivering and promoting recreational classes. There has been a slight decrease in our enrolment figures at Meadowmill and Loch Centre.

Opportunities have, however, been identified to recoup these losses by establishing a gymnastics programme at North Berwick Sport Centre. A public feasibility study was carried out via social media and in centre in January 2019, which indicated significant demand for such a proposition. A formal proposal has been drafted to include the purchase of gymnastics equipment and staffing to deliver the programme.

## Learn to Swim Programme

- Following the launch of the new Get in the Swim, a swimming lesson membership programme, in September 2017, the initiative has grown from strength to strength. Within the first year, a further 300 participants had joined the programme.
- As the expansion of lesson provision continues, a recruitment, training and development programme has been introduced to internally progress the development of Leisure Assistants through their Swimming Teacher qualifications. Furthermore, the swimming lesson schedule provides for dedicated CPD sessions for swim teachers to enhance and develop their skill sets. The Swim Coordinators, who are now in place, have begun mentoring and developing swim teachers to boost their confidence and capabilities.
- The Swimming Development Officer, Karen Ferguson, is now a qualified Swimming Teacher Tutor, meaning that we can progress the development of internal staff without sourcing external tutors. It also provides an opportunity to increase income by opening spaces up on courses to members of the public.
- The two appointed full time Swimming Coordinators have had their temporary contract extended for another year, with the intention of reviewing these posts in 2019/20

## Scottish Swimming Learn to Swim Provider of the Year Finalist

- We were also delighted to have successes within our Swimming Lesson programme recognised by industry partner Scottish Swimming. In September 2018, enjoyleisure was selected as one of 3 finalists for Scottish Swimming's Learn to Swim Provider of the Year Award. As part of the finalist nomination, Scottish Swimming attended lessons at Dunbar Leisure Pool, creating a promotional video with interviews with swimming teachers, Kristina Lorimer, Martin Cameron and Swimming Development Officer Karen Ferguson. Regrettably, **enjoy** missed out on achieving the award which went to Glasgow Life. However, to be identified as a finalist was an achievement in itself!

## Membership Schemes

## Fitness Memberships

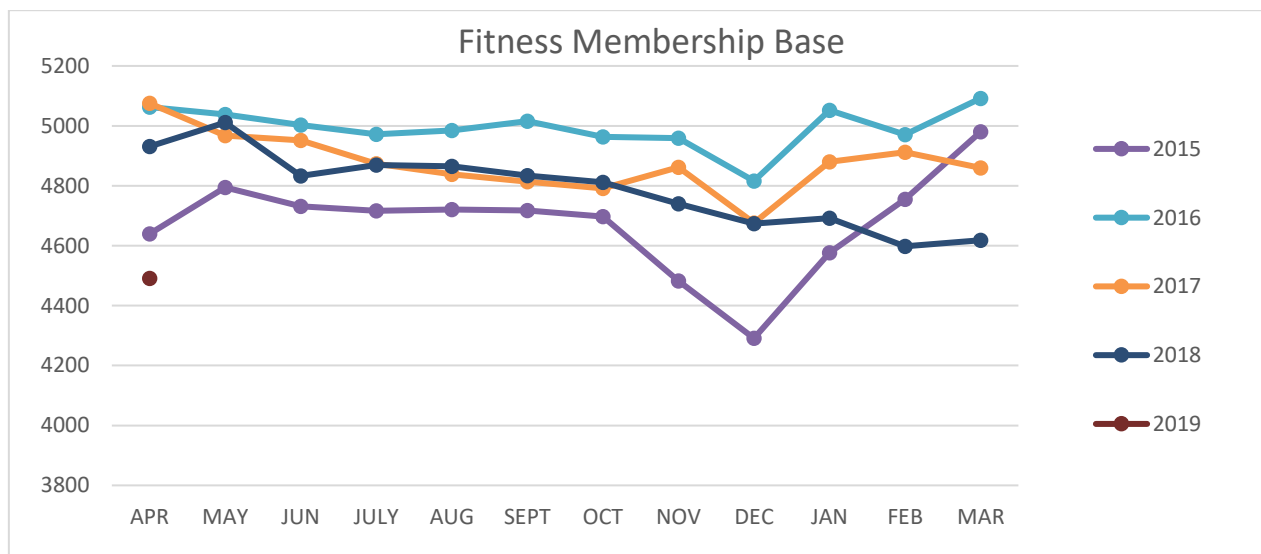
**enjoy**leisure's Fitness Membership Scheme offers adults (aged 16+) the opportunity to access the Bodyworks Gyms, Free Weights facilities, Swimming Pools, Health Suites and 300+ Fitness Classes across each of East Lothian's 7 Sports Centres for a monthly direct debit fee.

Since its redevelopment in 2012, the Membership Scheme has continued to be a major source of income for the organisation, and a focus of service delivery.

As detailed on the graph below, for the first time since its redevelopment in 2012, the membership scheme Q4 has seen a downturn in membership figures, where we have always previously witnessed an increase. As referenced earlier in the report, this is primarily due to the opening of budget-gym competitor Pure Gym on the western edge of the county at Fort Kinnaird Retail Park. Due to its proximity to Musselburgh, and access via the A1, four of the **enjoy** membership sites; Musselburgh, Loch Centre, Meadowmill and the Mercat Gait all saw an increase in cancellations in the opening months of the Pure Gym operation.

The total number of Fitness direct debit paying members:

	April 2017	April 2018	April 2019
<b>Fitness Memberships</b>	<b>4880</b>	<b>4931</b>	<b>4491</b>



The focus for 2019/20 is about re-evaluating the membership offering, identifying ways in which we can capitalise on USPs, and introduce retention strategies to engage with the existing membership base.

The focus remains on delivering an engaging, balanced variety of fitness classes, maintaining the quality of gym equipment and delivering ample opportunities for swim sessions across our facilities.

This has at times been challenging, especially when faced with unforeseen maintenance closures, in particular that of the Health Suites at Musselburgh and North Berwick.

## Fitness Classes

Fitness classes continue to be the biggest draw for fitness membership applications. It is therefore not surprising to see that 89% of fitness class attendees come from the membership base.

Keep Fit Classes	2018-19	%
Access to Leisure	4790	3%
Casual Customers	10441	7%
Discounted Customers	64	0.04%
Leisure Pass	1561	1%
Membership Inclusive	135,982	89%
<b>Grand Total</b>	<b>152,838</b>	<b>100%</b>

The fitness class programme is reviewed quarterly. At these points the class timetable is revised, introducing new classes in response to fitness trends and customer interest and popularity. At all times, **enjoy** strives for a balance between cardio, endurance, low impact and strength and conditioning classes to appeal to as large a customer base as possible.

In an effort to make efficiency savings, a number of under-performing classes were withdrawn from the programme, so that the focus is on delivering choice and variety to customers, without excessive costs.

Total Number of classes	April 2012	April 2013	April 2014	April 2015	April 2016	April 2017	April 2018	April 2019
	158	229	261	288	303	309	317	302

## Service Level Agreements with ELC

Partnership Service Level Agreements with East Lothian Council are reviewed annually. Throughout 2018/19 **enjoy** reviewed and confirmed extensions of its SLA agreements with Payroll services and IT.

A further agreement was renewed to provide **enjoy** employees with links and access to ELC's Training & Development opportunities. Likewise, **enjoy** renewed its Health & Safety SLA with the East / Midlothian partnership.

## In-house Human Resource Function

The HR function has now successfully transferred in-house, with both a full-time HR Business Manager and part-time HR administrator in post.

There were some teething problems following the transfer, especially surrounding access to existing HR systems, however these continue to be developed to meet the needs of **enjoy** as an independent organisation.

HR will play a critical part in achieving efficiencies with the development of a specific HR and People Development strategy that supports future work within Enjoy.



## Pay Award

Despite the financial challenges, **enjoy** remained committed to its workforce and through discussions with the Trade Unions was able to apply a 2% pay award to all employees. This was actualised in May 2018. Furthermore **enjoy** guaranteed to the Trade Unions that there would be no changes to staffing terms & conditions or redundancies during 2018/19.

## Staffing Establishment

There were a number of staffing changes throughout 2018/19. **Enjoy** upheld its commitment to the Trade Unions. However, where members of staff were retiring their positions were not filled, and their responsibilities were absorbed by the existing staffing complement. This included a full time head office administration team member and a part time staff trainer. Additionally the decision was made not to renew the contract of the social inclusion officer, at 4 hours per week.

Other staffing changes included the appointment of

Head Office Function

- Colin Sturrock as HR Business Manager, (end of March 2019)
- Shipra Srivastava as Finance Assistant, (August 2018)
- Lynsey Fletcher as Business Analyst, (March 2018)

Across the Front-Line Service

- 43 Leavers
- 48 New Starts

## Staffing Compliment

As of May 2019, **enjoy** employed 341 members of staff, (223 female and 151 male).

- 160 Permanent Staff (91 female : 69 male)
- 196 Casual Staff (132 female : 82 male)

## New Uniform Launch

On Monday 26th November 2018, we launched a brand new uniform for front-line staff. This included the creation of a bespoke uniform for enjoy incorporating purple and gold branded polo-shirts, black shorts/trousers, purple coach t-shirts, purple tabards for cleaners and refreshed black polo-shirts and purple aprons for café staff. A capital investment for enjoy, the new uniforms provided a bright, colourful and easily identifiable uniform for employees within the Sports Centres.

## Staff Training

Through the Future Workforce Development Fund we engaged with Edinburgh College in order to deliver a number of specific training courses for employees. This included:

- Leading & Motivating Teams x2 sessions - attended by 25 employees / out of possible 25
- Communication Skills x2 sessions – attended by 22 employees / out of possible 24
- Coaching & Mentoring x1 session – attended by 8 employees / out of possible 12
- Supervisory Skills (3 day workshop) – attended by 12 employees / out of possible 12
- Performance Management – attended by 8 employees / out of possible 12

- Senior Management Review – providing a brief summary of the provided sessions, and outcome / feedback from the participants
- Mental Health Workshop on Anxiety x1 – attended by 13 employees / out of possible 16
- Mental Health Workshop on Depression x3 - attended by 16 employees / out of possible 36

As part of **enjoy**leisure's participation in the Leisure Watch Scheme, 3 sessions were delivered throughout 2018/19 to provide training and support to staff to help them recognise concerning behaviour and act to stop it, making our public spaces safer for us all.

### **Direct Partners**

Enjoy's continued relationship with Direct Partners has allowed a further 3 Employability Placements to be made across the organisation. This is less than in previous years, however this was due to external funding restraints beyond **enjoy's** control.

Additionally, 2 employees completed Modern Apprenticeships in Level 2 Facility Operations, and went on to start Level 3 MAs in Supervisory Management. One employee started an MA in Level 3 Digital Marketing.

### **NPLQ Courses**

**Enjoy** has maintained the Institute of Qualified Lifeguard Approved Training Centre Status, which allows professionally trained staff to maintain their qualifications through in-house training. It also allows **enjoy** to offer National Pool Lifeguard Qualifications to the general public and through this the opportunity to explore additional income streams.

During the period of April 2018 – March 2019, 4 x NPLQ courses were offered to the public which resulted in 44 people attending the training. These courses generated £11,800 worth of income for the business.

The delivery of external NPLQ training courses now feature as a vital element of **enjoy's** continuing recruitment process, and frequently result in attendees going on to become relief and on occasion temporary and permanent members of staff.

## **Community Economic Investment**

### **North Berwick Sports Centre Refurbishment**

In November 2018, North Berwick Sports Centre closed its doors to the public for 5 days in order to undergo a refurbishment upgrade. This included replacement floor coverings in public entrance, reception café, and access hallways. Additionally, the pool hall benefited from new overhead lighting and a refurbishment of the pool-side shower area. Further improvements were made to improve the overall maintenance of the building.

### **Ormiston Pavilion**

Ormiston Pavilion became operational in May 2018. This is a community facility, with the local football club, Ormiston FC having priority booking rights under a User Agreement with East Lothian Council and **Enjoy**. The changing rooms and community space within the pavilion can be hired for multiple community purposes, and was, for example, used by the Ormiston Gala Committee during the summer.

### **Café Branding**



**Enjoy** provides a café provision within 5 of its Sports Centres, with a catering service available during special events at its 6th site, Meadowmill. New café branding materials were introduced at all sites, injecting some fresh-life into the look and feel of the café provision, with new menus, light-box displays and prominent café signage.

## IT Development

### General Data Protection Regulations

With the introduction of the new General Data Protection Regulations coming into effect on May 25<sup>th</sup> 2018, a considerable effort was made by **enjoy**leisure to realign its data collection, storing and sharing practices.

As well as updating all data collection material, this included a significant upgrade of the EPOS and customer data management system, Gladstone. Furthermore, a training programme was delivered to staff at all levels of the organisation, to embed the importance of the revised procedures required in terms of data collection, processing and security.

### IT Developments

A successful installation of the Gladstone EPOS system was installed at Winterfield Golf Course in April 2018, which has enabled a more efficient and seamless accounting of both users and income at the golf course.

In February 2019, **enjoy** completed the first installation of a new software programme, “Learn2”, provided by Gladstone. This allows for the electronic tracking and monitoring of participants within coached activity programmes. Linked via handheld iPads used by coaches, participants can be monitored and assessed against set criteria. This links back to a management portal used by administrators to manage the booking, movement and allocation of classes across the programme. The software also has the provision of a parental portal, which allows access for parents to monitor the progress of their child and process payments online. The system also includes a provision for enhanced e-communication with participants / parents. Considerable configuration is required to get the software up and running, which is being progressed in conjunction with the IT team at East Lothian Council.

## Sustainable East Lothian

**Enjoy** is a key economic driver within East Lothian, not only as a major employer, but also in attracting events and investment to underpin new activities for the benefit of targeted groups.

The organisation also contributes in making East Lothian a destination of choice to live, visit and work.

It is committed to working with its partners, East Lothian Council, to ensure environmental sustainability through investment when modernising the estate. This is entrenched in management decision making and the administration of the existing estate and in all planned refurbishments agreed with our partners East Lothian Council.

## Financial Performance

An annual audit of **Enjoy** was undertaken by an external auditor (Scott-Moncrieff), which reported an unqualified audit opinion. Extracts from latest audited accounts are shown below.

### Group Statement of Financial Activity For the year ended 31 March 2019

	Notes	Unrestricted Funds £	Restricted Funds £	Year to 31 March 2019 £	Year to 31 March 2018 £
<b>Incoming and endowments from:</b>					
<i>Donations and legacies</i>					
Voluntary income	4	32,309		32,309	25,053
<i>Charitable activities</i>					
Membership fees		1,794,168		1,794,168	1,759,385
Services		2,224,932		2,224,932	2,099,913
Management service fee	5	2,015,262		2,015,262	2,224,600
<i>Other trading activities</i>					
Trading subsidiary	22	639,139		639,139	600,242
<i>Investments</i>					
Investment income	6	-		-	6,930
<b>Total</b>		6,705,810		6,705,810	6,716,123
<b>Expenditure on:</b>					
<i>Charitable activities</i>					
Membership services	8	(7,260,567)		(7,260,567)	(7,012,490)
<i>Other</i>					
Trading Subsidiary	22	(661,267)		(661,267)	(699,282)
Net interest defined benefit scheme	11	(101,000)		(101,000)	(101,000)
<b>Total</b>		(8,022,834)		(8,022,834)	(7,812,722)
Net gains/(losses) on investments		-		-	-
<b>Net income/(expenditure)</b>		(1,317,024)		(1,317,024)	(1,096,649)
<b>Transfer between funds</b>					
<b>Other recognised gains/(losses):</b>					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes	11	(658,000)		(658,000)	940,000
Other gains/(losses)					
<b>Net movement in funds</b>		(1,975,024)		(1,975,024)	(156,649)
<b>Reconciliation of funds:</b>					
Total funds brought forward		3,913,333	15,855	3,929,188	4,085,838
<b>Fund balances carried forward</b>		1,938,309	15,855	1,954,164	3,929,189



**Group and Charity Balance Sheet  
As at 31 March 2019**

	Notes	Group		Charity	
		2019 £	2018 £	2019 £	2018 £
<b>Fixed Assets</b>					
Tangible fixed assets	12	6,183,131	6,470,901	6,183,131	6,470,901
<b>Current assets</b>					
Stock		80,909	70,822	61,749	53,329
Debtors	13	175,014	181,158	723,841	336,946
Cash at bank and in hand		1,159,351	1,204,800	622,520	1,029,427
		<u>1,415,274</u>	<u>1,456,780</u>	<u>1,408,110</u>	<u>1,419,702</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(651,241)</u>	<u>(752,492)</u>	<u>(582,248)</u>	<u>(675,715)</u>
<b>Net current assets</b>		<u>764,033</u>	<u>704,288</u>	<u>825,862</u>	<u>743,987</u>
<b>Total assets less current liabilities excluding retirement benefit scheme</b>		6,947,164	7,175,189	7,008,992	7,214,888
<b>Retirement benefit scheme (deficit)/asset</b>	11	<u>(4,993,000)</u>	<u>(3,246,000)</u>	<u>(4,993,000)</u>	<u>(3,246,000)</u>
<b>Net assets including retirement benefit scheme asset/(deficit)</b>		<u>1,954,164</u>	<u>3,929,189</u>	<u>2,015,992</u>	<u>3,968,888</u>
<b>Funds</b>					
	17				
Unrestricted funds		4,166,730	4,231,048	4,228,558	4,270,747
Unrestricted- Revaluation Reserve		2,764,579	2,928,286	2,764,579	2,928,286
Unrestricted- Pension Reserve		(4,993,000)	(3,246,000)	(4,993,000)	(3,246,000)
Restricted funds		15,855	15,855	15,855	15,855
Total funds		<u>1,954,164</u>	<u>3,929,189</u>	<u>2,015,992</u>	<u>3,968,888</u>



## Recommendations

That the Committee notes the information contained within this report.

## Addendum to the main report

Report	East Lothian Council Audit and Governance Committee – Enjoy Group Financial Accounts for the year ended 31 March 2019
Author	Scott Birse
Date	18 February 2020
Action	To note

### Background – this report covers the period 2018/2019

This paper reports upon the Financial Accounts for the Enjoy East Lothian Limited (**Enjoy**) Group for the year ended 31 March 2019. This paper supports Enjoy's report to East Lothian Council Audit and Governance committee.

The Enjoy Group includes Enjoy East Lothian Trading Limited.

All of the facilities are held on ELC's property portfolio with the exception of Dunbar Leisure Pool, which is wholly owned by Enjoy.

**Enjoy** is a company limited by guarantee, governed by its memorandum and articles of association and does not have a share capital. The company has charitable status under sections 466 to 493 Corporation Tax Act 2010 and its Scottish Charity Number is SC040527.

Enjoy is audited on an annual basis by an officially appointed professional auditors – currently Scott Moncrieff.

**Enjoy** has robust internal governance arrangements, which is evidenced by a strong independent financial audit report, which also reported **Unqualified** Accounts for 2018/2019. **Enjoy's** Accounts comply with the Companies Act 2006, the Charities Accounts (Scotland) Regulations 2006 (as amended), the Charities and Trustee Investment (Scotland) Act 2005 and all relevant accounting standards.

Bill Axon, Chief Executive  
0131 653 5202  
[baxon@Enjoyleisure.com](mailto:baxon@Enjoyleisure.com)

[www.Enjoyleisure.com](http://www.Enjoyleisure.com)

Delivering services for East Lothian Council. **Enjoy** East Lothian Ltd, also known as 'Enjoy' and 'Enjoyleisure'. Scottish Registered Charity Number: SC040527

## Financial Performance

An annual audit of **Enjoy** was undertaken by an external auditor (Scott-Moncrieff), which reported an unqualified audit opinion. Extracts from latest audited accounts are shown below.

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Investment income	6	-		-	6,930
<b>Total</b>		6,705,810		6,705,810	6,716,123
<b>Expenditure on:</b>					
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Membership services	8	(7,260,567)		(7,260,567)	(7,012,490)
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Cash at bank and in hand		1,159,351	1,204,800	622,520	1,029,427
		1,415,274	1,456,780	1,408,110	1,419,702
<b>Creditors: Amounts falling due within one year</b>	14	(651,241)	(752,492)	(582,248)	(675,715)
<b>Net current assets</b>		764,033	704,288	825,862	743,987
<b>Total assets less current liabilities excluding retirement benefit scheme</b>		6,947,164	7,175,189	7,008,992	7,214,888
<b>Retirement benefit scheme (deficit)/asset</b>	11	(4,993,000)	(3,246,000)	(4,993,000)	(3,246,000)
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Restricted funds		15,855	15,855	15,855	15,855
Total funds		1,954,164	3,929,189	2,015,992	3,968,888

## Financial Commentary

### Group Statement of Financial Activity

This statement represents the Group's Income and Expenditure Account and movement in Funds.

Overall, the Group reported Net Income/(Expenditure) of £(1.317)m for the year, which together with an actuarial loss on the pension scheme of £(0.658)m, gave a Net Movement in Funds of £(1.975)m, bringing the Total Funds carried forward to £1.954m.

The table below shows that excluding the £1.089m of Pension Scheme adjustments included in the Income & Expenditure Account for the year, the 'Core' Operating position for the **Enjoy** Group was a Net Deficit of £0.228m, representing an improvement on the prior year of £0.04m.

	Year to 31 March 2019	Year to 31 March 2018
	£	£
Total Reported Group Expenditure	(8,022,834)	(7,812,722)
<u>Exclude Pension Defined benefit scheme adjustments included</u>		
Defined benefit scheme adjustments	988,000	724,000
Net interest defined benefit scheme	101,000	101,000
= Core Operational Expenditure	(6,933,834)	(6,987,722)
Total Income	6,705,810	6,716,123
<b>= Core Operational Surplus/(Deficit)</b>	<b>(228,024)</b>	<b>(271,599)</b>

Total Income for the year ended March 2019 was £6.706m, which was flat overall on the previous year. The Management Service fee received from East Lothian Council was £2.015m, representing 30% of total income – this fee was £0.21m/9.4% lower than in 2017/18. Membership fees and income from other services increased in the year from £3.859m to £4.019m

Total reported expenditure was £8.022m, which was £0.21m higher than the previous year. Excluding the adjustments relating to the Defined Benefit Pension Scheme (of £1.089m in 2018/19 and £0.825m in 2017/18), core operational expenditure was £6.933m in 2018/19, which was £0.05m lower than in 2017/18 (£6.988m).

The Group position included the Trading Subsidiary's reported Income of £0.639m, Expenditure of £0.661m, representing an Operating Loss for the Trading Subsidiary of £0.022m, being an improvement on the prior year's Loss of £0.099m.

## Balance Sheet

The Tangible Fixed Assets value of £6.183m includes Land and Buildings (Dunbar) of £6.054m.

There are no material changes on the values of current assets and liabilities, relative to 31 March 2018:

- the value of Stock at £0.081m has increased by £0.01m
- Debtors at £0.175m is flat on the previous year.
- Cash at bank and in hand is £1.159m at 31 Mar 2019, which is £0.05m lower than end 2018
- Creditors has reduced by £0.1m as a result of Trade Creditors and VAT

The Deficit on the (Pensions) Retirement scheme increased from £3.246m at 31 March 2018 to £4.993m at 31 March 2019 – this increase in deficit of £1.747m was comprised:

• Net Interest earned on Plan Assets versus Interest cost (taken through Income and expenditure Account)	£(0.101)m
• Defined Benefit Scheme adjustments (taken through Income and expenditure Account) re service cost and employers contributions	£(0.988)m
• Actuarial remeasurements (taken through balance Sheet) re changes in financial assumptions £(1.566)m and return on assets £0.908m	(0.658)m
Net movement in Retirement Benefit Scheme Asset/(Deficit)	£(1.747)m

## **Recommendations**

That the Committee notes the information contained within this report.



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 18 February 2020  
**BY:** Fund Manager – East Lothian Investments Ltd  
**SUBJECT:** East Lothian Investments Ltd 2018/19

**8**

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2018/19.

**2 RECOMMENDATIONS**

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

**3 BACKGROUND**

- 3.1 East Lothian Investments Ltd (ELI), formerly East Lothian Economic Development Company (SC187674) - was formed in April 2001 by East Lothian Council (ELC) following the disaggregation of the Lothian Enterprise Board (LEB).
- 3.2 The aforementioned disaggregation resulted in the transfer of equity stakes in 5 East Lothian companies which, under local authority governance rules, ELC could not accept hence the requirement to form a company to take ownership of the shareholding.
- 3.3 ELI Ltd developed and implemented exit strategies for the investments and used the funds generated as an instrument for the development of the business base and therefore economy of East Lothian.
- 3.4 This instrument took the form of interest free loans to start-ups / businesses based within the county of East Lothian. The current ceiling for loans is £10,000 although this is discretionary and a higher level can be awarded depending on economic benefits / job creation and are repayable over 36 to 60 months with an arrangement fee of 5% of loan award to cover company overheads.

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

### **Governance**

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

### **Overall lending**

- 3.16 Since formation, ELI has awarded 338 loans to the value of £2,951,100 which has levered in private investment of £16,730,082. A total of 841 new

jobs have been created and 1,707 jobs have been protected since launch of the fund. Loans are unsecured but for limited companies personal guarantees may be taken if the board requests. The level of bad debts written off stands currently at 3.18%.

### **2018/19 Lending Activity**

- 3.17 Due to the level of lending in the previous year the loan fund became financially exhausted in August 2018 and was suspended. However, 7 applications for funding were received prior to August 2018; of which 5 were approved to the value of £83,000 which levered in private funds of £202,000.
- 3.18 It is projected that 10 new jobs will be created and 17 jobs will be protected.
- 3.19 Sectors awarded:-
- Finance – 1
  - Retail – 1
  - Food and drink – 2
  - Hospitality – 1
- 3.20 The loan book has currently 59 active loans.

### **Additional Funding**

- 3.21 Due to the loan fund being exhausted ELI Ltd in May 2018 approached ELC for additional funding to re-open the fund. This was viewed by the board as being extremely important due to the potential for a hard BREXIT and possible impact to the economy.
- 3.22 A loan of £300,000 was awarded in June 2019 at 1.5% above the Public Works Loans Board Three Year Annuity Rate. This equalled to an interest rate of 3.07% being charged.
- 3.23 This loan award from ELC has allowed the loan offering to re-open and 15 loans to the value of £136,000 have been awarded leveraging in £270,445 private funding.

### **East Lothian Gift Card**

- 3.24 In July 2018 the ELI board agreed to launch and deliver the East Lothian Gift Card (See appendix 1). This was based on the successful Christmas Shop Local programme run by ELC Economic Development for 10 years with the aim to keep spend local. ELC Economic Development funded ELI to cover the set up and running costs with a grant of £20,000.
- 3.25 The gift card is based on a money card which is presented to participating businesses that swipe through their credit / debit card terminal and are paid instantly. There is no cost to the business for participation in the initiative.

A supplier of gift cards was identified and website created:

<https://eastlothiangiftcard.co.uk/>.

- 3.26 Substantial back office systems were required to be implemented to run the programme including an e-payment SAXO bank account, card loading and management / financial reporting software, additional bank account with RBoS and a Paypal account.
- 3.27 The initiative, which is year round was launched in October 2018 and is delivered by the Fund Manager, the business development assistant of Economic Development and the support services administrator.
- 3.28 First quarter of the launch (October to December 2018) 127 businesses had signed up to accept the card with 235 cards purchased to the value of £12,824.
- 3.29 East Lothian is currently the only county in Scotland to have a county wide Gift Card programme.

#### **4 POLICY IMPLICATIONS**

- 4.1 None

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

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

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - None
- 6.2 Personnel - EDSI's Business Development Team manager, Business Development assistant and support services administrator.
- 6.3 Other – none

#### **7 BACKGROUND PAPERS**

- 7.1 Audit and Governance report 2017/18.

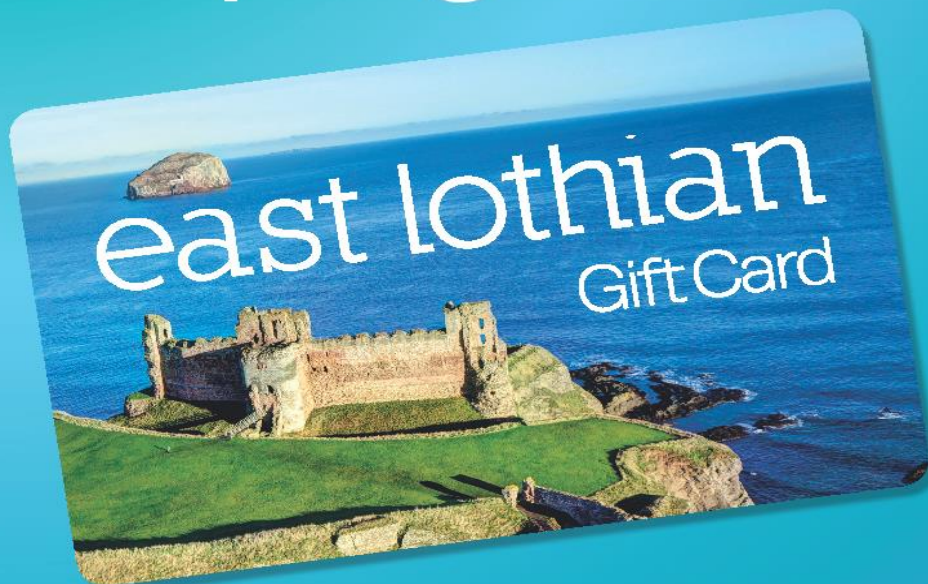
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<b>DATE</b>	25 January 2020



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**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 18 February 2020  
**BY:** Chief Executive  
**SUBJECT:** 2018-2020 Council Improvement Plan Monitoring Report

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9

## **1 PURPOSE**

- 1.1 To present the 2018 - 2020 Council Improvement Plan monitoring report to the Audit and Governance Committee.

## **2 RECOMMENDATIONS**

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

## **3 BACKGROUND**

- 3.1 The 2018-2020 Council Improvement Plan was approved by Council in December 2018. The seven actions in the Plan were based on the recommendations and actions identified by the Best Value Assurance Report. It was subsequently updated by Audit & Governance Committee in June 2019 with a further seven actions arising from the 2019 Corporate Governance Self-evaluation.
- 3.2 The monitoring report (Appendix 1) outlines progress that has been made in completing the actions in the Improvement Plan. It shows that several actions have been completed and significant progress has been made on the other actions. The deadline for completion of several actions has been extended but all actions will be completed by their deadline.

## **4 POLICY IMPLICATIONS**

- 4.1 The 2018-2020 Council Improvement Plan will assist the Council in demonstrating that it is achieving Best Value. It will provide the necessary

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

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 Appendix 1: 2018-2020 Council Improvement Plan Monitoring Report
- 7.2 Best Value Assurance Report; report to Council, 11<sup>th</sup> December 2018
- 7.3 Corporate Governance Self-evaluation and Annual Governance Statement 2018; report to Audit & Governance Committee, 18<sup>th</sup> June 2019

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<b>DATE</b>	6 February 2020

## Appendix 1: 2018 - 2020 Council Improvement Plan Monitoring Report (February 2020)

### Council Improvement Plan (Dec 2018 – June 2020) Update: February 2020

	<b>ACTION</b>	<b>LEAD OFFICER(S)</b>	<b>DEADLINE</b>	<b>UPDATE October 2019</b>
1	<p>Implement the Council Workforce Plan. The implementation plan has 48 actions within 7 workstreams:</p> <ul style="list-style-type: none"> <li>a) Workforce planning, including service workforce plans where relevant</li> <li>b) Employer of choice, including consideration of adopting a 'Staff Deal'</li> <li>c) PRD, performance and development</li> <li>d) Leadership and management development</li> <li>e) Wellbeing</li> <li>f) Recruitment, selection and retention</li> <li>g) Rewards and recognition</li> </ul>	Service Manager Corporate Policy & Improvement	The Plan is a four year plan and each action in the Plan has been allocated a deadline within for completion within the timespan of the Plan	Over 20 actions have been completed and progress has been made on the remaining actions. The timescales for completion of several actions have been extended but all uncompleted actions are still on schedule for being completed before March 2022. A full update report on the Plan will be presented to the March Joint Consultative Committee
2	Review all performance indicators and adopt a small set of key indicators that measure progress in achieving the Council Plan outcomes and strategic goals and work with the East Lothian Partnership to agree outcome measures and report on progress in reducing inequalities and growing the economy	Service Manager Corporate Policy & Improvement	Completed	A <a href="#">Continuous Improvement Framework (i2e)</a> with Top 10 and Top 50 Council Plan indicators has been agreed by Cabinet (12 <sup>th</sup> March 2019). The <a href="#">first annual report of these indicators</a> was presented to the October 2019 PPR Committee and formed the basis of the Council's Annual Performance Report.

				The East Lothian Partnership Governance Group has adopted a set of 34 Key Performance Indicators for the East Lothian Plan.
3	Review the format of the Council's Annual Report/ Annual Public Performance Report and how performance is reported to elected members	Service Manager Corporate Policy & Improvement	Completed	Revised formats for the Council Annual Report and Annual Public Performance Report, including the Top 50 Council Plan indicators formed the basis of the 2019 Annual Performance and 'State of the Council' report that was presented to Council (28 <sup>th</sup> October 2019).
4	Revise and then implement the Council's Continuous Improvement Framework to take on board improvements identified through the Recognised for Excellence Assessment	Service Manager Corporate Policy & Improvement	Completed	A revised <a href="#">Continuous Improvement Framework (i2e)</a> has been approved by Cabinet (12 <sup>th</sup> March 2019)
5	Revise and then implement the Council's Consultation and Engagement Strategy ensuring community and third sector organisations have opportunities to inform council policies, strategic plans and service improvement	Service Manager Corporate Policy & Improvement	Completed	The Consultation and Engagement Strategy has been revised and a new <a href="#">Guide to Community Participation Opportunities</a> is available on the Council website
6	Continue to embed transformational change across the Council and ensure it delivers expected improvement and benefits within planned timeframes, prioritising projects that are most likely to lead to major change and significant benefits	Chief Executive	Ongoing to June 2020	Transformation principles are being embedded across all services  Training in change management and innovation is being rolled out for managers

				Key Transformation projects (including the On-line HR/Payroll system and On-line Customer Portal) are being completed and capacity has been created to support the delivery of major change with significant benefits.
7	Continue to focus on improving education performance for all children and young people in East Lothian	Head of Education	Ongoing to June 2020	The council has adopted the <a href="#">Education and Children's Service Improvement Plan</a> and all schools continue to focus on improving attainment and on School Improvement Plans
<b>Actions added in June 2019 following Corporate Governance Self-evaluation</b>				
8	In order to ensure the council continues to have relevant governance policies, guidance, regulations and internal controls that are reviewed and kept up-to-date, a register of such documentation will be prepared and reviewed annually	Service Manager Corporate Policy & Improvement and Service Manager People and Governance	April 2020 – extend to June 2020	A Working Group with staff from relevant services is to be established to establish the register of documentation
9	Establish formal mechanism for evaluating partnership working and the effectiveness of partnerships based on an agreed partnership self-evaluation framework	Service Manager Corporate Policy & Improvement	April 2020 – extend to October 2020	The Community Justice Partnership has carried out a self-evaluation as a key component of a recent inspection from the Care Inspectorate

				The East Lothian Partnership is to undertake a self-evaluation exercise in spring 2020. The self-evaluation will draw on frameworks developed by Audit Scotland, the Improvement Service and EFQM. The experiences of carrying out this strategic self-evaluation will be used to inform and support self-evaluations of other partnerships
10	The council will explore the development of a Community Charter in partnership with civic society and the communities and citizens of East Lothian	Chief Executive	December 2019 – extend to June 2020	Work has commenced on developing the Community Charter but is being reviewed to reflect the development of the Climate Change Charter
11	The Council will need to ensure it meets any additional requirements to further develop community participation in decision-making arising from the Local Governance Review	Chief Executive	June 2020	Respond to next phase of consultation; review outcome of the Review and report on implications for East Lothian Council
12	Continue to review reporting and monitoring of expenditure against budgets and recovery plans in order to deliver outcomes within agreed budgets	Chief Operating Officer Finance	June 2020	Quarterly budget monitoring reports including updates on expenditure against budgets and recovery plans are presented to Council
13	The roll out and adoption of the Staff Charter will be monitored and the Charter will be reviewed	Service Manager Corporate Policy & Improvement	April 2020 – extend to June 2020	Roll out of publicity material around the East Lothian Way and the Charter is ongoing. The Employee Engagement Survey (Nov 2019) showed that 83.2% of staff 'are aware of the East Lothian Way'



				compared to 78.4% in 2018 and 76.6% in 2017. The review of the Charter will take place in spring 2020
14	The Council should review how the Improvement to Excellence framework and new Council Plan performance reporting is operating in Autumn 2020.	Service Manager Corporate Policy & Improvement	October 2020	A review of the <a href="#">Continuous Improvement Framework (i2e)</a> will be carried out in summer 2020



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 18 February 2020

**BY:** Chief Executive

**SUBJECT:** Education and Children's Services Risk Register

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**10**

## **1 PURPOSE**

- 1.1 To present to the Audit and Governance Committee the Education and Children's Services Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Education and Children's Services Risk Register is 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 and Children's Services Local Risk Working Group (LRWG).

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Education and Children's Services 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 and Children's Services 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 Children's Services 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 and Children's Services 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 and Children's Services Risk Register includes 1 Very High, 12 High risks, 9 Medium risks and 3 Low Risk. As per the Council's Risk Strategy, only the Very High and High risks are being 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 and Children's Services 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 None

Appendix 1 – Education and Children’s Services Risk Register 2020

Appendix 2 – Risk Matrix 2019

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<b>DATE</b>	6 February 2020



# Education and Children's Services Risk Register

Date reviewed: 27 January 2020

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			
E&CS 1	<p><b>Education and Children's Services Activity Pressures</b></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>There is a current issue in relation to the lack of capacity to meet the needs of those with Additional Support Needs. This is contributing to the need to place children out with East Lothian for care and education resulting in significant financial pressures in the External Residential Care and Education budget.</p>	<p>Work continues to accurately forecast trajectory of need and our capacity to meet legislative requirements and inform service development and financial planning.</p> <p>Strengthened scrutiny of decision making and access to resources for individual children and young people.</p> <p>Introduced comprehensive budget monitoring arrangements.</p> <p>Investment in preventive services aimed at reducing demand.</p> <p>Implementing a performance management and quality assurance framework.</p>				<p>Wider collaboration between Council and Partner Services and operational teams to develop new systems and processes to support new management team structure and deliver core services within budget.</p> <p>Review of services to vulnerable children is underway and includes recommendations for action for improvement across a range of services.</p> <p>Alongside the above review there is an ongoing inclusion and equity strategic plan being taken forward across Education and Children's services to support Early Intervention and prevention for our most vulnerable children and young people and this could mitigate against children and young people requiring to be placed externally at a later date.</p> <p>Implementation of the findings from the Council's Additional Support Needs review activity.</p>				<p>Head of Education and Children's Services</p> <p>Chief Operating Officers – Education and Children's services</p>	<p>December 2022</p> <p>March 2021</p> <p>March 2021</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk updated by Head of Service and Chief Operating Officer and title changed to Education and Children's Services Activity Pressures December 2019.</p>
E&CS 2	<p><b>Workforce Recruitment and Retention</b></p> <p>Lack of a skilled, sufficiently qualified and experienced staff resource or the unexpected loss of a key employee or employees could result in</p> <ul style="list-style-type: none"> <li>an inability to provide high quality assessment and support and increased pressure on existing staff</li> <li>a reduction in the quality and scope of the service resulting in lives and safety being put at risk.</li> <li>a lack of teaching staff could impact on our statutory duty to provide a quality of education for all learners.</li> <li>statutory duties not being met.</li> </ul> <p>There is a nationwide shortage of teachers, including supply teachers.</p> <p>East Lothian is currently expanding the School Estate which will require a significant increase in teacher numbers.</p> <p>East Lothian is competing with the private and independent sector and adjacent Partnerships to recruit staff.</p>	<p>Competitive salaries and working conditions in place in some areas.</p> <p>Recruitment and selection procedures adhered to and enhanced to attract more external applicants, with regular professional salary benchmarking.</p> <p>New approach to filling current vacancies, including maternity leave, and advertising/recruiting to supply list on an ongoing basis together with the appointment of permanent Primary supply teachers.</p> <p>Education is currently offering alternative routes into teaching to grow our workforce as well as continuing to engage with the relevant bodies SG, COSLA, Universities etc. to continue to explore possible solutions.</p> <p>Teacher Workforce Group established to review and develop further arrangements for recruiting new staff.</p> <p>Civil servants (Via COSLA &amp; Scottish Government) continue to inform the</p>				<p>The Service is exploring the use of digital learning and teaching for the Secondary Sector in engagement through partnership with other Local Authorities and the IRES City Deal.</p> <p>Continue to explore leadership opportunities across the service for all memberships of staff, linked to PRD's, focussing on leadership within schools.</p> <p>Continue to explore delivery of the Secondary curriculum through other partnership arrangements.</p>				<p>Head of Education and Children's Services</p>	<p>August 2020</p> <p>August 2020</p> <p>August 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risks on Recruitment of Head Teachers and Teachers across Primary and Secondary Schools, Lack of Skilled Staff and Workforce Recruitment combined into one risk December 2019.</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
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating			
			L	I	L x I		L	I	L x I			
	<p>There are currently particular issues with the recruitment to posts within the Denominational Schools.</p> <p>There is a national framework requirement for Head Teachers to possess the standards for headship qualification which may impact on recruitment to these posts.</p>	<p>national debate around permanent and supply teacher numbers.</p> <p>Continue collaborative working with Higher Education Institutes, neighbouring authorities, Teacher Education Partnerships, GTCS and Scottish College for Educational Leadership to develop and implement masters level learning programmes and build capacity within the authority through leadership programmes.</p> <p>Continue work with Edinburgh University to provide an appropriate course for returners to the profession which is currently being delivered and enhanced through local promotion.</p> <p>Professional Development Programme and commitment to a practice of "Growing our Own" (promoting staff from within) and a Learning Culture while all policy and guidance documents are checked and refreshed regularly.</p> <p>An Education Support Officer (Digital Learning) has been recruited temporarily to support taking forward new approaches to deliver the curriculum in the senior phase using digital technology.</p> <p>Annual HGIOC improvement plan and service workforce development plan.</p> <p>Successfully recruited to the Into Headship Programme.</p>										
E&CS 3	<p><b>Expansion of Early Learning and Childcare (ELCC) to 1140 hours.</b></p> <p>Scottish Government is implementing plans to expand ELCC to 1140 hours by August 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</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>Baseline established and updated on quality across all provisions and ELCC across all settings will be supported and monitored regularly by the early years team.</p> <p>Scottish Government National Standard and associated guidance in place and ongoing discussion/collaboration with partners.</p>	4	4	16	<p>Continue to engage with the Scottish Government Early Years team to ensure that risks are flagged and that the service is aware of expectations and demands and 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>Work underway to review current staff contracts and to recruit staff for August 2020. A county wide recruitment campaign will commence in early February along with a recruitment fair to attract new and returning staff to the profession. Continued work on new pathways in to the profession to be developed including our Foundation Apprenticeship and work in Tots and</p>	3	4	12	<p>Head of Education and Children's Services</p> <p>Head of Council Resources</p> <p>Head of Finance</p> <p>Chief Operating Officer Education</p>	<p>August 2020</p> <p>August 2020</p> <p>August 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk reviewed by Head of Education and Children's Services January 2019 with no change to assessment of current score.</p>



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	<p>longer financially viable or meet the quality standard.</p> <p>Given the very high numbers of staff required for August 2020, there is a risk of not being able to recruit sufficient staff to deliver on this commitment for August 2020.</p> <p>The impact of this risk would be that the families do not receive their entitlement to Early Learning and Childcare.</p>	<p>1140 is now a standing agenda item for CMT at their fortnightly meetings. These meetings are focussed on the targeted areas of work to deliver 1140 by August 2020 and report on key priorities taking place.</p> <p>Relationships are well established with neighbouring authorities as is learning from other approaches and ensuring that progress is on track.</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 &amp; consider risks associated with delay.</p>				<p>Teens in 5 of our 6 secondary schools.</p> <p>Ongoing work to monitor and enhance quality of Early Learning and Childcare delivery.</p>					August 2020	
E&CS 4	<p><b>Additional Support Needs</b></p> <p>There continues to be an increase in the number of children with Additional Support Needs across the County due to population growth 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>Currently there is insufficient specialist provision within the authority to meet the needs of Children with Additional Support Needs which is resulting in financial pressures through the use of external provision and impacts on the learning and progression of young people with ASN.</p>	<p>The Council continues to monitor and track 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 &amp; 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>ASN External Review activity completed during 2019 and recommendations being taken forward 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>Implement revised multi-agency GIRFEC Pathway to ensure children's needs are identified at an early stage and intervention is effective in reducing risk and need.</p> <p>Joint Workforce Development Strategy to be developed.</p> <p>Additional staffing resource identified to monitor and track ASN transport and review procedures to secure best value.</p> <p>Improve capacity to meet needs of the increasing numbers of Children and Young People with ASN to inform future budgetary requirements and service needs.</p>	3	4	12	Head of Education and Children's Services	December 2020  August 2020  March 2021  August 2020  August 2020	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>New risk identified by Acting Service Manager - Education (ASN &amp; EPS) and updated by Head of Education and Children's Services January 2019.</p>

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E&CS 5	<p><b>Management of Capital Assets</b></p> <p>Failure to maintain up-to-date information on the Condition and Suitability of our Capital Assets 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 capital assets to the required standard could result in them falling into an unsatisfactory condition and being unsuitable for current use leading to potential closure and re-provision of care/teaching in alternative locations at increased cost to the Council.</p> <p>Failure to make timeous responses to planning applications and identifying the impact of proposed developments could result in delays to determining applications and potential claims from applicants.</p> <p>Risk that Learning Estate Review is delayed due to capacity within current teams.</p>	<p>There is a rolling programme of condition and suitability surveys, using new government guidance, to identify deterioration in building quality and for Primary schools the findings are reported on annually to Scottish Government through SPI data return.</p> <p>Regular maintenance of the assets.</p> <p>Reports to the Corporate Asset Group will highlight risks which cannot be managed and may impact on the operation or safety of the assets.</p> <p>Regular engagement with Care Inspectorate re-quality of care environment.</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>Significant work has been undertaken through the LDP process to establish the likely impact of proposed development on the Education estate resulting in more robust information for responding to planning applications.</p> <p>Education and Strategic Asset Management teams work closely to analyse the data provided by Education and identify requirements arising as a direct result of proposed development.</p> <p>An enhanced and robust school roll projection and class organisation system is in place in Education which determines the future capacity needs of schools.</p> <p>Regular review meetings are held between Education, Planning, Finance and Strategic Asset and Capital Plan Management to review school development programmes and projects.</p>				<p>Review on provision of the residential estate including contingency planning for re-provision of Lothian Villa (Meadowmill).</p> <p>There is a plan to review the way we work which will include use of buildings and the future use of Randall House.</p> <p>Plans are in place to establish a cross-service Learning Estate review team although capacity to progress this within current resources is limited.</p>				Depute Chief Executive – Resources and People Services	<p>July 2020</p> <p>July 2020</p> <p>September 2020</p>	<p>Risk refreshed January 2020 by Service Manager – Strategic Asset &amp; Capital Plan Management, increasing current score to 16 and residual risk to 12 and changing risk responsibility.</p> <p>Risk amalgamated with Standard of our buildings risk to create new risk December 2019.</p>

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E&CS 6	<p><b>Impact of Changing Demographic on School Estate</b></p> <p>There continues to be 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 may lead to not having suitable school provision or sufficient capacity 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 to review programme for school requirements. Changes which may impact on capital investment escalated to Education &amp; Finance to consider.</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>	3	4	12	<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, substantially funded by S75 contributions from new housing development.</p> <p>Contingency plans being developed to mitigate against risk, including recruitment of additional temporary technical staff.</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>	3	3	9	<p>Depute Chief Executive – Resources and People Services</p> <p>Chief Operating Officer - Education</p> <p>Service Manager - Strategic Asset &amp; Capital Plan Management</p>	<p>April 2024</p> <p>July 2020</p> <p>July 2021</p> <p>October 2020</p>	<p>Risk refreshed by Service Manager – Strategic Asset &amp; Capital Plan Management Jan'20 with current risk reduced from 16 to 12.</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 and Children's Services January 2018 with Current score increased from 12 to 16 and residual score from 8 to 12.</p>
E&CS 7	<p><b>Statutory Requirements</b></p> <p>Failure to deliver the duties of Education and Children's Social Work Legislation may put a child at significant risk or result in children and young people not receiving their entitlement to education.</p> <p>This failure could be due to a lack of resources (financial, services or staffing), poor practice, lack of training, a failure to prioritise, non-compliance with procedures/guidance or failing to intervene early enough. This could result in reputational damage and an impact on budgets and staff morale.</p> <p>There are increasing requirements from the Government e.g.</p> <ul style="list-style-type: none"> <li>• Pupil/Teacher ratio,</li> <li>• 600/1140 hours of childcare and</li> <li>• Continuing Care,</li> <li>• the Scottish Child Abuse Inquiry</li> <li>• Carer's Act</li> <li>• SDS</li> </ul> <p>the forthcoming recommendations of the Independent Care Review which creates a need to think creatively around budget deployment to meet needs</p> <p>There is currently a National and Local increase in the spontaneous arrival of unaccompanied asylum seeking children and young people with legislative responsibility to provide care and support.</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 in collaboration with finance colleagues and Head Teachers.</p> <p>Staffing is continually monitored to ensure we meet the required Pupil to Teacher ratio at September Census point.</p> <p>Continual updating of SEEMIS records to ensure accurate and up to date information is held.</p> <p>Early Years Strategy includes the required capital and revenue investment to deliver the Scottish Government's 1140hrs programme.</p> <p>Strategy to increase local Fostering capacity is being implemented and Kinship Care policy and approach is being reviewed and strength. Regulated care services are inspected regularly resulting in improvement plans.</p> <p>Phase 1 of the vulnerable children's project has confirmed the full range of statutory obligations for children's social</p>	3	4	12	<p>Continue to ensure Head Teachers are mindful of the Pupil/Teacher ratios and monitor staffing levels more rigorously to mitigate against not meeting the required ratio.</p> <p>Implementation of New ASN Structure is required to meet Statutory Requirements.</p> <p>Implementation of phase 2 of the vulnerable children's project is required to meet the longer-term recommendations that will support the service to deliver statutory requirements within budget.</p> <p>A capital investment bid for IT has been submitted for the replacement of Mosaic and IIE.</p>	3	3	9	<p>Head of Education and Children's Services</p> <p>Head of Council Resources</p> <p>Deputy Chief Executive – Resources and People Services</p> <p>Head of Finance</p> <p>Chief Operating Officers – Education and Children's services</p>	<p>August 2020</p> <p>March 2021</p> <p>March 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk further reviewed and updated November 2018 with current risk score reduced from 16 to 12.</p>

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	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 dissatisfaction and damage the reputation of the Council. The opportunity is to create new propositions and service offerings.	work services to allow managers to benchmark our service offer.  Additional Support Needs, Inclusion Policy, External Placement and GIRFEC processes are being reviewed by Education and Children's Services.										
E&CS 8	<p><b>Educational Attainment</b></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>Curriculum frameworks have been developed across all areas to improve continuity and progression in learning with the broad general education.</p> <p>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).</p> <p>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. Targets have been set for schools and the authority.</p> <p>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.</p>	3	4	12	<p>Raising Attainment Strategy being developed along with Education Scotland Attainment Advisor.</p> <p>New improvement targets to be set for schools to increase attainment and improve performance.</p> <p>Continue to develop an authority wide model for the Senior Phase that incorporates all elements of the curriculum.</p> <p>Continue to develop partnership arrangements with QMU and Edinburgh College to broaden the curriculum as part of the DYW recommendations by August 2020.</p> <p>East Lothian Works to work with Early Learning and Childcare Team to develop a career path for potential future Early Years Practitioners.</p> <p>Collaboration through South East Improvement Collaborative.</p>	3	3	9	Chief Operating Officer - Education	<p>August 2020</p> <p>August 2020</p> <p>August 2020</p> <p>August 2020</p> <p>August 2020</p> <p>August 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk further reviewed and updated November 2018 with current risk score reduced from 16 to 12.</p>



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			L	I	L x I		L	I	L x I			
E&CS 9	<p><b>Safe Professional Social Work Practice</b></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 and a failure to resource learning and development function within Children's Services and Public Protection Committee.</p> <p>Children's lives and safety put at risk due to a failure by staff to record or access salient information which may be due to a lack of understanding of the functions of Mosaic and E-IRD or the failure to share appropriate chronologies and risk information with partner agencies.</p> <p>Risk to case transfers from other LAs failing to provide the appropriate information on the child/family.</p>	<p>Prioritise maintenance of adequate staffing levels for Child Protection and other work with vulnerable children</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 focusing on specific and agreed development needs.</p> <p>Services comply with required professional registration standards for all staff e.g. SSSC,</p> <p>"Safer Recruitment" practices and PVG Checks embedded.</p> <p>Monthly monitoring of staffing levels.</p> <p>Public Protection Office and Committee oversee core elements of Child Protection performance, improvement, policy and procedure.</p> <p>Regular monitoring and learning from incidents including through initial and significant case reviews.</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 way cases are recorded and risks identified.</p> <p>Leadership training is being rolled out to team leaders and senior practitioners. This includes the promotion of resilience.</p> <p>Provision of a joint workforce development plan with Education.</p> <p>Implementing a quality assurance and performance management framework.</p> <p>Children's Services practice guideline standards are being refreshed and rolled out.</p> <p>The Signs of Safety Practice model is being reviewed and implemented further across the service.</p> <p>The Safe and Together domestic violence support model is being implemented.</p> <p>File audit system which ensures closer scrutiny and subsequent improvement in practice to be further developed.</p>	3	3	9	Chief Social Work Officer	<p>June 2020</p> <p>December 2020</p> <p>March 2021</p> <p>March 2020</p> <p>June 2020</p> <p>June 2020</p> <p>March 2020</p> <p>March 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk further reviewed November 2019 with no change to assessment of current score.</p>
E&CS 10	<p><b>East Lothian Works (ELW) – Impact of Brexit on Grant Funding (European Social Fund - ESF)</b></p> <p>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 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.</p>	<p>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 employment to the end of the current European Social Fund programme period.</p>	3	4	12	<p>Undertaking an East Lothian Works Service Review to identify staffing levels required to maximise use of ESF funding including consideration given to temporary posts to support the core team.</p> <p>Continue to monitor Brexit scenario and review implications on levels of funding if required.</p>	2	4	8	Head of Education and Children's Services	<p>March 2020</p> <p>March 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p>

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E&CS 11	<p><b>School Premises Security</b></p> <p>If our School Premises are not properly safeguarded then unauthorised persons could gain entry and cause damage (fire, vandalism etc.) to property or to persons which could lead to our assets being unavailable for use, facing potential closure and re-provision of care/teaching in alternative locations at increased cost to the Council and/or in need of repair in turn leading to adverse publicity.</p>	<p>Security and safety risk assessments are carried out regularly at all Education premises while each school has its own individual security arrangements such as fencing, building access, CCTV etc.</p> <p>Business Continuity Plans in place.</p> <p>Insurance Renewal Programme.</p> <p>Head Teachers briefed on importance of their role as Head of Establishment to ensure security of buildings and that business continuity plans are up-to-date.</p>	3	4	12	<p>An cross-service project team to progress the Learning Estate Review as soon as capacity in current teams is identified with school security to be included as part of the learning estate review.</p>	2	4	8	<p>Depute Chief Executive - Resources</p> <p>Head of Education and Children's Services</p> <p>Service Managers - Education (Strategy &amp; Ops)</p> <p>Service Manager - Strategic Asset &amp; Capital Plan Management</p>	August 2020	<p>Risk refreshed by Service Manager – Strategic Asset &amp; Capital Plan Management, increasing current score from 8 to 12 and residual risk from 4 to 8.</p>
E&CS 12	<p><b>Management of Education Resource</b></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 i.e. Pupil Equity Fund (PEF) brings about additional budgetary pressures in relation to the retention of staff who could be surplus to requirements.</p> <p>This could result in 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, as well as, 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 be external scrutiny bodies such as Education Scotland.</p>	<p>DSM guidance in place and support provided to Head Teachers (HTs) and Business Managers through Education 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 and clear guidance is available for HTs.</p> <p>HTs submitted proposals on how they intend to use the funding, indicating expected impacts/outcomes it will have in relation to closing the attainment gap. Central department officers work collaboratively with HTs to support and challenge, to ensure the proposals are robust. Impact will be monitored throughout the school session.</p> <p>Database of staff appointments held and monitored to identify those funded through PEF as well as additional resources being incurred and the impact they are having in relation to the supports/interventions put in place.</p> <p>Close working with HR and Finance colleagues to manage the impact this additional workforce has long term.</p> <p>Central management information team undertaking data gathering, recording, analysis to inform and measure progress in raising attainment.</p> <p>Additional resources allocated to central Education, HR, Finance and Procurement services to support and implement the effective use of PEF.</p>	3	4	12	<p>Management of resources professional development opportunities being developed for middle leaders to build their capacity for future leadership responsibilities.</p> <p>Undertake a review of the Scheme of Devolved School Management taking account of national guidance produced in 2019.</p>	2	4	8	<p>Chief Operating Officer - Education</p> <p>Head Teachers</p>	<p>August 2020</p> <p>April 2021</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk further reviewed February 2019 by Head of Education and Children's Services 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>

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		<p>Close liaison with HTs and colleagues in Finance, HR and Procurement to support, monitor and record additional staffing and resources put in place.</p> <p>Quality Improvement Team monitor the impact at school level through discussions with HTs and looking at attainment data results.</p> <p>Regular meetings with Education Scotland Attainment Advisor to discuss and monitor progress.</p>										
E&CS 13	<p><b>IT Infrastructure</b></p> <p>The IT infrastructure may not be sufficient to support the use of digital technologies moving forward.</p> <p>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.</p> <p>There is also a risk that a lack of investment in digital technologies may impact on our ability to attract staff to teach in our schools and also inequity in provision in relation to access to technology for our pupils.</p>	<p>Collaborative working between IT ICT and Education continues in respect of addressing the needs of schools and the wider services.</p> <p>Two Temporary Education Support Officers (Digital Learning) were recruited to support the implementation of digital learning across the school learning estate.</p> <p>Review undertaken and paper produced on Digital Learning and Teaching Strategy.</p> <p>An on-line learning environment for all students to reflect the way young people can now learn is in place and proving successful.</p> <p>The Council has a partnership agreement with Education Scotland Technology Team to assist with the delivery of enhancing staff and pupils' digital skills.</p>	3	4	12	<p>Finalise and implement the Digital Learning and Teaching Strategy which is dependent upon appropriate finance.</p> <p>Work with schools to encourage them to promote the effective use of current and future ICT resources.</p> <p>A programme of staff development being put in place to upskill the workforce in schools to support the delivery of digital learning.</p> <p>Collaboration through City Deal to support workforce development and delivery of digital data.</p>	2	4	8	<p>Head of Education and Children's Services</p> <p>Service Manager Education (Strategy &amp; Ops)</p> <p>Service Manager - IT Infrastructure</p>	<p>April 2020</p> <p>April 2020</p> <p>August 2020</p> <p>August 2020</p>	<p>Risk reviewed and refreshed at a Risk Session with managers 20 January 2020 with no change to assessment of risk scores.</p> <p>Risk further reviewed and updated November 2018 with no change to assessment.</p>





**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:** 18 February 2020  
**BY:** Chief Executive  
**SUBJECT:** Health & Social Care Partnership Risk Register

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**11**

## **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 is 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 7 High risks and 12 Medium risks. As per the Council's Risk Strategy only the Very High and High risks are being 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 None

Appendix 1 – Health and Social Care Partnership Risk Register 2020

Appendix 2 – Risk Matrix 2019

<b>AUTHOR'S NAME</b>	Scott Kennedy
<b>DESIGNATION</b>	Emergency Planning, Risk and Resilience Officer
<b>CONTACT INFO</b>	<a href="mailto:skennedy@eastlothian.gov.uk">skennedy@eastlothian.gov.uk</a> 01620 827900
<b>DATE</b>	6 February 2020



ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
4946	NHSL Recovery Plan	There is a risk that the EL IJB will not provide satisfactory services due to acute waiting times, delayed discharges and mental health. There is a risk that we will fail to meet the 4 hour performance target for unscheduled care which could mean that patients fail to receive appropriate care due to volume and complexity of patients, staffing, lack and availability of beds, lack of flow leading to a delay to first assessment, a delay in diagnosis and therefore in treatment for patients and a reputational risk for the organisation. Scottish Government has escalated these risks to Level 3 & 4.	1. Extra capacity available in ELCH. 2. Winter Plan 3. Chief Officer is part of the Unscheduled Care board comprising of all four Lothian IJBs and Lothian Acute Services and NHS Lothian. This board leads the collaborative approach to the recovery programme. 4. Head of Operations attends weekly operational group which includes all 4 HSCPs. 5. Chief Officer confirmed that additional beds have been opened in ELCH. These have been fully funded by NHSL.	High 16	High 12	Macdonald, Alison X	Macdonald, Alison X	19/12/2019	23/12/2019	10673	Alison Macdonald	Extra Capacity	Chief Officer confirmed that additional beds have been opened in ELCH. These have been fully funded by NHSL.	06/01/2020	This action was closed on 21/01/2020 - kept on list as risk is ongoing.

ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
3911	Failure of Provider	<p>There is a risk that failure of a major Older Peoples or Specialist Provider, eg, 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.</p> <p>Additional challenges could impact on capacity and service continuity for vulnerable clients such as care home acquisition, poor quality of care of a lack of capacity to delivery care, potentially generating reputational and/or financial risk to the Partnership.</p>	<ol style="list-style-type: none"> <li>Monitoring of care providers to help to identify potential service failures while working with all providers to gain advance information of any potential failure.</li> <li>Quarterly multi-agency quality of care meetings for both Residential and Homecare to provide support with improvement planning.</li> <li>Participation in national working groups to maintain national market intelligence.</li> <li>Contingency protocol established to deal with failure of a major care provider.</li> <li>Joint work with NHS Care Home Team and GP Practices to maintain standards and address concerns.</li> <li>Effective collaborative working with the Care Inspectorate over performance of regulated services.</li> <li>Working with other Partnerships to allow information sharing mutual support and contingency planning.</li> <li>Engagement with carers aids monitoring of performance within care settings and gives an early alert of risks.</li> <li>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. A dedicated Planning &amp; Performance manager and officer (CJ and LK) will 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.</li> <li>Workforce planning &amp; skill mix is being developed within Council Care Homes and Home Care service.</li> <li>Contingency arrangements developed for transition period to new providers.</li> <li>Care at Home contracts have been re-tendered.</li> <li>IJB Workforce plan in place.</li> </ol>	High 16	Medium 9	Macdonald, Alison X	Macdonald, Alison X	02/02/2016	09/01/2020	8660	Lorraine Cowan	Care at Home / Hospital to Home Service Review	<p>9/1/20: New model for care homes implemented in September 2019.</p> <p>01/07/19: Work has commenced - new model in process of being developed.</p>	01/03/2017	06/02/2020
										8661	Lorraine Cowan	Workforce Planning Council Care Homes and HomeCare Service	<p>Risk further reviewed August 2017 with no change to assessment of current score.</p> <p>01/07/19: New model of care developed in care home by introducing a nursing auxiliary post. Currently work going on with Home care to form a new service with Hospital to Home. 16/01/20 New structure implemented within care homes to include nursing auxiliary post. Project group set up to take the home care project forward new model going to CMT in February.</p>	01/03/2017	06/02/2020
										8662	Lesley Berry	Development of Generic Support Worker	<p>31/07/19: Lesley Berry will raise at AHPD. 16/1/20: AHPD has not gone ahead since Lynn Douglas has left. Unable to recruit to this position but have recruited 2 professional specific roles.</p>	02/01/2017	24/07/2020
										8663	Lorraine Cowan	Increasing care workforce in EL	<p>01/07/19: Modern apprentices being employed, commence August 2019.</p> <p>9/1/20: Modern apprentices in post within some areas. These are being expanded across all areas.</p>	03/01/2017	06/02/2020
										8664	Paul Currie	EU Settlement Scheme	<p>26/06/19: Note that first local Brexit meeting took place on 20th February 2019.</p> <p>8/1/20: Local Brexit meeting will be resumed. 16/1/20: information received that NHSL Brexit meetings have been suspended at this moment in time.</p>	20/02/2019	31/12/2020



ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
3928	Access to Primary Medical Services	There is a risk that ELHSCP will be unable to provide satisfactory access to primary medical services for its population due to increasing demands/capacity issues and difficulties in GP recruitment/retainment. This could lead to practices with closed and/or restricted lists which could impact on other practices. Increased pressures could lead to possible failure of GP practices which would generate significant financial and resource pressures for ELHSCP.	1. The 2018 Primary Care Improvement Plan (PCIP) for East Lothian has been implemented with an update being reviewed by the IJB and the GP Sub-committee. the plan includes expansion of multi-disciplinary models; the role out of link workers and other services as well as plans to improve infrastructure, ie, premises, data sharing, engagement. This is a 4 year implementation process. 2. Cluster working has been established in both localities to provide mutual support and risk sharing. 3. Four IJB's are working together to prioritise investment. 4. Work with other IJB's and NHSL to influence Scottish Government to work towards solutions to improving professional supply chain through academia. 5. Primary Care Development Manager is in post. 6. Investment in training to deliver workforce, as required.	High 12	Medium 9	Macdonald, Alison X	Turvill, Jon	01/03/2016	16/01/2020						
										7287	Jon Turvill	Development of East Lothian Primary Care Strategic Plan	2019 - 2020 was submitted on schedule. 25/7/19: 2019-2020 is currently being implemented with extension of the Musselburgh Model to Tranent, The Harbours and Inveresk practices and AHP led services to support patients with MSK and mental health issues. A CTACS pilot will be starting at ELCH, as well as a nurse practitioner led pilot of home visiting in a number of practices. Phase 1 ends 31/3/21.	06/02/2017	31/03/2021
										7535	Jon Turvill	Skill mix and staffing resources	The Primary Care Development Manager is currently overseeing CWIC including the establishment of a educational framework to offer training and development for staff locally. Phase 1 ends 31/3/21.	30/08/2017	31/03/2021
										9611	Aleisha Hunter	Establish multi-disciplinary and enhanced skill mix staffing resources within GP practices	21/10/19: we have no restricted or closed GP lists in East Lothian and no practices in real danger of failing at present. We are still working towards development of MDT support to all practices and recruitment is a significant issue. 16/1/20: Establishment of MDT and skill mix /staffing resource is directly addressing GP practice sustainability.	14/08/2019	31/03/2020

ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
4710	Delayed Discharge	There is a risk that national targets on delayed discharge on "no delays over two weeks" have created additional pressures and increased demand because these impacts could impact on the health and wellbeing of individual residents and on the reputation of the Health & Social Care Partnership (HSCP) and put pressure on assessment staff and resources leading to limited capacity resulting in increased waiting lists for access to local health and social care services, eg, delayed discharge, waiting times, OT Social Work and Mental Health Officer response to requests for assessments and capacity for home care leading to poor outcomes for the population and the inability to access the right services timeously.	<ol style="list-style-type: none"> <li>Weekly delayed discharge taskforce is chaired by the Interim Chief Nurse.</li> <li>New emergency care, Hospital 2 Home and Hospital @ Home services have been implemented and dedicated team approach to reducing delays is supporting an improvement position.</li> <li>East Lothian Service for Integrated Care of the Elderly (ELSIE), Discharge to Assess, Help to Live at Home, Collaborative Allocations, Hospital 2 Home and Step up/step down beds all in place.</li> <li>Increased surveillance of care homes and care at home providers to identify spare capacity.</li> <li>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.</li> <li>Weekly performance information is available for service managers. Utilisation of recurrent delayed discharge fund to maximise NHS capacity.</li> <li>Using Integrated Care Fund to extend scope of ELSIE.</li> <li>Re-tendered Help to Live at Home framework, implemented new provider contracts to increase capacity for Care at Home. Established fortnightly meetings with providers.</li> <li>Unmet care hours once totalling 1500 per week have now been reduced to around 600 as a result of a number of measures including collaborative allocations which involves ELHSCP teams working with providers to organise care runs across the county.</li> <li>20 step down beds plus 12 contingency beds opened as part of the ELHSCP Winter Plan.</li> <li>Living Wage and fair working was implemented in EL in 2017 following a Scottish Government investment which was passed onto providers.</li> <li>A balance scorecard approach is used to monitor £20 million worth of care at home provision. A data group has been established to monitor performance of operational service delivery, delivery of Directions and SG target and indicators.</li> <li>Recruitment of Mental Health Officer underway to enhance capacity and meet demand for statutory duties and the Adults with Incapacity Act.</li> <li>Early intervention clinic approach has been implemented across East Lothian.</li> <li>A Hub based at ELCH handles all Patient Flow from the acute and community hospitals as well as GP enquiries. Working with Care Brokers at Randall House, Hospital @ Home, Hospital 2 Home and OT/PT teams. Morning multi-disciplinary huddle.</li> <li>The Hub and OT/PT service actively pull patients from the acute sector. Discharge to Access is well established and Home First is an approach embedded in all our systems and methodology.</li> </ol>	High 12	Medium 9	Macdonald, Alison X	Cowan, Lorraine	03/12/2018	09/01/2020	8846	Lorraine Cowan	Development of a Rehabilitative Approach and Review of Client Pathway	01/07/19: This is underway with the Homecare and Hospital to Home review. 07/01/20: Still ongoing 09/01/20: New model of care has been developed. Hospital to Home will concentrate on clients that will continue to need rehabilitation. Teams are being split into three geographical areas.	03/12/2018	31/03/2020
3914	Service Activity Pressures	There is a risk that demographic 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 East Lothian Council.  Service Activity pressures see demand for services outstrip available budgetary and staffing resources leading to unmet client need and risk to clients safety and independence, potentially generating reputational risk for the Council as well as failing to meet statutory responsibilities.	<ol style="list-style-type: none"> <li>New planning structure established which will support an overall programme of change and include a number of change boards to which all projects will report. Changes boards reflect agreed priorities of the IJB and include Primary Care, Shifting the Balance of Care, Adults with Complex Needs, Mental Health, Carers and Reprovisioning.</li> <li>New planning structure includes Reference Groups as well as Change Boards. Reference groups are multi-stakeholder and include service users, carers, voluntary sector organisations, practitioners, community planning partners, housing colleagues and other groups.</li> <li>Resource Allocation System (RAS) established with additional short term practitioner capacity to accelerate pace of reviews to ensure resources are allocated according to need within financial constraints.</li> <li>Application of the Eligibility criteria has been reviewed and delegated authority implemented. Scrutiny of budget authorisations and analysis of trends through delegated authority.</li> <li>Self Directed Support (SDS) implemented and audited with action plan in place.</li> <li>Currently commission a range of services which fulfil an early intervention and prevention role. As part of continual planning and service redesign. Mandatory "Golden Threads" have been established which all change programmes and projects must evidence as having achieved as part of the proposed change. These include early intervention and prevention.</li> <li>Good progress being made in partnership working with third sector including Day Centres Association.</li> <li>A three year increased investment plan was agreed at the IJB in early 2017. April 2019 will see the third year of this agreement start where day centres will be operating to a new Service Level Agreement.</li> <li>All funding of commissioned provision has undergone a Strategic Fit and Best Value review. This includes integrated Care Fund funding and services.</li> <li>Three year budget efficiency plans developed for implementation from 2019 - 2022.</li> <li>Work is underway to accurately forecast trajectory of need across all Care Groups to inform service development and financial planning.</li> <li>Recovery Plan is in place.</li> <li>Financial process has been reviewed.</li> <li>Resource allocation system - delegated authority is in place.</li> </ol>	High 12	Medium 9	Macdonald, Alison X	Macdonald, Alison X	02/02/2016	09/01/2020	8850	Lesley Berry	Embed technology enabled care approach as preventative measure	31/07/19: Lesley Berry currently looking into Attend Anywhere. 16/1/20: NHSL has agreed to this and have started pilot sites. There is a virtual clinic and projects started in RIE and LCTC. IT are not allowing access to this system until pilot is complete.	03/12/2018	24/07/2020
										8655	Trish Carlyle	SDS Action Plan	02/07/19: Report feedback 4/7/19. Action plan implemented and to be reviewed 6 monthly. 8/1/20: Will be reviewed by end January 20 and updates communicated.	03/09/2018	31/01/2020
										8656	Claire Flanagan	Deliver Efficiencies and Income Recovery	7/1/20: To be reviewed in March 2020 in alignment with budget announcement.	01/08/2016	31/03/2020
										8658	Gillian Neil	Community Transformation Programme	Options Appraisal to be taken to IJB on 26th September 2019. 9/1/20: Options Appraisal is now going to SPG on 19/2/20 and then IJB on 27/2/20.	03/01/2019	31/03/2020
										10224	Claire Flanagan	Continue to refine medium term financial plan	14/11/19: This action supercedes action 8657 which has now been closed. 7/1/20: Ongoing development of longer term financial plan. Ongoing collaboration with Partners around budget allocations.	14/11/2019	31/03/2020

ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
3915	Duty of Care	<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>Patient Service User safety.</p>	<ol style="list-style-type: none"> <li>Prioritise maintenance of adequate staffing levels for Adult/Child Protection and other work with vulnerable children and adults.</li> <li>Briefing sessions, specialist training and supports are in place.</li> <li>Regular formal supervision in place for all staff including completion of PRD's and e-KSF, focusing on specific and agreed development needs.</li> <li>Clinical &amp; Care Governance Committee 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.</li> <li>Services comply with required professional registration standards for all staff, eg, SSSC, HCPC, NMC etc.</li> <li>"Safer Recruitment" practices and PVG checks embedded.</li> <li>Public Protection Office and Committee oversee all aspects of Child Protection and Adult Support and Protection performance and improvement.</li> <li>Regular monitoring and learning from incidents including through Significant Adverse Event investigation outcomes.</li> <li>Regular environmental inspections, eg, Patient Quality Indicators (PQI) in Health &amp; Social Care, eg Care Inspectorate.</li> <li>All Regulated Services inspected, improvement plans produced with regular quality assurance review meetings.</li> <li>Implementation of EIRD (Electronic Inter-agency Referral Discussion) across Child Protection and Adult Protection partners, eg, NHS and Police Scotland.</li> </ol>	High 12	Medium 8	Macdonald, Alison X	Macdonald, Alison X	02/02/2016	10/01/2020	8667	Bryan Davies	Development of Mosaic	<p>Re-allocated to Bryan Davies to take forward.</p> <p>9/1/20: No specific developments planned but we don't get all we could from system. Meeting scheduled for 16/1/20 with Servelec account manager which will inform us about the road map for Mosaic and any new features.</p> <p>Development of the product is dependent on two things: 1. we continue to use this software but it is out of contract in June 2020. Decision required whether we take out a new contract. 2. Do we go to the market and invite tenders from other providers? If we retain Mosaic, any development of the product will require a budget for new functionality.</p>	03/01/2019	30/06/2020
										10489	Alison Macdonald	Complaints, Comments, Inspections, CWIC Report		23/12/2019	31/12/2020

ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
4695	Substance Misuse	<p>There is a risk to the delivery of national standards and potential impact on drug related deaths in East Lothian following a national 23% reduction on funding for drugs and alcohol. This introduces vulnerability into delivery of treatment support and recovery pathways and to delivery of performance against the HEAT A11 Standard [90% of people seen within 3 week referral to treatment] and the "Take Home Naloxone" THN programme requirements.</p> <p>Staffing pressures within SMS could impact service delivery and compliance with standards and the implementation of an effective Recovery Orientated System of Care for all substance misusers in EL.</p> <p>These risks could lead to an increase in the number of substance misusers with higher levels of risks and increased death rate related to substance misuse, and an increase in related physical and mental health issues. This could also affect the reputation of EL area as a safe place to live and impact on drug related crime as demand for, supply or and usage of drugs permeate community wellbeing across the county.</p>	<p>1. MELDAP is accountable to and reports to ELHSCP and EL Partnership through the Resilient People Partnership. Key MELDAP outcomes from the MELDAP 2020 – 2023 Delivery Plan, due to be published by early April 2020, will be included in the EL Local Outcome Improvement Plan ; progress against performance measures are reported on a quarterly or annual basis.</p> <p>2. 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>3. Regular meetings between MELDAP, SMS Manager and Head of Service to improve performance against HEAT A11 and delivery of THN programme requirements.</p> <p>4. Provide time limited MELDAP resource to support the delivery of HEAT A11 in the SMS.</p> <p>5. The MELDAP delivery plan identifies priorities for the partnership with progress reported to Scottish Government in an annual report. The MELDAP strategic group also reports on national standards, ministerial priorities and ADP outcomes as required.</p> <p>6. Programme of quality improvement visits to all commissioned services to monitor performance and compliance with national standards and delivery of service improvement plans following the ADP care inspection 2016 process.</p> <p>7. Annual programme of service presentations to the MELDAP commissioning and performance group, highlighting service impact.</p> <p>8. MELDAP now has stable funding through Scottish Government for the provision of drug and alcohol services.</p> <p>9. Partnership collaboration particularly with Police Scotland to disrupt and prosecute the suppliers and providers of drugs within EL.</p> <p>10. Increase focus on substance misuse within the Education's Health and Wellbeing PSE curriculum.</p> <p>11. The MELDP local Drug Related Death [DRD] review group considers DRD's currently on a monthly basis, identifying learning to be implemented by practice teams and MELDAP.</p> <p>12. Pathway in place between IHTT and SMS. Respective team managers will review regularly and fine tune, as required.</p>	High 12	Medium 6	Macdonald, Alison X	Laskowski, Rona	01/03/2018	10/01/2020	8649	Nicola Cochrane	Improve the reach of Take Home Naloxone to higher risk groups	26/06/19: Most vulnerable people accessing drop-in clinic at HUB. Naloxone accessible at Primary Care. Looking to introduce within IHTT and also current proposal for EL to spread the offer of accessibility of Naloxone to all pharmacies within EL - in discussion. 24/10/19: The offer of Naloxone continues within the drop in clinic and within the core service offer. Following a recent presentation to the IJB MELDAP and Nicola Cochrane are arranging a meeting with Fiona O'Donnell, Jon Turvill and others to agree on further spread of Naloxone distribution.	01/03/2018	28/02/2020
										8650	Rona Laskowski (Martin Bonnar)	Develop a Young People's SMS support service in EL	24/10/19: A preferred provider (MYPAS) has been identified and the service delivery is being planned for implementation in mid-December. 10/1/20: The induction and orientation process has begun for the two post holders in MYPAS with service delivery beginning shortly.	01/03/2018	31/03/2020
										8651	Rona Laskowski	To discuss disruption activities to the sale of drugs from the internet with Police Scotland and its intelligence branches.	24/10/19: This has been discussed with Police colleagues. Services are alerted to current drug trends and ensure that information is shared with staff and service users appropriately. There is training planned with MELDAP partners in relation to the Police Scotland "County Lines" Initiative. This is continuous but there is training on 05/12/19.	01/03/2018	31/03/2020
										8652	Rona Laskowski	Continue to seek opportunities to work with Education and ELC.	24/10/19: There are a number of initiatives underway including developing a policy on Managing Substance Use Incidents Involving Children and Young People and Core Risk taking Message for young people.	01/03/2018	31/03/2020

ID	Title	Description	Controls in place	Risk level (current)	Risk level (Target)	Risk Owner	Handler	Date Opened	Date Risk Reviewed	Action No	Lead	Description	Progress	Start date	Due date
										8653	Nicola Cochrane	DRD group members to review current process of analysis of case reviews	26/06/19: MELDAP and NHS have looked at current process and are in discussion with Naomi Honhold (Drug Related Death Co-ordinator) to look at a more efficient and seamless process of reviewing DRD. 24/10/19: DRD are now being reviewed locally. The first date for 2018 reviews is 22nd November where all DRDs in 2018 will be reviewed that day. A follow-up session will be agreed and MELDAP are leading on the development of a DRD group with EL and ML.	01/03/2018	28/02/2020



**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:** 18 February 2020

**BY:** Chief Executive

**SUBJECT:** Local Government in Scotland: Financial Overview 2018/19  
(Accounts Commission, December 2019)

**12**

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**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 2018/19'*.

**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 2018/19'
  - 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 2020. The latest report, 'Local Government in Scotland: Financial Overview 2018/19' was published in December 2019 (Appendix 1).
- 3.2 The report itself is structured in four parts:
- Part 1: Councils' income in 2018/19

- Part 2: Councils' financial position in 2018/19
  - Part 3: Council's financial outlook
  - Part 4: Integration Joint Boards' overview 2018/19
- 3.3 Each part of the report includes key messages backed up by evidence and exhibits sourced mainly from local authority annual accounts.
- 3.4 This report provides a summary of the key messages and evidence from the Financial Overview with some explanation or commentary on the position in East Lothian Council.

### **Part 1: Councils' income in 2018/19**

- 3.5 The key messages of Part 1 of the report are:
- *'In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).*
  - *'Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19 (0.7 per cent decrease in real terms).*
  - *'Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.*
  - *'A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.'*
- 3.6 The report highlights that *'Councils' annual income increased slightly in 2018/19'* from £17.3bn to £17.7bn. The Scottish Government's funding (Revenue Grant Non-Domestic Rates) increased from £9.7bn to £9.8bn. However, whilst this is a 1.1% increase in cash terms it equates to a 0.7% decrease in real terms (taking inflation into account). (See Exhibit 2, page 10)
- 3.7 The report also highlights that *'Since 2013/14, Scottish Government revenue funding to councils has reduced more than to other areas.'* As is shown in Exhibit 3, Page 11, *'Over the last six years (2013/14 – 2018/19) local government revenue funding from the Scottish Government fell by 7.6%, while other Scottish Government revenue funding fell by 0.4%.'*
- 3.8 The 2017/18 Financial Overview report had criticised the Scottish Government for lack of transparency of the calculations for the non-GAE distributions to individual councils. The latest report points out that the Scottish Government has now provided this information and is planning to include further information.
- 3.9 A key point raised in previous Audit Scotland reports has been re-iterated in this latest report. *'An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils*

*have for deciding how they plan and prioritise the use of funding to respond to local priorities.'*

- 3.10 The specific grants, ring-fenced elements of General Revenue Funding from the Scottish Government include the Pupil Equity Fund, Criminal Justice and Early Years Expansion which increased from £0.3bn in 2018/19 to £0.5bn in 2019/20. *'Collectively, ring-fenced and funding linked to other national policy initiatives, increased from £0.6bn to £1bn, between 2018/19 and 2019/20.'* This is approximately 10% of Scottish Government funding to councils. COSLA has taken a wider approach to estimating the flexibility that councils have in using Scottish Government funding. It takes into account teaching staff costs, adult social work costs devolved to IJBs and other factors such as loans charges. It therefore estimates that *'Scottish Government policies and fixed commitments represented 57% of local government revenue expenditure budgets in 2018/19; 60% in 2019/20.'*
- 3.11 In 2018/19 all councils increased council tax rates by the maximum allowable 3%.
- 3.12 Exhibit 4, page 14 shows that there are major differences between councils in the nature and scale of income from all sources; General Revenue and Non-Domestic Rates, grants, Council Tax, customer and client receipts, and housing rents. East Lothian has a relatively high proportion of its total income from Council Tax and a relatively low proportion from fees and charges.

## **Part 2: Councils' financial position**

- 3.13 The second part of the report, which focuses on Councils' financial position as shown in their 2018/19 audited accounts has six key messages:
- *'The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.'*
  - *'Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.'*
  - *'Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.'*
  - *'Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.'*

- *'The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.'*
  - *'Councils should continue to improve the transparency of the management commentary.'*
- 3.14 Councils' 2018/19 budgets included funding gaps totalling £0.4bn which were to be managed through savings or use of reserves. The report highlights that overall there was a net decrease in usable reserves and sixteen councils ended 2018/19 with a lower level of reserves.
- 3.15 Most councils have a reserves policy that sets out the minimum level of uncommitted general fund reserves to be maintained, which typically varies from one per cent to four per cent of expenditure.
- 3.16 Exhibit 7 (page 19) shows East Lothian Council has one of the lowest levels of uncommitted general fund reserves. Exhibit 8 (page 20) shows East Lothian is one of 23 councils that have reduced their general fund reserves over the last three years.
- 3.17 Across all 32 councils capital expenditure increased by £62m (2.3%) in 2018/19 to £2.75bn. However, auditors reported that some councils had significant underspends against their annual capital budgets, mainly for reasons *'that reflect the phasing of projects over a number of years. The key issue is that councillors understand whether annual underspends of budget are symptomatic of delays in overall capital project delivery and encourage officers to address these or refine the overall capital aspirations.'*
- 3.18 Housing and economic development now account for 44% of total capital expenditure (up from 39% in the previous year.) The report highlights that the end to the 'right to buy' has led to councils increasing their housing stock.
- 3.19 There is variation in the relative underlying borrowing position of councils from Orkney and Renfrewshire with borrowing at 58% of net annual revenue to Aberdeen City with 237%. Exhibit 10 (page 23) shows East Lothian has having the fifth highest level of borrowing to net annual revenue.
- 3.20 The report highlights that councils will have increased pension liabilities arising from the McCloud case and other factors such as Guaranteed Minimum Pension equalisation but that the full impact on contributions will not become fully clear until the next triennial revaluation of pension funds at 31 March 2020.
- 3.21 East Lothian is not highlighted as having any equal pay or severance payments issues. Exhibit 11 page 26) shows that East Lothian has one of the lowest levels of unfunded benefits as a percentage of net operating expenditure at around 0.5%.
- 3.22 The final section of this part of the report highlights the importance of councils providing transparent financial management commentaries that explain the outturn against budget position and the reasons for significant

variances, reconcile the movement in general funds and the outturn, and report progress against agreed savings. The 2018/19 Annual Audit Report for East Lothian Council reported that the management commentary had been properly prepared in accordance with the relevant regulations and guidance.

### **Part 3: Councils' Financial Outlook**

3.23 The final part of the report outlines the financial outlook and challenges Councils face in setting their future budgets. The key messages are:

- *'Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).*
- *'In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).*
- *'Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.*
- *'Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.*
- *'All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.*
- *'The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.*
- *'Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.'*

3.24 Whilst the Local Government revenue settlement from the Scottish Government in 2019/20 increased by 2.9% in cash terms and 0.9% in real terms, *'Over 80% of the increase is due to growth in specific revenue funding.'*

3.25 Whilst the funding settlement to councils has been provided on an annual basis planning and budgeting effectively for the medium term has been challenging. So the Scottish Government's commitment to set out multi-year budgets will assist councils with financial planning. The report

highlights that the Scottish budget is becoming increasingly complex and subject to greater uncertainty and volatility so that *'Given Scottish Government funding remains the most significant source of income for councils, this volatility in the Scottish budget holds uncertainty and risks for funding to councils. This adds to the complexity and challenges for councils in planning for the medium and long term.'*

3.26 However, the report suggests that councils still need to improve the content of their medium term planning; *'medium-term financial plans should be reviewed and refreshed annually and maintained as a rolling three-to five-year plan'* which includes:

- estimates for Scottish Government funding
- a total projection for net expenditure
- projections of net expenditure at service level
- projections for service income
- projections for the costs of borrowing.

Financial planning in East Lothian Council is largely consistent with these requirements.

3.27 Only a third of councils have financial plans that cover more than five years.

3.28 Financial pressures in 2019/20 budgets include the cost of meeting the local government pay settlement and demand pressures from growing populations. Reported funding gaps, which totalled £0.5bn (3%) ranged from one to seven per cent across councils. As in previous years councils plan to manage their funding gaps mainly through identifying planned saving through a mixture of cost reduction and service redesign, increases in Council Tax, fees and charges and the use of reserves.

3.29 The report highlights the services for which councils have been increasing or introducing new fees and charges including:

- Music instruction
- Bulky waste uplift
- Garden waste uplift
- New charges associated with funerals
- Licensing for public entertainment
- Pre-application meetings planning applications.

3.30 In 2019/20 East Lothian was one of 12 councils that increased Council Tax by the maximum permitted 4.8%, a further seven councils increased their

Council Tax by between 3.9% and 4.5% whilst the remaining 13 councils increased it by 3%.

- 3.31 The final section of this part of the report highlights the uncertainty associated with EU withdrawal including the risk of increased cost of goods and services, increases in interest rates and reduction in business investment or an increase in unemployment and poverty.

#### **Part 4: Integration Joint Boards' Overview 2018/19**

- 3.32 This section of the Financial Overview report, reflects Audit Scotland's increasing interest in, and focus on, IJBs and their financial position. The key messages are:

- *'The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.'*
- *'Overall, IJB budgets increased by three per cent in 2018/19.'*
- *'The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).'*
- *'A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.'*
- *'Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.'*
- *'A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.'*
- *'Over a third of IJB senior staff have changed during 2018/19.'*

- 3.33 Overall total IJB funding increased by 3% in 2018/19. However, the report suggests that since the balance of funding and spend between local authorities and the NHS has not varied over the last three years the pace of change in terms of the shifting the balance of spend has been too slow. As a result, the Auditor General has recommended *'that the Scottish should develop a new national health and social care strategy to run from 2020 that supports a large scale, system-wide reform, with clear priorities that identify the improvement activities most likely to achieve the reform needed.'*

- 3.34 The report highlights that the majority of IJBs struggled to achieve break-even. Although, only two IJBs reported break-even and eight reported a deficit, 19 of the 20 IJBs that reported a break-even position would have

recorded a deficit without additional funding being made available from their partners.

- 3.35 The reserve positions of IJBs has improved since 2017/18 with 26 compared to 22 reporting holding some level of reserve. East Lothian is one of the IJBs that now have a reserve, although it is still below 2% of its total spend (see Exhibit 13, page 36).
- 3.36 The report highlights that some IJBs have indicated that recruitment challenges present a risk to service sustainability. The challenges run across all parts of the health and social care sector including care staff, nurses, doctors and consultants.
- 3.37 The financial uncertainty faced by IJBs is highlighted by the fact that *‘Just under half of IJBs had budgets that included unidentified savings. This meant that budgets were not balanced at the start of the year.’*
- 3.38 In 2019/20 IJBs had a total projected funding gap of £208m, representing 2.5% of total income. This is an improvement on the position in 2018/19. Over half of the gap (59%) is projected to be met by identified savings but 30% is from unidentified savings.

#### **4 POLICY IMPLICATIONS**

- 4.1 The report has no direct policy implications for the council. ‘Local Government in Scotland: Financial Overview 2019/19’ will assist the Council in recognising the challenges that it faces in achieving financial stability and sustainability in the future.

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

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

#### **6 RESOURCE IMPLICATIONS**

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

#### **7 BACKGROUND PAPERS**

- 7.1 ‘Local Government in Scotland: Financial Overview 2018/19’, Accounts Commission, December 2019
- 7.2 2018/19 Annual Audit Report; East Lothian Council, 29 October 2019
- 7.3 ‘Financial Strategy 2020-25’; East Lothian Council, 17 December 2019



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<b>DATE</b>	6 February 2020



Local government in Scotland

# Financial overview 2018/19



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
December 2019


# The Accounts Commission

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

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

Our work includes:

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

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

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

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## Links

 PDF download

 Web link

 Information box

## 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 scrutiny questions for councillors.

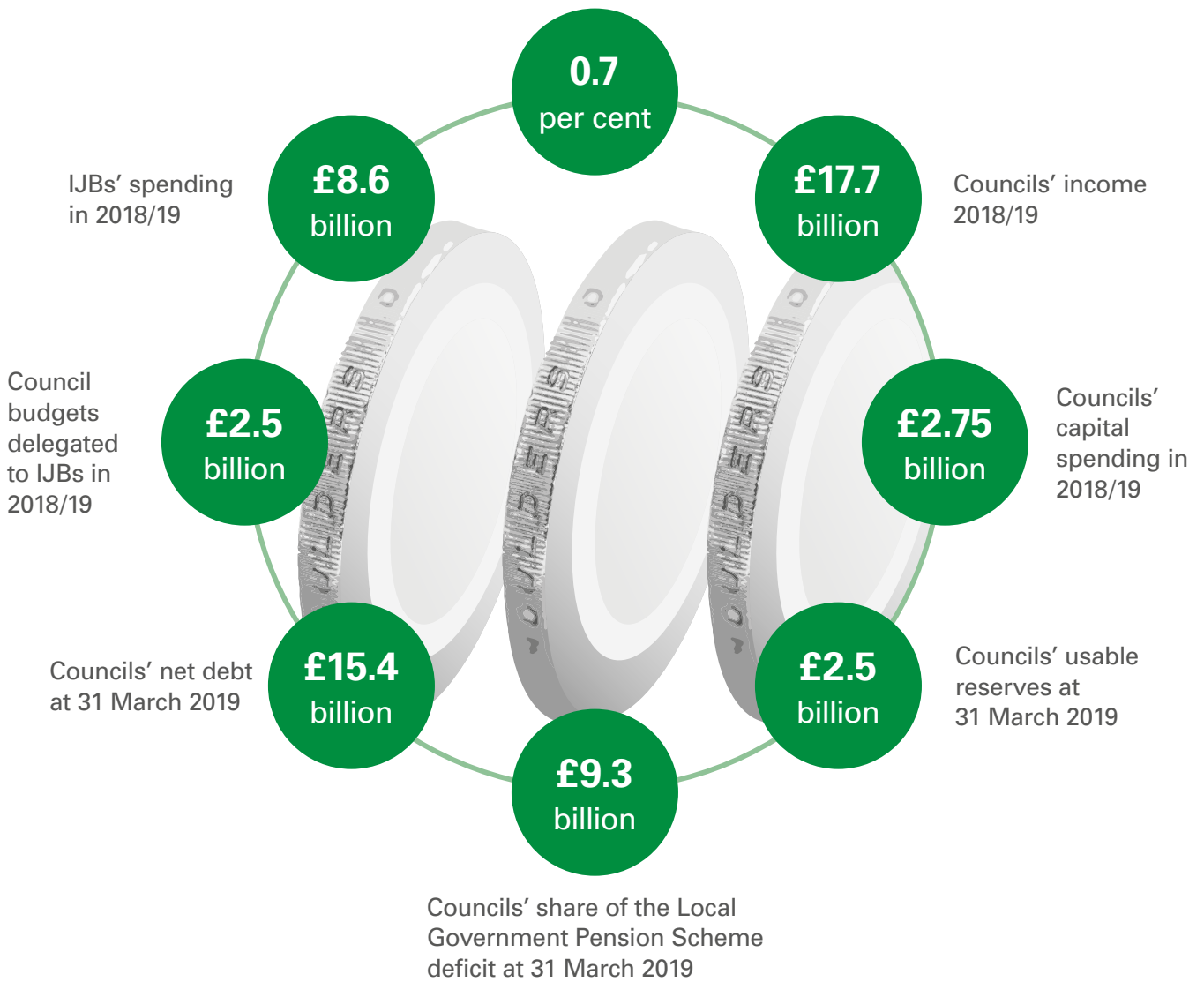
## Audit team

The core audit team consisted of: Kathrine Sibbald, Lisa Duthie, Chris Lewis and Lucy Ross, with support from other colleagues and under the direction of Brian Howarth.

# Key facts



Real terms reduction in Scottish Government revenue funding 2017/18 to 2018/19



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# Chair's introduction

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This report, the Accounts Commission's overview of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. I believe our overview reports are an important tool to highlight to councillors, officers and the public the issues we are most concerned about.

Of particular note for us this year, Integration Joint Boards (IJBs) continue to face very significant challenges and they need to do much more to address their financial sustainability. The pace of progress with integration has been too slow and we have yet to see evidence of a significant shift in spending and services from hospitals to community and social care. I continue to be concerned about the significant turnover in senior staff in IJBs. This instability inevitably impacts on leadership capacity and the pace of progress. The Commission has a strong interest in the performance and development of IJBs and we are planning arrangements to review their progress in delivering Best Value for their communities.

Our report also sets out that councils face the increasing challenge of meeting changing and growing demands on their services, but their income is straining to keep pace. Although Scottish Government funding to councils has been relatively stable this year, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances. The Commission also notes that two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves. The signs of a trend in reducing reserves may be emerging. I have previously commented that ongoing use of reserves to manage funding gaps is not sustainable.

After several years of tightening budgets, we recognise councils have already made savings through restructuring and efficiencies, but transformation in terms of service redesign is required to deal with the further reductions forecast. The Commission will continue to have a close interest in how councils and IJBs are redesigning services to meet the needs of their communities.

I also encourage councils and IJBs to continue to do all they can to improve and develop their approaches to medium- and long-term financial planning. This is not easy, but it is a fundamental tool to support councillors and officers to make well-considered decisions and effectively manage the continuing challenges ahead. The Scottish Government has committed to providing three-year indicative budgets in the future, which the Commission welcomes, as this will support improved medium-term financial planning in councils and IJBs.

Finally, we note that again there has been some improvement with the quality of reporting on financial matters in councils. I encourage councils and IJBs to continue to improve the transparency and clarity of management commentaries and wider 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 the Accounts Commission



# Summary



## Key messages




### Councils:

- 1** In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- 2** Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6 per cent in real terms.
- 3** In 2018/19, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned.
- 4** Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Twenty-three councils have reduced their general fund reserves over the last three years.
- 5** Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.
- 6** All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.
- 7** Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

### Integration Joint Boards (IJBs):

- 8** A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.
- 9** Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.
- 10** Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.
- 11** Over a third of IJB senior staff have changed during 2018/19.

## About this report

- 1.** This report provides a high-level independent analysis of the financial performance of councils during 2018/19 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 in April 2020.
- 2.** Our primary sources of information for the financial overview are councils' 2018/19 audited accounts, including management commentaries and the 2018/19 external annual audit reports for each council. We have supplemented this with data submitted by councils through local audit teams and to the Scottish Government through the Capital Provisional Outturn and Budget Estimates (CPOBE).
- 3.** We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2018/19 prices, adjusted for inflation so that they are comparable. Similarly, where 2019/20 comparisons are made we have adjusted for inflation to 2019/20 prices. 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 challenge 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](#) . We have also produced a separate document [Supplement 2: Local Government Pension Scheme 2018/19](#) . We hope the data and LGPS supplement will be useful for senior council finance officers, their staff and other interested stakeholders.

# Part 1

## Councils' income in 2018/19



### Key messages

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19 (0.7 per cent decrease in real terms).
- Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.
- A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.

**In 2018/19, Scottish council revenue income totalled £17.7 billion**

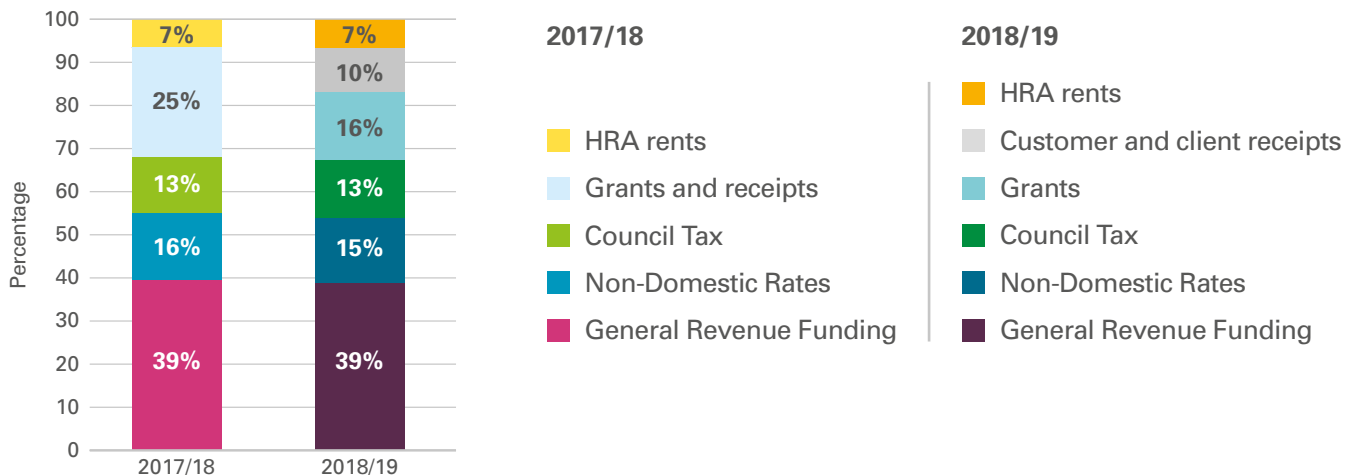
### Councils' annual income increased slightly in 2018/19

6. Scottish councils get their annual funding and income from a range of sources (Exhibit 1). In 2018/19, these totalled £17.7 billion, which is an increase from 2017/18 (£17.3 billion). The main source of funding is the Scottish Government. In 2018/19, the Scottish Government provided £9.8 billion (compared to £9.7 billion in 2017/18).

### Exhibit 1

#### Sources of council revenue income, 2018/19

Funding and income increased from last year to £17.7 billion.




Note: In the 2017/18 data, customer and client receipts are included in grants and receipts.  
Source: Audited financial statements 2018/19 and 2017/18



## Scottish Government funding

### Scottish Government revenue funding fell by 0.7 per cent in real terms in 2018/19

7. In 2018/19, the **total revenue funding**  from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 0.7 per cent in real terms ([Exhibit 2](#)). The total revenue funding of £9.8 billion consists of the general revenue grant funding of £6.9 billion (70 per cent); Non-Domestic Rates (NDR) £2.6 billion (27 per cent); and specific grants making up the remaining £0.3 billion (3 per cent).

## Exhibit 2

### Changes in Scottish Government revenue funding in 2018/19

Scottish Government revenue funding reduced by 0.7 per cent in real terms in 2018/19.

	2017/18 £m	2018/19 £m	Cash %	Real %
Revenue Grant	7,019	7,159	2.0 ▲	0.2 ▲
NDR	2,666	2,636	-1.1 ▼	-2.9 ▼
<b>Total revenue funding</b>	<b>9,685</b>	<b>9,795</b>	<b>1.1 ▲</b>	<b>-0.7 ▼</b>
Health and Social Care funding via NHS	355	355		
	<b>10,040</b>	<b>10,150</b>	<b>1.1 ▲</b>	<b>-0.7 ▼</b>

Note: On 28 March 2018, the Scottish Government paid £34.5 million of additional funding to councils. This is included in the 2017/18 column above.

Source: Finance Circulars 4/2018 and 2/2019, and Scottish Government budget documents



### Since 2013/14, Scottish Government revenue funding to councils has reduced more than to other areas

8. Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6 per cent over these six years, in real terms ([Exhibit 3, page 11](#)). Scottish Government revenue funding across other areas decreased by 0.4 per cent over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.

9. However, the gap between local government revenue funding and the rest of the Scottish Government revenue budget narrowed in the last year (between 2017/18 and 2018/19) to 7.2 per cent.

### How Scottish Government funding is distributed is to become more transparent

10. Grant-aided Expenditure (GAE) is the main distributing methodology for determining Scottish Government revenue funding provided to councils. The remaining Scottish Government revenue funding is determined by a range of other separate non-GAE methodologies agreed by the Scottish Government and COSLA.<sup>1</sup> Over time, the proportion of the non-GAE element of funding has grown and in 2019/20 represents a third of the total funding.



#### Total revenue funding

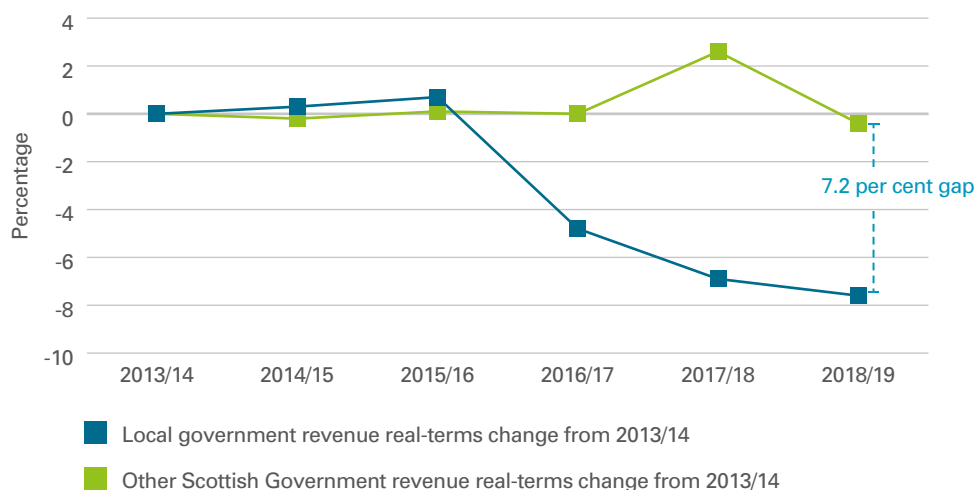
This consists of general resource grants, specific revenue grants (together known as revenue grants) and Non-Domestic Rates income (NDR).

It does not include health and social care funding paid to local government via the NHS.

### Exhibit 3

#### A comparison of real-terms changes in local government and other Scottish Government revenue funding

Over the last six years local government revenue funding from the Scottish Government fell by 7.6 per cent, while other Scottish Government revenue funding fell by 0.4 per cent.



Source: Scottish Government budget documents and financial circulars



**11.** In our [financial overview report in 2017/18](#) [\(download\)](#), we reported on the lack of transparency of the calculations for the non-GAE distributions to individual councils. The Scottish Government has now provided this information to the Local Government and Communities Committee of the Parliament, SPICe<sup>2</sup> and COSLA. It is also planning to include the methodologies used for the specific revenue grants and other non-GAE funding within their annual Grant Aided Expenditure [Green Book](#) [\(download\)](#) publication from 2020/21.

#### A growing proportion of funding is committed to national policy initiatives

**12.** The Commission commented in its report [Challenges and performance 2019](#) [\(download\)](#) that an increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities. There are different approaches to describing the scope of this flexibility by stakeholders; different figures and language complicate this.

**13.** Within the £9.8 billion Scottish Government revenue funding, a relatively small, but growing, element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This money is ring-fenced to fund identified policies, such as the Pupil Equity Fund, Criminal Justice and Early Years Expansion. These grants totalled £0.3 billion in 2018/19 (£0.5 billion in 2019/20). The Scottish Government's view is that other funding is not ring-fenced and it is therefore at the discretion of councils how they deliver commitments and services with these funds.

An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities

**14.** In addition to specific revenue grants, funding for other national policy initiatives is set out in the annual settlement but not formally ring-fenced. These are mainly initiatives linked to education and social care. Collectively, ring-fenced and funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10 per cent of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils' spending and, 'although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging'.<sup>3</sup>

### **COSLA identifies reducing flexibility based on estimated expenditure**


**15.** COSLA has also described its position on the flexibility of councils' budgets. It has taken a different and wider approach to this. It focuses on estimated expenditure. It identifies expenditure areas that have been ring-fenced or are protected through obligations created by current and past Scottish Government policy initiatives, demand pressures, or fixed obligations such as loan charges. For 2019/20, the most significant areas that COSLA identified included:

- primary and secondary teacher staff costs (£2.5 billion)
- all adult social work costs devolved to IJBs (£2.7 billion)
- loan charges (including PPP costs) (£0.7 billion)
- and other areas such as Council Tax Reduction Scheme (£0.4 billion) and Early Learning (£0.4 billion).

**16.** In its response to the Local Government and Communities Committee on the 2019/20 budget, COSLA's view is that Scottish Government policies and fixed commitments represented 58 per cent of local government revenue expenditure budgets in 2018/19; 60 per cent in 2019/20.

## **Other income**

### **Council tax increases of three per cent increased total income slightly**

**17.** As identified in our report [Challenges and performance 2019](#)  all councils increased council tax rates by the maximum allowable three per cent in 2018/19. With increases in the number of properties, total council tax increased by £97 million (4.2 per cent increase) in 2018/19. As only 10 to 19 per cent of funding and income is raised through council tax, this only produces an increase of around 0.5 per cent.

### **Councils rely on a significant element of grant and NHS income**

**18.** This year, for the first time, we have used financial statements and information collected from auditors, to provide an insight into the extent of grant income received by councils. In a small number of councils this was hampered by a lack of clarity in the accounts about grant income credited to services. Our analysis shows that £3.0 billion (16 per cent) of income was revenue grant income received by Scottish councils (and credited as income to services) in 2018/19.



**How dependent is your council on the various sources of income compared to other councils, including: Scottish Government funding, grants, council tax and receipts from customers/clients?**



Challenges and performance 2019  
March 2019 

**19.** The major components of this grant income include:

- Housing benefit grants from the Department of Work and Pensions totalling £1.4 billion.
- NHS income, £0.7 billion, including resource transfer and integration fund transfers.
- Scottish Government ring-fenced and other non-government grants of £0.9 billion (including criminal justice, pupil equity and attainment funding and early learning grants).

**The proportion of income from each main source varies significantly across councils**

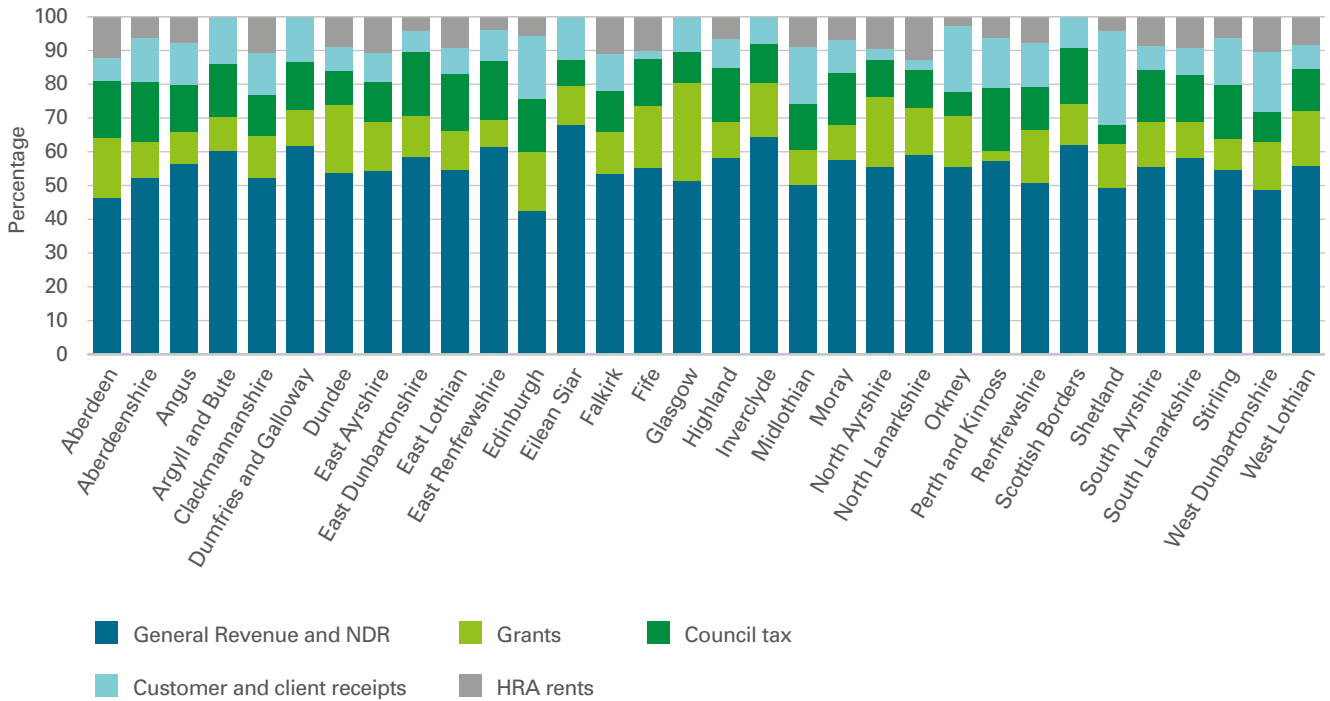
**20.** There are major differences between councils in the nature and scale of income ([Exhibit 4, page 14](#)). The most obvious of these is house rents, where six councils are not registered social housing providers, and so do not generate income from housing rents. However, there are other major differences between councils when looking at other sources of income:

- Some councils are less reliant on general revenue funding from the Scottish Government and NDR than others. This ranges from City of Edinburgh Council (43 per cent) to Eilean Siar (68 per cent).
- The other two islands authorities, Orkney and Shetland, have significant harbour activities which generate locally significant income streams of £15 million and £30 million, respectively.
- Some councils have relatively low income from fees and charges for services. There may be local policy reasons for this.
- Some councils generate relatively higher levels of income from council tax. East Dunbartonshire and Perth and Kinross councils rely on council tax to provide 19 per cent of their total income and funding (excluding HRA). In comparison, all three island authorities (Shetland, Orkney and Eilean Siar) realise less than 10 per cent of their total income from council tax.
- Some councils receive a greater proportion of income from grants and NHS funding. The most significant of these is Glasgow City Council which has 29 per cent (£680 million) of its total income from this source. This includes £329 million of housing benefit subsidy, £148 million from the NHS and £58 million of ring-fenced grants from the Scottish Government.

### Exhibit 4

#### The proportion of income from each source for each council

Some sources of income are more important to each council.



Source: Audited financial statement 2018/19





# Part 2

## Councils' financial position in 2018/19



### Key messages

- The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.
- Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.
- Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.
- Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.
- The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.
- Councils should continue to improve the transparency of the management commentary.

### Council budgets and outturn 2018/19

#### The 2018/19 three per cent funding gap was less than the previous year

**21.** Councils' 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (three per cent). In 2017/18, the shortfall was £0.5 billion (four per cent).

**22.** Councils planned to manage funding gaps through savings. On average, councils delivered 87 per cent of planned savings. However, there was significant variation in how individual councils performed against their savings targets:



**How big is the funding gap for your council relative to the total budget?**

- Moray Council, which planned to deliver savings of £6.3 million, achieved savings of £7.2 million or 114 per cent of its target. Inverclyde, North Ayrshire and West Lothian councils also performed well against their savings targets.
- Shetland Islands Council, which planned to deliver savings of £1.9 million, achieved savings of £0.4 million or just 21 per cent of its target.

### **A higher proportion of the funding gap was met from reserves than planned**

**23.** Some councils planned to use reserves to present balanced budgets. An analysis of data from a sample of 18 councils shows that planned use of reserves for 2018/19 was £52 million. The combined total funding gap for these councils was £272 million, of which planned use of reserves represented 19 per cent. The actual use of reserves by the sample of 18 councils was higher than planned at £71 million.

### **Usable reserves**

**24.** All councils hold reserves but there is variation in the nature and value of these reserves. Reserves play an important role in good financial management of councils. They may be used to invest in a major project, transform services or respond to unexpected events. Reserves are a one-off resource so councils need to plan carefully for their use. [Exhibit 5 \(page 17\)](#) shows the nature and value of usable reserves in 2018/19. Over 77 per cent of the total balance is made up of revenue reserves which include the general fund, housing revenue account, insurance, repairs and renewals funds and other specific funds, eg harbour. The remainder relates to capital reserves which are used to support the costs associated with capital investment projects.

### **In 2018/19, 16 councils ended the year with a lower level of usable reserves**

**25.** Across all councils there was a net decrease in usable reserves of £6 million to £2.5 billion. Sixteen councils ended the year with a lower level of usable reserves in 2018/19, which is relatively consistent with 2017/18 (18 councils).

**26.** Examples of councils with notable reductions in usable reserves in 2018/19 include:

- West Dunbartonshire reduced usable reserves by £6 million (or 28 per cent), which mostly related to the housing revenue account balance being used to fund capital expenditure.
- South Ayrshire used £7 million (or 17 per cent) of its reserves. This relates to a draw on its committed general fund in line with its budget plans.
- Moray drew down £4 million (or 16 per cent) from reserves, using its uncommitted general fund to support the 2018/19 financial position. This was part of the approved budget plan.




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**What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services, or transformation, increased charges, use of reserves?**

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**Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?**

**How well are you kept informed about progress against savings plans?**

**Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?**

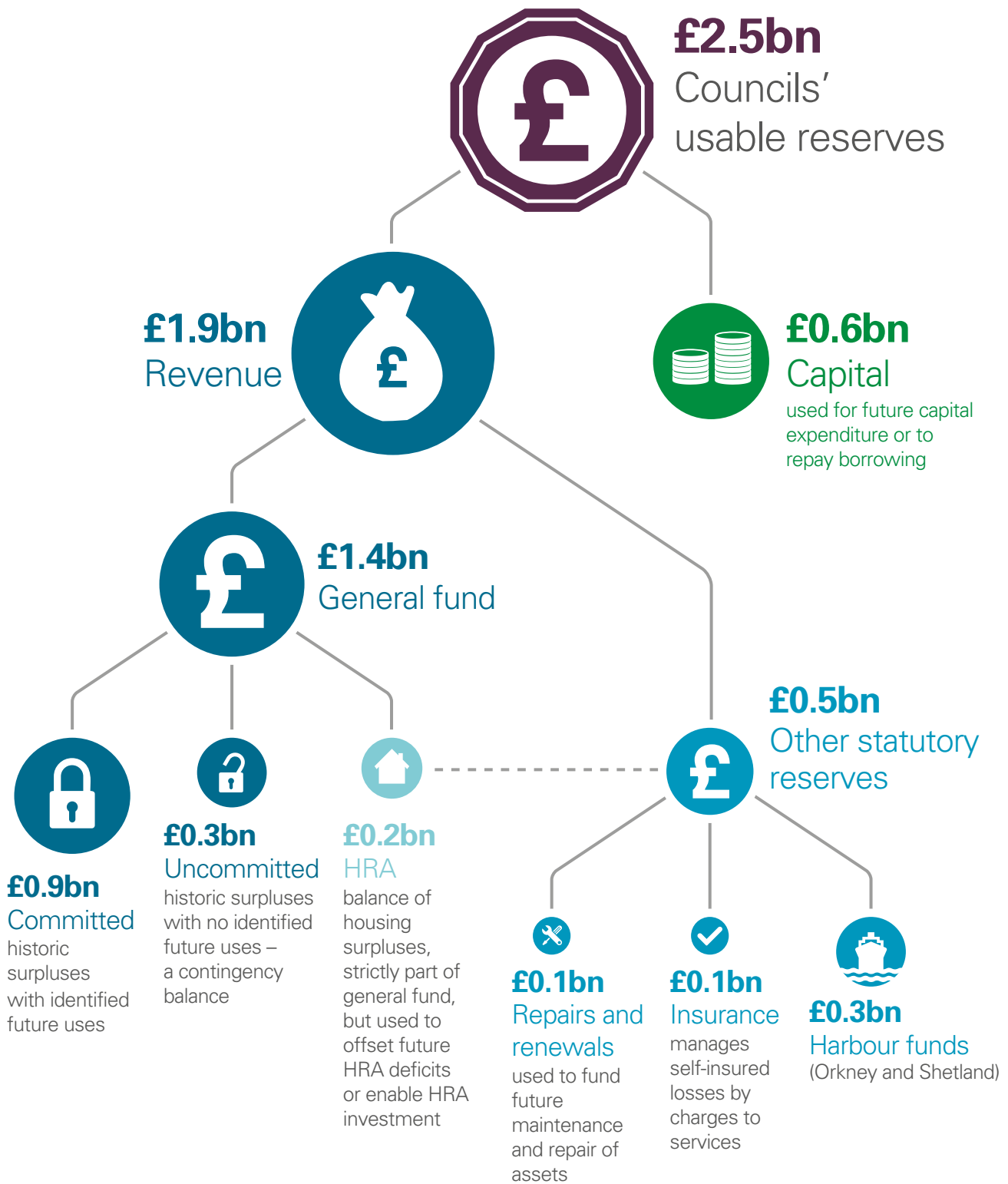
**How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?**

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### Exhibit 5

#### The relative size and nature of councils' usable reserves

In 2018/19, usable reserves held by councils totalled £2.5 billion.



Source: Audited financial statements 2018/19



## Revenue reserves

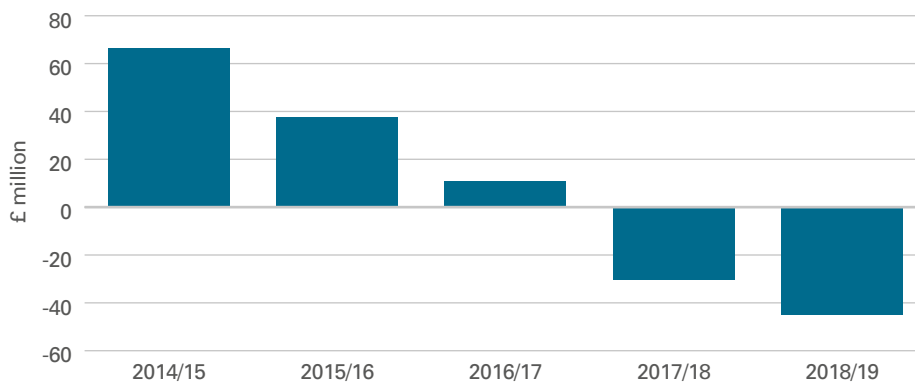
### Across Scotland councils increased their use of revenue reserves

**27.** In recent years, councils have been increasingly turning to reserves to address funding gaps or apply to identified earmarked expenditure. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed from councils adding to revenue reserves to an increasing draw on their revenue reserves ([Exhibit 6](#)).

### Exhibit 6

#### The movement in usable revenue reserves

Councils have been increasing their use of (rather than adding to) revenue reserves over the last two years.



Source: Audited financial statements 2014/15–2018/19

Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million.

## General fund reserves

### Councils have committed varying proportions of their general fund reserves

**28.** The total revenue reserve position includes a general fund reserve and councils can commit to using general fund balances for specific purposes in future years or maintain some as uncommitted. In last year's report, we highlighted the importance of councillors understanding the purpose of committed (or earmarked) reserves. We found that nearly all councils set out the purpose of their earmarked reserves, but the intended timing of this expenditure is not always clear. Knowing when the expenditure is likely to be incurred is an important part of understanding the need for these reserves.

**29.** The uncommitted element is used to provide against unforeseen circumstances and mitigate the financial impact of these. Councils have different strategies for managing the level at which they maintain an uncommitted balance ([Exhibit 7, page 19](#)). Most have a reserves policy that sets out a minimum level of uncommitted general fund to be maintained. This typically varies from one per cent to four per cent of expenditure across councils. Some councils, including North Lanarkshire and West Lothian, take a risk-based approach to identify an appropriate level for the uncommitted general fund each year. For both these councils this approach has led to a relatively low level of uncommitted general fund.



**What is your council's reserves policy?**

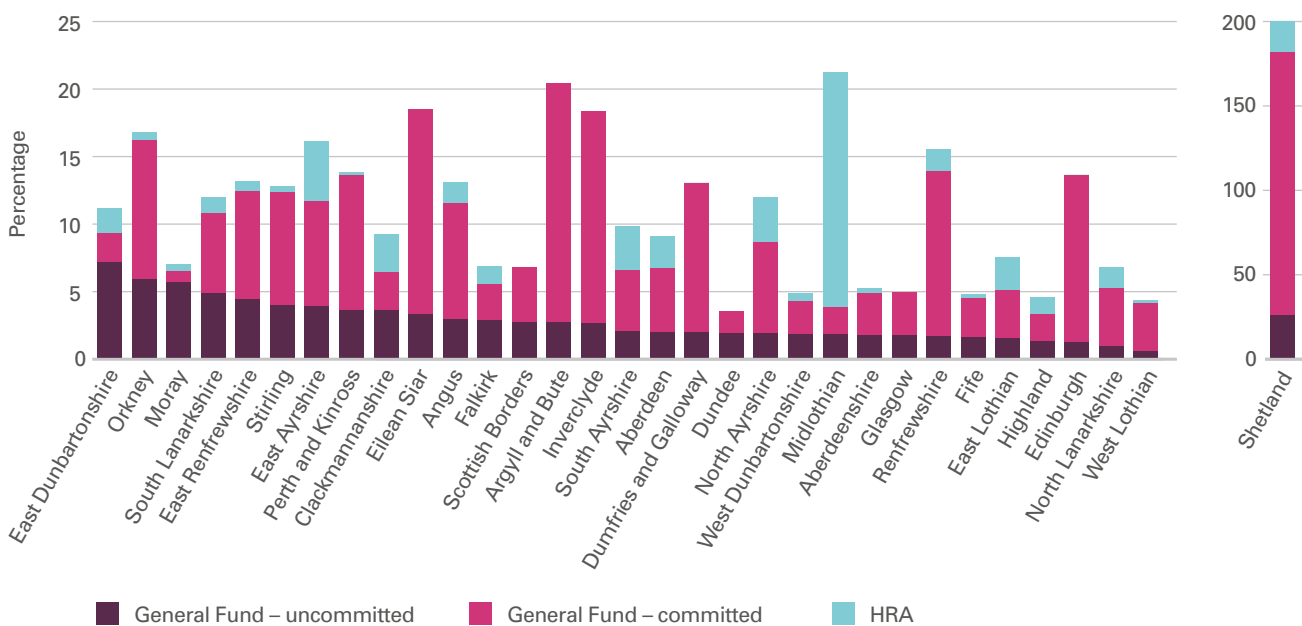
Do committed/ earmarked/specific reserves have clear purpose and projected cashflows or are they part of the general contingency or uncommitted general fund?

30. The Best Value Assurance Reports for [North Lanarkshire](#) and [West Lothian](#) both comment on the low level of uncommitted general fund but recognise that it has been set at a desired level and successfully maintained over several years. However, councils with a low level of uncommitted general fund are more exposed to the risk of an unexpected change in circumstances.

## Exhibit 7

### General fund as a proportion of net annual revenue split between committed, uncommitted and HRA

All councils hold an uncommitted general fund to protect against unforeseen financial pressures.



Note: Orkney and Shetland also have significant harbour funds which are not included above.

Source: Audited financial statements 2018/19



### Twenty-three councils have reduced their general fund reserves over the last three years

31. In recent years, there is significant variation in whether councils have added to, or drawn on, their general fund reserve (including the housing revenue balance).

[Exhibit 8 \(page 20\)](#) shows the average annual movement on the general fund over the last three years (as a percentage of the total remaining balance at 31 March 2019). Shetland has experienced a relative increase in its general fund of 24 per cent while Moray has experienced a similar relative reduction.

32. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray) would deplete its general fund within five years. The total general fund reserve is £14 million and Moray Council has identified that a further £3.7 million draw on reserves will be required to balance the 2019/20 budget (compared to £4.6 million in 2018/19 and an average of £3.6 million over each of the past three years). The council's budget papers clearly recognise that this approach to financial management is not sustainable and that funding gaps over the medium term will need to be funded from savings, which have not yet been identified.

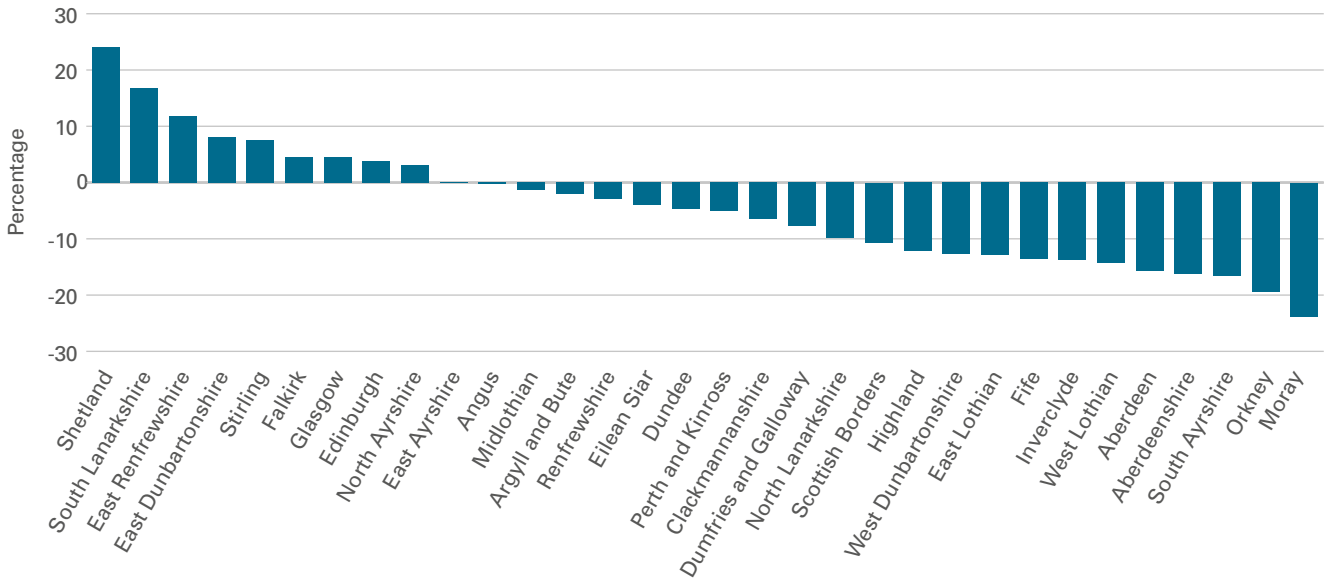


**Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?**

## Exhibit 8

### Average annual movement in general fund over the last three years

Some councils are reducing general fund reserves by significant amounts.



Source: Audited financial statements 2015/16–2018/19



## Capital

### Total capital spending was £2.75 billion with more spent on housing and economic development and less on education

**33.** Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year ([Exhibit 9, page 21](#)). These two areas now account for 44 per cent of total capital expenditure (39 per cent in 2017/18). The proportion of capital expenditure on education has fallen from 27 per cent in 2017/18 to 20 per cent in 2018/19.

**34.** Some of the major new investments include:

- East Ayrshire Council – Barony Campus. This is the biggest capital investment project ever undertaken by East Ayrshire Council with an estimated total cost of £68 million. On the outskirts of Cumnock, the campus consolidates five schools into one campus.
- City of Edinburgh Council – Additional investment in educational properties, roads and social housing through the housing development fund with over 700 new homes under construction and a further 3,000 homes in design and development stages. The council is also providing funding for homes for mid-market rent from private developers through the National Housing Trust and through the Edinburgh Living LLP.



**What are your council's medium-term and long-term plans for capital spending?**

How well are you kept informed about progress against capital plans?

How well do you understand the reasons for any underspend against the annual capital budget?

- Midlothian Council – Newbattle Community Campus. A £38 million hub project opened in May 2018 as the council's first 'centre of excellence in digital technology' providing enhanced education and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

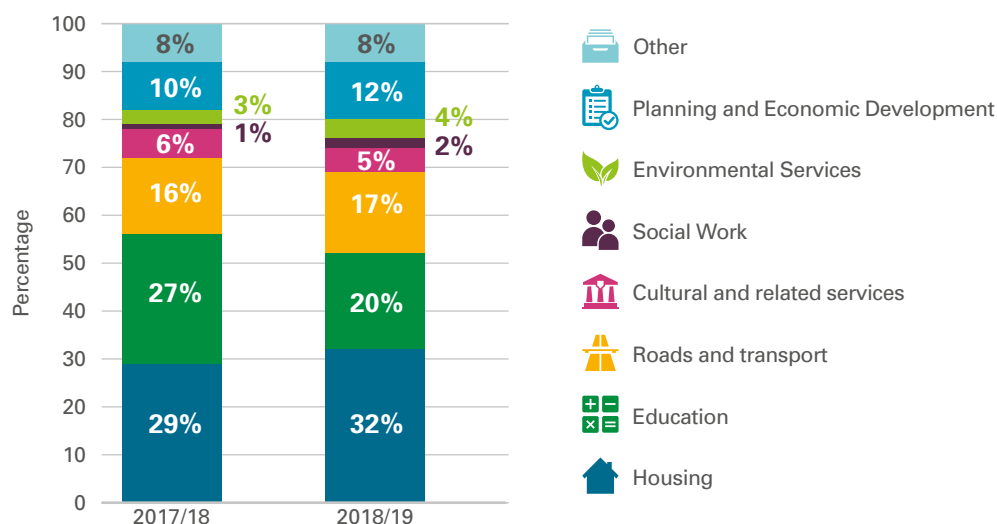
**Investment has led to an increase in the number of council houses**

**35.** Across Scotland, social housing is provided by a mix of housing associations and councils. Twenty-six councils in Scotland provide social housing. Fife and North Lanarkshire have the most housing stock (in excess of 30,000 properties each).

**Exhibit 9**

**Capital expenditure by service area 2018/19 and 2017/18**

A larger proportion was spent on housing and economic development and less on education in 2018/19.



Source: Scottish government CPOBE – capital provisional outturn (and budget expenditure)



**36.** We are now seeing the effect of housing investment and the end of the right-to-buy scheme leading to an increase in social housing stock. The total number of houses at 31 March 2019 has increased by 1,950 to 315,649. Edinburgh increased its housing stock by four per cent (719 properties) and West Lothian increased its housing stock by three per cent (434 properties). Falkirk, Highland, North Lanarkshire, Renfrewshire and South Lanarkshire have also increased their housing stock, each by more than 100 homes. East Ayrshire has experienced the biggest decrease, reducing its house numbers by 264.


### Government grants and money from councils' revenue budget continue to be the main sources of funding for capital expenditure

**37.** The sources of capital expenditure funding in 2018/19 are mostly consistent with 2017/18 and include:

- £1.1 billion of government grants (£60 million or six per cent higher than 2017/18).
- £0.9 billion taken from council revenue (capital financed from current revenue and loans fund charges).
- £0.6 billion increase in the underlying need for councils to borrow.

### Auditors reported underspends in annual capital budgets at a number of councils

**38.** A number of the local auditors in their annual audit reports identified that councils had significant underspends against their annual capital budgets:

- Aberdeen City's 37 per cent underspend is in part due to the reprofiling of four proposed new primary schools, delays with the Union Terrace Gardens Project and in settling land claims for the Aberdeen bypass.
- West Dunbartonshire underspent by 41 per cent. We reported in the [Best Value Assurance Report](#)  (June 2018) that there has been a trend of significant levels of capital slippage at the council over a number of years and recommended that the council review its project management processes and consider performing self-assessments to identify areas for improvement.
- Orkney Islands' 50 per cent underspend is due to weaknesses in forward planning arrangements and the auditor reported a history of capital slippage. Capital projects which experienced slippage in 2018/19 include £3 million for the Scapa Flow Visitor Centre and Museum and £4 million for a new tug.

**39.** There can be local reasons for underspends against annual capital budgets that reflect the phasing of projects over a number of years. The key issue is that councillors understand whether annual underspends of budget are symptomatic of delays in overall capital project delivery and encourage officers to address these or refine the overall capital aspirations.

## Debt

### There is variation in the relative underlying borrowing position of councils

**40.** The underlying borrowing position of councils varies across Scotland from 58 per cent of net annual revenue in Renfrewshire and Orkney to 237 per cent in Aberdeen City ([Exhibit 10, page 23](#)). Overall gross debt levels have grown by £0.7 billion (or four per cent) in the last year. Councils with higher borrowing levels usually incur higher annual costs of servicing the debt and may have less headroom for further affordable borrowing.

**41.** The underlying borrowing position consists of the net debt of the councils at 31 March 2019 (total debt less investments and cash) adjusted for total usable reserves. This is because a council with significant reserves that are not cash-backed would need to borrow more in the future to realise these reserves.




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**What is your council's current debt position relative to its annual revenue?**

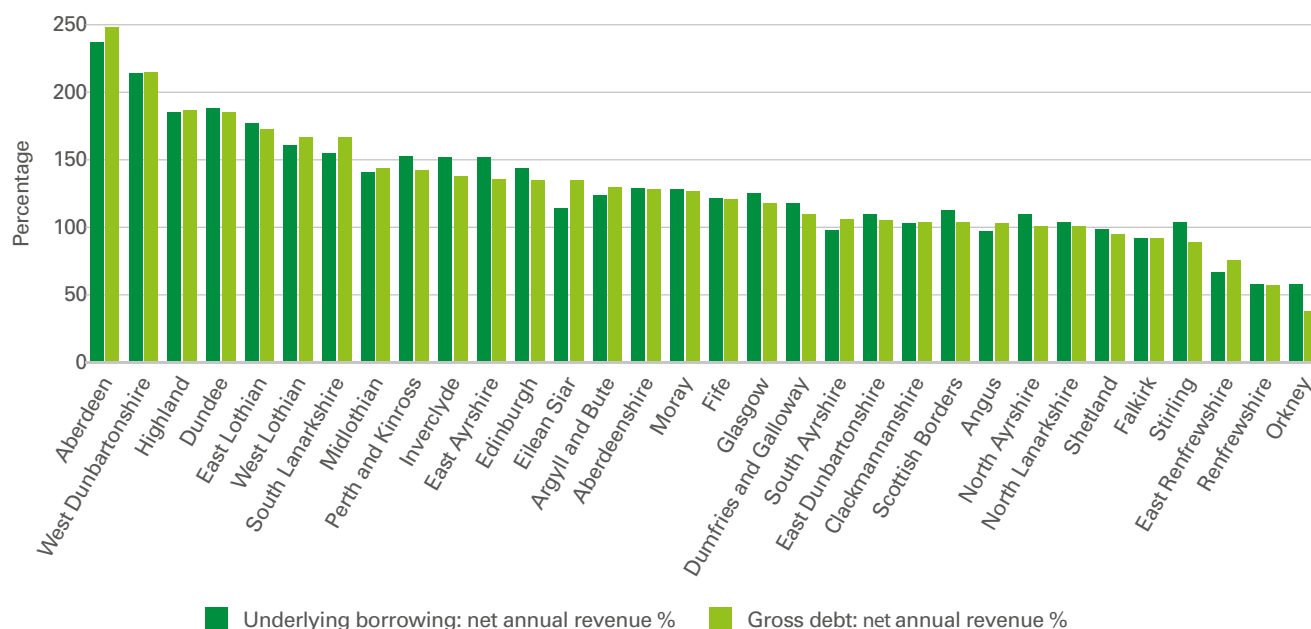
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## Exhibit 10

### Underlying borrowing and gross debt as a proportion of net annual revenue

The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



Source: Audited financial statements 2018/19



### Total net debt across councils has increased by £0.3 billion, mainly due to three councils

42. The different sources of debt held by councils comprises:

- The Public Works Loans Board (PWLB), a UK Government agency that issues loans to local authorities and other specified bodies (56 per cent).
- Other market loans (27 per cent).
- Other long-term liabilities from assets acquired through public private partnerships including Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models (17 per cent).

43. Total net debt has increased by £0.3 billion (2.3 per cent), from £15.1 billion in 2017/18 to £15.4 billion in 2018/19. Three councils account for most of the movement in net debt this year:

- Aberdeen City Council – an increase of £203 million (21 per cent) due to an increase in PPP liabilities and short term borrowing from other local authorities to fund capital investment.
- East Ayrshire Council – increase of £67 million (20 per cent) due to an increase in finance lease liabilities for an NDP schools project that the council occupied in the year.
- Dundee City Council – increase of £66 million (10 per cent) due to an increase in borrowing to fund the council's capital programme, including £12.4 million for council housing.

### **The overall cost of servicing debt is unchanged but councils incur different levels of spend on their annual revenue**

**44.** Total interest costs remain consistent year-on-year at £0.8 billion. In 2018/19, these payments varied from 10 per cent of net annual revenue in Aberdeen to two per cent in Orkney with 19 councils spending more than six per cent of their net annual revenue on debt interest. Higher interest costs can reflect the extent, type and age of debt held.

### **Most debt is fixed interest, but PFI/PPP/NPD schemes are variable interest**

**45.** Most council borrowing comes from the PWLB and this is usually issued at a fixed interest rate. Our analysis from auditors found that fixed interest payments made up around 65 per cent of total interest payments in 2018/19. In October 2019, the UK Treasury announced that interest rates on new PWLB loans would rise from 1.81 per cent to 2.81 per cent. This will make new PWLB borrowing or refinancing of debt for councils more expensive.

**46.** The remainder relates to interest payments on PFI/PPP/NPD agreements (30 per cent), where unitary charges are typically linked to RPI and variable interest loans (five per cent). Aberdeen City Council issued index-linked bonds in November 2016, raising £415 million to support its capital investment programme. This is also linked to RPI and the income generated by the new Aberdeen Exhibition and Conference Centre is expected to contribute to the cost of servicing the bond each year.

## **Provisions and equal pay**

### **Glasgow City Council agreed to settle equal pay claims at a cost of £0.5 billion**

**47.** In last year's report, we highlighted that the impact of equal pay claims on Glasgow City Council's financial planning could be significant. In May 2019, the council agreed to settle outstanding equal pay claims at a total cost of £0.5 billion. The council has developed a funding strategy that will spread the cost of settlement over several years and this has been built into the council's baseline budget from 2019/20 onwards. The funding strategy includes one of the council's arm's-length external organisations (ALEOs) refinancing an existing loan with Barclays Bank and remitting this to the council as a member contribution. The second element involves a sale and leaseback arrangement of property with the same ALEO. The local auditor assessed the overarching governance arrangements of the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

**48.** The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.

## **Pensions and severance**

### **Employer pension liabilities increased as a result of the McCloud case**

**49.** Councils' share of the Local Government Pension Scheme (LGPS) net liability at 31 March 2019 increased by 41 per cent to £9.3 billion, compared to £6.6 billion at 31 March 2018.




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**How much of the council's budget is used to pay interest and debt repayments?**

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**Are you given clear and sufficient information to understand risks and support decisions about future borrowing?**

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**50.** In 2015, the government introduced reforms to public sector pensions. In December 2018, the Court of Appeal ruled, in the McCloud case, that the transitional protection offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination – [www.judiciary.uk/](http://www.judiciary.uk/). As all care schemes introduced in 2015 contained transitional protection, all schemes are likely to be unlawful. This includes the local government pension funds. On 27 June 2019, the Supreme Court denied the UK Government leave to appeal and the UK Government conceded that the protections in place were discriminatory on grounds of age. In accordance with accounting standards, this was regarded as an adjusting event after the balance sheet and councils were advised to adjust their unaudited financial statements.

**51.** In June, the Government Actuary's Department (GAD) provided actuarial firms with a methodology for estimating the likely impact of the rulings on pension liabilities. Local government pension fund actuaries were requested to apply the GAD assumptions which generally resulted in an increase in the net pension liabilities.

**52.** The impact of McCloud on council finances will become clearer at the next triennial revaluation of pension funds at 31 March 2020, when contribution rates are redetermined. There may be a funding pressure, with councils having to make additional future employer contributions to cover the increased liabilities.

#### **Other issues affected revised pension liabilities**

**53.** While the impact of McCloud was the main element in the revised figures, there were other factors involved including Guaranteed Minimum Pension (GMP) equalisation (due to contracting out of the state earnings related pension scheme (SERPS) in April 1978). This provided for reduced employer and employee National Insurance contributions in return for members receiving a GMP from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they have built up at different rates, reflecting the earlier payment age for women. An interim method of calculating the cost of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

**54.** In a few other cases, there were specific issues which were updated in the revised actuarial valuations. For example, in Aberdeenshire, the actuary had not reflected the impact of the backdated pay award, and in Aberdeen City, Stirling and Dumfries and Galloway, the initial calculations were based on the estimated investment position for the year end and this was revised to actual data in the audited statements.

**55.** The total impact of the above issues on councils' pension liabilities was £0.5 billion (or 5.5 per cent).

#### **Local auditors reported some issues with severance cases**

**56.** Some auditors reported that business-case calculations of the cost and benefits of severance were not taking into account all costs that they would expect to see. Auditors also found that some councils were using longer than expected payback periods: this is the length of time it would take the council to recoup the cost of the severance through expected savings in salary costs. The Scottish Government recommends this be no longer than two years, but auditors found examples of this being up to five years.

**57.** These severance cases often came as the result of restructuring at senior levels, with the intention of making future cost savings. Councils need to ensure that a robust business case is prepared for severance or early retirement that considers the long-term financial commitment of these decisions.

**All councils have ongoing commitments in respect of unfunded pension liabilities, but the extent of these costs vary**

**58.** Unfunded liabilities are pension amounts that are not met by the pension schemes, but by the individual employer. These can occur when an employer approves an early retirement, without actuarial reduction and with enhanced pension. All councils have ongoing commitments arising from past decisions on early retirements. [Exhibit 11](#) shows that for some councils this ongoing cost represents more than one per cent of their annual net operating expenditure.

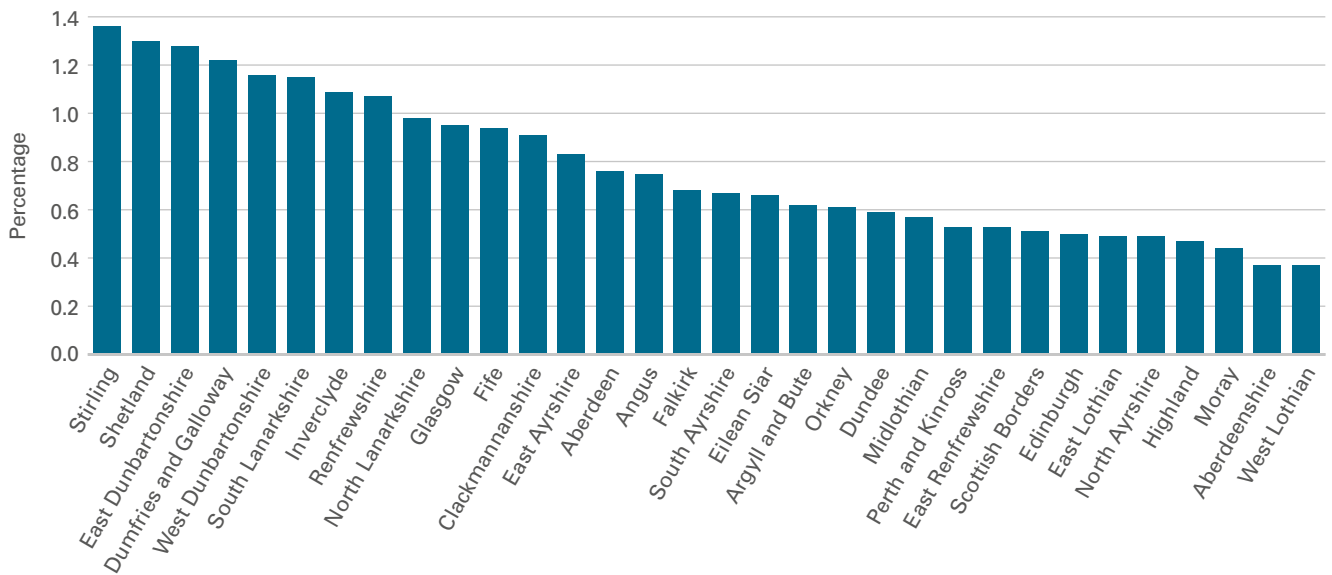


**Does the council prepare business cases for severance proposals and are these reported to councillors?**

**Exhibit 11**

**Annual cost of unfunded benefits as a percentage of net operating expenditure**

Annual payments for historic early retirements vary significantly.



Source: Audited financial statements 2018/19 and IAS19 valuation reports by actuaries



## Financial management and transparency

### Management commentaries do not always explain the link between budget outturn and the financial performance in the accounts or achievement of planned savings targets

**59.** In last year's report, we highlighted three key aspects to an assessment of whether financial reporting is transparent in the management commentaries:

- 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 the general fund contained in the financial statements and major differences explained?
- Is progress against agreed savings reported?

**60.** Our review of 2018/19 management commentaries found that:

- Both Comhairle Nan Eilean Siar and The Highland Council included these key aspects of transparency in their management commentaries.
- Nearly all councils reported their year-end outturn, but five councils did not provide explanations for significant variances from budget.
- Nine councils reported the outturn in the management commentary but this was not reconciled to the financial performance in the accounts. This narrative is critical to the understanding of a council's performance against budget and how this translates into the movement on the general fund reported in the accounts.
- Only ten councils reported progress against agreed savings.



#### Management commentaries

A management commentary is a report by the council, set out with its annual accounts. It should provide information on the council's strategic priorities and key risks, as well as a balanced analysis of the financial and wider performance of the council in the year.



**Does the management commentary of the council (and of the IJB accounts) show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?**

# Part 3

## Councils' financial outlook



### Key messages

- Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).
- In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).
- Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.
- Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.
- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

### 2019/20 funding settlement

#### Scottish Government revenue funding to local government in 2019/20 increased by 0.9 per cent in real terms

**61.** The Local Government revenue settlement from the Scottish Government in 2019/20 increased by 2.9 per cent (cash terms) from 2018/19 to £10.1 billion. This was a real-terms increase of 0.9 per cent. Over 80 per cent of the increase is due to growth in specific revenue grant funding.

## Medium- and long-term financial planning

### The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning

**62.** The funding settlement to councils continues to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term. The Scottish Government planned to publish indicative multi-year revenue budgets in December 2019 covering a three-year period,<sup>4</sup> and to then publish a three-year indicative capital budget in the summer of 2020. However, it is unlikely to produce these this year. The Commission views this commitment to multi-year budgets as a positive step and will monitor and report on progress and the impact on council planning in future overview reports.

**63.** The Scottish budget is becoming increasingly complex. It is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK now has a greater influence on public finances than ever before. Given Scottish Government funding remains the most significant source of income for councils, this volatility in the Scottish budget holds uncertainty and risks for funding to councils. This adds to the complexity and challenges for councils in planning for the medium and long term.

**64.** On 30 May 2019, the Scottish Government published its second medium-term financial strategy.<sup>5</sup> Income tax forecasts in the strategy suggest that the Scottish Government may need to budget for a significant revenue shortfall in each of the next three years, because forecasts have fallen since budgets were set. This shortfall could total £1 billion over the three years covered by the strategy.

**65.** The strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge. It does set out principles which will be used in a future spending review, although the timing of this remains uncertain. In September 2019, the Auditor General reported<sup>6</sup> that the strategy 'does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors'.

### All councils have medium-term financial planning, but the content could be improved

**66.** In 2019/20, all councils had financial plans that covered at least three years.

**67.** Medium-term financial plans should be at the core of strategic planning and decision-making. In order to ensure these decisions are made with the most current and accurate information, medium-term financial plans should be reviewed and refreshed annually and maintained as a rolling three- to five-year plan.

**68.** Local auditors reported that the content of medium-term financial plans varied:

- 28 (or 90 per cent) included estimates for Scottish Government funding
- 25 (or 81 per cent) included a total projection for net expenditure
- 18 (or 58 per cent) included projections of net expenditure at service level



Audit Scotland published a briefing in October 2019, [Scotland's new financial powers: Operation of the Fiscal Framework 2018/19](#)


This sets out an overview of how the Scottish budget operated during 2018/19, how the Fiscal Framework operated, provides an update of the main risks that affect the Scottish budget and what these mean for the management of the Scottish public finances.



The 2018/19 audit of the Scottish Government Consolidated Accounts September 2019



- 17 (or 55 per cent) included projections for service income
- 21 (or 68 per cent) included projections for the costs of borrowing.

**69.** There is scope for the content of financial planning to improve to include the elements in [paragraph 68 \(page 29\)](#) and assist members and other stakeholders in determining which services are likely to experience the biggest budget pressures, how service income is expected to contribute to the overall position and the extent to which relatively **fixed costs**  such as borrowing and unfunded pension liabilities affect the budget position.

### **A third of councils have financial plans that cover more than five years**

**70.** Long-term financial planning has not progressed since last year. Financial planning, covering more than five years, was identified in just ten councils. Last year we reported 16 councils, but further work indicates some of these have not been updated and now refer to less than five years or are limited to capital expenditure plans.

**71.** Long-term financial planning is particularly important in the context of increasing financial challenges and wider demands on services, in order to manage financial challenges and to make well-informed decisions, which are aligned to council priorities.

### **Financial pressures in 2019/20 budgets**

**72.** Councils' 2019/20 budget papers set out some common themes in the pressures that councils identified:

- Changes to staff-related costs generated significant pressure on budgets. For example, the local government pay offer made by COSLA and accepted by the Scottish Joint Council (SJC), which led to a pay increase of 9.5 per cent over the three-year period from 2018 to 2021.
- Demand pressures, particularly the expected population growth in some council areas, the increasing proportion of the population that is over 65 and over 75 years and other demographic changes.

### **Councils' identify a total funding gap of three per cent in 2019/20 budgets**

**73.** Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent). This is consistent with the three per cent gap in 2018/19. This continues the increasing pressure on councils to find cost savings, reduce services, increase income and/or use reserves and these decisions are likely to become increasingly difficult for councillors.

**74.** The basis and timing of the reported gap can vary from council to council. For example, two councils stated their funding gap after including a council tax increase, but the majority included council tax as one of their measures to close an identified gap. Councils could be more consistent in their presentation of the funding gap.

**75.** Funding gaps identified in 2019/20 budgets ranged from one to seven per cent across councils. Councils most frequently reported a gap of between two and four per cent. Aberdeen City and Clackmannanshire councils identified the largest funding gaps, relative to the councils' total funding and income (excluding HRA), of between six and seven per cent.



#### **Fixed costs**

Fixed costs remain unchanged in the short term over a wide range of activity. Their presence magnifies the effect of overall budget reductions or demand increases on the remaining budget.




#### **Does your council have medium- and long-term financial plans and do they include a range of potential funding and financial scenarios?**

Does the medium-term plan provide sufficient information on estimated Scottish Government funding, projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?



## Councils managed their funding gaps mainly through identifying planned savings

**76. Exhibit 12** sets out the proposed measures to address the funding gap across councils. Savings plans were the most common action, contributing £352 million (66 per cent) to the identified funding gap. This will include plans for cost reduction and service redesign. Of these **savings** , 96 per cent were 'recurrent', with only 4 per cent 'non-recurrent'.

**77.** Council tax increases provided a further £89 million (17 per cent) of income to bridge the gap. Increase to fees and charges for services made a minor contribution too (three per cent). The planned use of reserves made up the shortfall in the funding gap of £73 million (13 per cent) with 17 councils planning to use reserves to bridge the funding gap.



### Savings

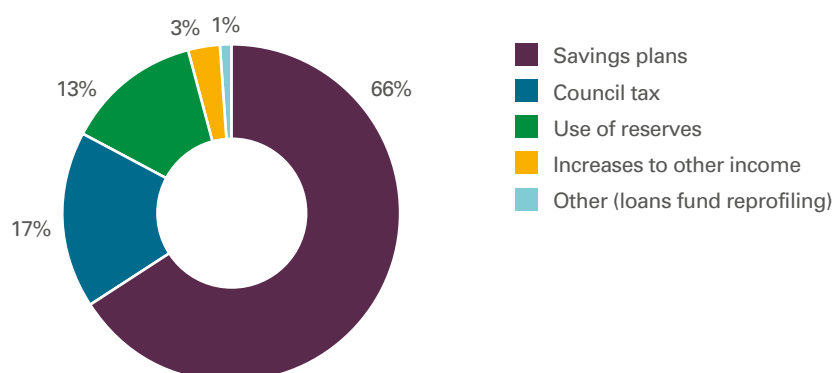
Recurring savings are savings, that once achieved, recur year-on-year from that date.

Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

## Exhibit 12

### Planned savings were the most common way of addressing funding gaps

66 per cent of the funding gap in 2019/20 is to be met through planned savings measures.



Source: Local auditor returns and council budget papers 2019/20



**78.** The position is unique to each individual council, for example East Renfrewshire Council identified a funding gap of £15.3 million, or five per cent of its funding and income (excluding HRA). The agreed budget identified that the gap was to be met through:

- Planned savings – £9.33 million (61 per cent)
- Use of reserves – £4.31 million (28 per cent)
- Three per cent council tax increase – £1.63 million (11 per cent).

## Fees, charges and local taxation

### Many councils have been increasing fees and some have introduced new charges

**79.** Charges for services vary across councils. For example, some councils do not charge for music instruction but the majority have an annual charge. This varies significantly from £117 in Inverclyde Council to £524 in Clackmannanshire Council.<sup>7</sup>

**80.** Many councils are increasing charges for services. An analysis of 18 types of charges indicates that two of the largest increases from 2018/19 to 2019/20 were applied to:

- Community alarms, 22 councils provided information on this charge and the average increase was 19 per cent.
- Bulky waste uplift, where 27 councils reported an average increase of eight per cent.


**81.** Some councils continue to introduce new fees and charges. These include:

- garden waste uplift
- the expansion of parking charges
- new charges associated with funerals (for example, use of multi-media)
- licensing (for example, new licences for public entertainment)
- planning services (for example, pre-application meeting charges).

### Greater council tax increases were deployed in 2019/20 than in previous years

**82.** In 2019/20, the Scottish Government increased the cap on council tax increases to 4.8 per cent in cash terms (3.0 per cent in real terms). Twelve councils decided to increase council tax by the full amount (4.8 per cent). Thirteen councils increased it by three per cent and the other seven by between 3.9 and 4.5 per cent.

### Councils continue to pursue new local taxes

**83.** As we reported in our report [Local government in Scotland: Challenges and Performance 2019](#) , local authorities are exploring new ways in which to raise tax locally.

**84.** The City of Edinburgh Council has endorsed a proposal for an Edinburgh transient visitor levy or 'tourist tax'. This would be based on a charge of £2 per room per night applying all year round for all accommodation types within the council boundary, except for campsites, for a maximum of seven consecutive nights. This scheme is expected to raise up to £14.6 million a year. Implementation of this will require legislation to be passed by the Scottish Parliament. The government has included a Transient Visitor Levy Bill in their 2019/20 programme for Scotland (*Protecting Scotland's Future: the Government's Programme for Scotland 2019–2020*). The Bill aims to provide local authorities with discretionary powers to apply the charge with the income being used to fund local authority expenditure on tourism.

**85.** In October 2019, the Transport Act was passed. The Scottish Government supported amendments to the Bill at stage two of the legislative process, which provide local authorities with the discretionary power to apply a workplace parking levy.

## EU withdrawal

**86.** EU withdrawal has the potential to exacerbate the existing financial pressures faced by councils. The risk of increased cost of goods and services from the EU is one of the more immediate concerns. Longer term, councils are concerned about the wider economic implications for public finances and the impact on their local areas. For example, increases in interest rates, reduction in business investment or an increase in unemployment and poverty are all risks to councils' communities and therefore to councils' financial planning.

**87.** The Scottish Government has allocated £1.6 million (£50k per council) to support ongoing work in councils to coordinate preparations for leaving the EU. It has also approved £7 million for a Rapid Poverty Mitigation Fund, to enable councils to respond to anticipated increased demand in the event of a no-deal exit. This includes scaling-up existing measures such as the Scottish Welfare Fund and Discretionary Housing Payments and supporting people in food or fuel poverty.



In December 2019, we plan to publish a briefing on how the public sector in Scotland has responded to EU withdrawal. This will be available on the [Audit Scotland website](#) .

# Part 4

## Integration Joint Boards overview 2018/19



### Key messages


- The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- Overall, IJB budgets increased by three per cent in 2018/19.
- The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).
- A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.
- Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.
- A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.
- Over a third of IJB senior staff have changed during 2018/19.

### Funding and expenditure

#### Overall, IJB budgets increased by three per cent in 2018/19

**88.** Overall total IJB funding increased by three per cent in 2018/19 and this was reflected in a three per cent increase in total expenditure of £0.3 billion to £8.6 billion. The total contributions from councils increased from £2.4 to £2.5 billion and NHS contributions from £5.9 to £6.1 billion.

#### The pace of progress with integration has been too slow

**89.** The average proportion of NHS and council funding to IJBs (71 per cent/ 29 per cent) and expenditure incurred (64 per cent/ 36 per cent) remains consistent with the previous two years. This does not indicate any significant shift in health and social care spend between partners and this finding is consistent with the Scottish Government's [spending and performance update](#) .

**90.** As a result of concerns about the pace of health and social care integration, the Cabinet Secretary for Health and Sport commissioned a review of progress. This was conducted in late 2018. The Ministerial Strategic Group for Health and Community Care (MSG) published its findings in February 2019 and set out proposals for ensuring the success of integration. Following publication of its review, the MSG issued a self-evaluation template. This aimed to evaluate the current position on the findings of the review. This exercise will be repeated to demonstrate any progress made.



NHS in Scotland 2019  
October 2019 

**91.** The Auditor General commented in [NHS in Scotland 2019](#) , October 2019, in relation to health and social care reform that the pace of change has been too slow. She recommended that the Scottish Government in partnership with NHS boards and integration authorities should 'develop a new national health and social care strategy to run from 2020 that supports large-scale, system-wide reform, with clear priorities that identify the improvement activities most likely to achieve the reform needed'.

### More IJBs now hold reserves, but this varies significantly

**92.** A further £34 million was added to IJB reserves in 2018/19, which now total £158 million or 1.8 per cent of total expenditure (1.5 per cent in 2017/18). Some of this increase in reserves is as a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. More IJBs now hold some level of reserve (26 in 2018/19 compared to 22 in 2017/18) ([Exhibit 13, page 36](#)). The IJBs without any reserve include Fife, Scottish Borders and South Ayrshire. One IJB, North Ayrshire, continues to hold a negative reserve of -£4.9 million. In 2018/19, the IJB started to repay this debt to the council and the remainder will be repaid in future years. This expectation of future 'repayment' of historic overspends is also identified as an issue in Argyll and Bute.

**93.** Of those IJBs with reserves, the position varies from Argyll and Bute with 0.1 per cent of total annual expenditure held as reserve (£0.3 million) to Eilean Siar with 9.8 per cent (£5.8 million).

## 2018/19 financial position

### The majority of IJBs struggled to achieve break-even

**94.** In 2018/19, 20 IJBs reported a surplus, two reported break-even and eight reported a deficit. The overall position was an underspend of £34 million. A number of IJBs failed to deliver all of their planned savings in the year and many have struggled to achieve financial balance, requiring additional funding from partners. Without this additional funding, 19 would have recorded a total deficit of £58 million.

### Recruitment challenges present a risk to service sustainability

**95.** Some IJBs have indicated that staffing issues have contributed to either overspends or underspends against budgets.

**96.** In the case of Eilean Siar, recruitment difficulties contribute to underspends against the IJB budget. The apparent healthy financial position masks issues of service sustainability, which are stated in the IJB's management commentary: 'Recruiting staff is already proving difficult for both nursing and social care staff and is expected to worsen as the available workforce on the islands decreases.'




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**What is your IJB's reserve policy?**

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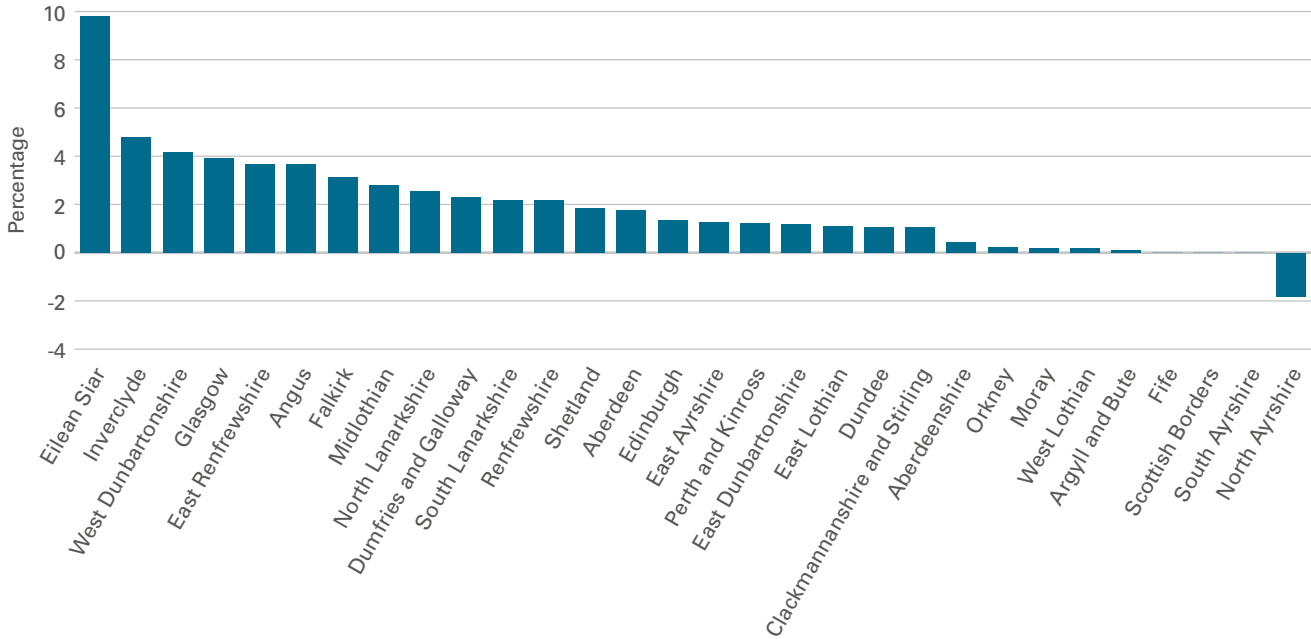
**Are the commitments made reviewed annually to ensure they reflect the best use of the IJB's reserves?**

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### Exhibit 13

#### Integration Joint Board reserves as a percentage of total spend, 2018/19


More IJBs (26) now hold a reserve, but this varies significantly.




Source: Audited financial statements 2018/19



97. Other IJBs have highlighted the risks that recruitment difficulties could present for the sustainability of services in the future. In Dumfries and Galloway, consultant vacancy rates have averaged around 20 per cent over the last two years and there has been a seven per cent increase in the use of agency staff. Edinburgh has reported that 45 per cent of their workforce are aged over 50, which could cause capacity and supply issues in the future.

98. Audit Scotland’s report, [NHS workforce planning – part 2](#) , highlights pressures on the primary care workforce linked to recruitment and retention. The Scottish Government acknowledges the pressures on the workforce but has not estimated the impact they will have on primary care services. Integration Joint Boards are responsible for planning, designing and commissioning services and need to think differently about how these services can be delivered with the resources available.



NHS workforce planning – part 2  
August 2019 

### Financial planning

#### Budgets were not always agreed by 1 April and budgets included unidentified savings plans



99. Having clear, complete and detailed agreed budgets is a fundamental business and governance tool. Fourteen IJBs failed to agree a budget with their partners for the start of the 2018/19 financial year. This position improved for 2019/20, with 11 encountering a delay that meant the budget was not formally agreed by 1 April 2019.



Is a budget agreed by the IJB before the start of the financial year? If not, why not?

**100.** Just under half of IJBs had budgets that included some unidentified savings. This meant the budgets were not balanced at the start of the year.

**101.** Our review of annual audit reports found that several IJBs, including Fife and Shetland, failed to deliver planned savings in year. This will have contributed to the financial pressures incurred.

**102.** The results from the national self-assessment tool developed in response to the Auditor General and Accounts Commission's report, [Health and social care integration: update on progress](#) , and the [Review of Progress with Integration of Health and Social Care](#)  report by the Ministerial Strategic Group for Health and Community Care indicate that IJBs recognise the timely agreement of budgets is an area for improvement. Eighteen IJBs assessed this area as either 'not established' or only 'partly established'.

## Financial outlook

### Medium-term financial planning is improving

**103.** Last year we reported that only a third of IJBs had a medium-term financial plan in place and that there was no evidence of longer-term financial planning. Since then, the position on medium-term financial planning has improved with auditors reporting that over two-thirds of IJBs have a medium-term financial plan. Over half of these covered a three-year period, with the remainder covering a longer period of between four and five years. Two thirds of the IJBs with medium-term financial plans reviewed them on an annual basis.

**104.** The plans typically included projections of net expenditure, income and projected funding gaps. Where estimates were included on pay growth, non-pay costs, demand and changes in government funding the estimated rates were found to vary significantly.

**105.** No IJBs had a financial plan that extended for more than five years. A focus on longer-term financial planning is required by IJBs as changes under integration are only likely to be achieved in the longer term.

### The projected funding gap is £208 million for 2019/20

**106.** Auditors identified a total estimated funding gap of £208 million for 2019/20, representing 2.5 per cent of total income. This is an improvement in comparison to 2018/19 (£248 million or 2.9% of total income). The 2019/20 funding gap as a proportion of total income varied between zero and 7.6 per cent.

**107.** [Exhibit 14 \(page 38\)](#) shows how IJBs propose to bridge the 2019/20 funding gap. Of the £208 million, 59 per cent was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Seven IJBs planned to cover part of the estimated funding gap from reserves.



**Does the medium-term plan provide sufficient information on host partner funding, projected net expenditure, projections for income, projections for cost of borrowing?**

**Does the IJB have a transformation plan?**

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

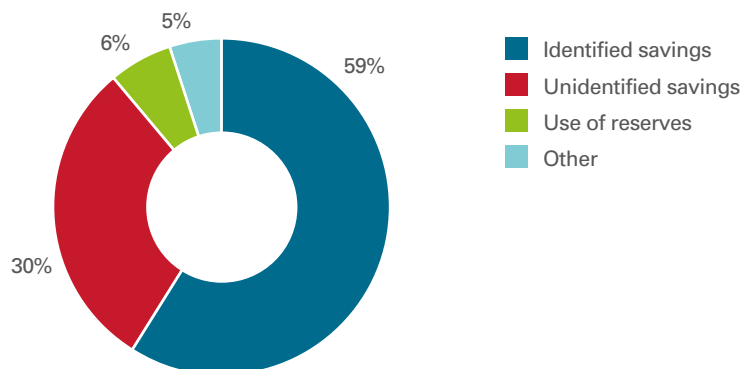


**How big is the funding gap for your IJB relative to the total budget?**

## Exhibit 14

### Plans to address 2019/20 funding gap

Savings had not been identified for 30 per cent of the 2019/20 funding gap.




Source: Auditor returns and IJB board papers



## Wider governance issues

### Over a third of IJB senior staff have changed during 2018/19

**108.** Based on data returns from auditors we found that over a third of IJBs have experienced turnover in their chief officer or chief finance officer in the year. In some cases, both these postholders have changed. Our report [Health and social care integration](#)  highlighted the risk of leadership changes and capacity to the transformation of services and successful integration.

**109.** The annual audit report for Argyll and Bute notes that the turnover in key staff led to weaknesses in financial reporting and a reduced focus on the delivery of approved savings. The chief officer changed, and two chief finance officers left the IJB in an eight-month period. Interim cover on a part-time basis was provided by the council's section 95 officer from December 2018 to June 2019, when a permanent appointment was made to the new role of head of finance and transformation.



Health and social care integration: update on progress

November 2018 





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# Endnotes

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- 1 Convention of Scottish Local Authorities.
- 2 Scottish Parliament Information Centre.
- 3 [\*Local government in Scotland: Challenges and performance 2019\*](#) , Accounts Commission, March 2019.
- 4 SPICe briefing on the Scottish Government's Medium-term Financial Strategy, May 2019.
- 5 *Scotland's Fiscal Outlook*, Scottish Government, May 2019.
- 6 [\*The 2018/19 audit of the Scottish Government Consolidated Accounts\*](#) , Auditor General, September 2019.
- 7 *Instrumental Music Services: Results from the IMS Survey May–July 2018*, Improvement Service, 2018.

# Local government in Scotland

## Financial overview

### 2018/19

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[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

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ISBN 978 1 913287 12 2