Agenda

West Dunbartonshire COUNCIL

Audit Committee

Date: Wednesday, 12 June 2019

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Time: 10:00

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Venue: Council Chambers
Clydebank Town Hall, Dumbarton Road, Clydebank

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Contact: Craig Stewart, Committee Officer
Tel: 01389 737251 craig.stewart@west-dunbarton.gov.uk

Dear Member

Please attend a meeting of the **Audit Committee** as detailed above. The business is shown on the attached agenda.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor John Mooney (Chair)
Councillor Jim Brown
Councillor Karen Conaghan
Councillor Daniel Lennie
Councillor Jonathan McColl
Councillor John Millar
Councillor Martin Rooney (Vice Chair)
Councillor Brian Walker
Mr C Johnstone
Ms E McKerry

All other Councillors for information

Chief Executive
Strategic Director - Transformation & Public Service Reform
Strategic Director - Regeneration, Environment & Growth
Chief Officer of West Dunbartonshire Health & Social Care Partnership

Date of issue: 30 May 2019

AUDIT COMMITTEE

WEDNESDAY, 12 JUNE 2019

<u>AGENDA</u>

1   **APOLOGIES**

2   **DECLARATIONS OF INTEREST**

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

3   **MINUTES OF PREVIOUS MEETING**   **7 - 10**

Submit for approval as a correct record, the Minutes of Meeting of the Audit Committee held on 20 March 2019.

4   **OPEN FORUM**

The Committee is asked to note that no open forum questions have been submitted by members of the public.

5   **AUDIT SCOTLAND REVIEW OF INVESTIGATION INTO**   **11 - 54**
        TENDERING AND CONTRACTING PRACTICES IN ROADS
        AND GREENSPACE SERVICES

Submit report by the Chief Executive providing an update on the outcome of the Audit Scotland review of the Council's internal audit investigation into Tendering and Contracting Practices in Roads and Greenspace Services and recommendations arising.

6   **PRUDENTIAL INDICATORS 2018/19 TO 2028/29 AND**   **55 - 92**
        TREASURY MANAGEMENT STRATEGY 2019/20 TO 2028/29

Submit report by the Strategic Lead – Resources advising of the proposed Prudential Indicators for 2018/19 to 2021/22 and Treasury Management Strategy (including the Investment Strategy) for 2019/20 to 2021/22.

7   AUDIT ACTION PLANS   **To follow**

Submit report by the Strategic Lead - Resources advising of:-

(a)   recently issued Internal Audit action plans; and

(b)   progress made against action plans previously issued contained within Internal Audit and External Audit reports.

8   INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2019   93 - 104

Submit report by the Strategic Lead - Resources advising of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2018/19 and advising Members of the contents of the Annual Assurance Statement given to Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - Resources) in support of the Annual Governance Statement.

9   COUNTER FRAUD ANNUAL REPORT 2018/19   105 - 108

Submit report by the Strategic Lead - Resources advising of the Council's fraud prevention, detection and investigation activity.

**10   CODE OF GOOD GOVERNANCE AND ANNUAL   To follow
         GOVERNANCE STATEMENT**

Submit report by the Strategic Lead – Resources:-

(a) advising on the outcome of the annual self-evaluation undertaken of the Council's compliance with its Code of Good Governance; and

(b) inviting the Committee to consider and approve the Annual Governance Statement that will be published in the Council's Abstract of Accounts.

11   THE AUDIT COMMITTEE ANNUAL REPORT   109 - 116

Submit report by the Strategic Lead – Resources providing an Annual Report on the Audit Committee for 2018/19.

AUDIT COMMITTEE

At a Meeting of the Audit Committee held in the Civic Space, Council Offices, 16 Church Street, Dumbarton on Wednesday, 20 March 2019 at 2.00 p.m.

Present:	Councillors Jim Brown, Karen Conaghan, Jonathan McColl, Martin Rooney and Brian Walker, and Lay Member Ms Eilidh McKerry.
Attending:	Joyce White, Chief Executive; Angela Wilson, Strategic Director – Transformation & Public Service Reform; Richard Cairns, Strategic Director – Regeneration, Environment & Growth; Stephen West, Strategic Lead – Resources; Malcolm Bennie, Strategic Lead – Communications, Culture & Communities; Colin McDougall, Audit and Risk Manager; Jennifer Ogilvie, Finance Business Partner and Craig Stewart, Committee Officer.
Also Attending:	Ms Fiona Mitchell-Knight, Assistant Director; Ms Carol Hislop, Senior Audit Manager and Zahrah Mahmood, Senior Auditor, Audit Scotland.
Apologies:	Apologies for absence were intimated on behalf of Councillors Daniel Lennie, John Millar and John Mooney (Chair) and Lay Member Mr Chris Johnstone.

Councillor Martin Rooney in the Chair

DECLARATIONS OF INTEREST

It was noted that there were no declarations of interest in any of the items of business on the agenda.

MINUTES OF PREVIOUS MEETING

The Minutes of Meeting of the Audit Committee held on 12 December 2018 were submitted and approved as a correct record.

OPEN FORUM

The Committee noted that no open forum questions had been submitted by members of the public.

TREASURY MANAGEMENT MID YEAR REPORT 2018/19

A report was submitted by the Strategic Lead - Resources providing Members with the opportunity to further scrutinise the treasury management performance during the first half of 2018/19.

After discussion and having heard the Strategic Lead - Resources in further explanation of the report, the Committee agreed to note that Council had approved the following at its meeting on 19 December 2018:-

(1)   The treasury management stewardship information contained within the report;

(2)   The 2018/19 revised estimates of treasury and prudential indicators as advised within Appendix 1 to the report (Tables A, B, C, D, E, F, H, M and O);

(3)   The updated list of permitted investments detailed within paragraph 4.5.4 of Appendix 1 to the report;

(4)   The policy on the Statutory Repayment of loans fund advances detailed within paragraph 2.5 of Appendix 1 to the report and note the ongoing review highlighted in paragraph 4.6 of this report; and

(5)   The referral of the report to the Audit Committee to ensure further scrutiny took place.

CREATION OF NON-DOMESTIC RATES MEMBER/OFFICER WORKING GROUP

A report was submitted by the Strategic Lead - Resources seeking approval to create a Member/Officer working group to consider issues affecting the Council in relation to Non-Domestic Rates (NDR).

After discussion and having heard the Strategic Lead – Resources in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1)   to the creation of a Member/Officer Working Group to consider issues affecting the Council in relation to Non-Domestic Rates;

(2)   that Elected Member membership of the Working Group would comprise of 4 Elected Members and 1 Lay Member, and the first meeting of the Group would determine the Chair and the frequency of its meetings; and

(3)   to approve the remit of the Working Group as detailed within the report.

CAPITAL POST PROJECT REVIEWS

A report was submitted by the Strategic Lead - Resources providing an update on the latest capital post project reviews undertaken.

After discussion and having heard the Strategic Director – Regeneration, Environment & Growth in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1)   to note the capital projects that had been selected for post project review;

(2)   to note the outcome of the reviews; and

(3)   to note the next list of projects recommended for review.

INTERNAL AUDIT PLAN 2019/20

A report was submitted by the Strategic Lead - Resources advising on the planned programme of work for the Internal Audit Section for the year 2019/20.

After discussion and having heard the Audit and Risk Manager and the Chief Executive in further explanation of the report and in answer to Members' questions, the Committee agreed to approve the Audit Plan for 2019/20.

AUDIT ACTION PLANS

A report was submitted by the Strategic Lead - Resources advising of:-

(1)   recently issued Internal Audit action plans; and

(2)   progress made against action plans previously issued contained within Internal Audit and External Audit reports.

After discussion and having heard the Audit and Risk Manager in further explanation of the report and in answer to a Member's questions, the Committee agreed to note the contents of the report.

AUDIT SCOTLAND ANNUAL AUDIT PLAN 2018/19

A report was submitted by the Strategic Lead - Resources presenting Audit Scotland's Audit Plan for the audit of financial year 2018/19 to Committee for information.

After discussion and having heard Ms Mitchell-Knight, Assistant Director, Audit Scotland, the Strategic Lead – Resources and the Chief Executive in further explanation and in answer to Members' questions, the Committee agreed to note Audit Scotland's audit plan for their audit of West Dunbartonshire Council for the financial year 2018/19.

PUBLIC INTEREST DISCLOSURES AND OTHER INTERNAL AUDIT INVESTIGATIONS - 1 JULY TO 31 DECEMBER 2018

A report was submitted by the Strategic Lead - Resources advising on public interest disclosures received during the period 1 July to 31 December 2018.

Having heard the Audit and Risk Manager, the Committee agreed to note the content of the report.

ACCOUNTS COMMISSION REPORT: *LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2017/18*

A report was submitted by the Strategic Lead - Resources providing information regarding a report recently published by the Accounts Commission as prepared by Audit Scotland.

After discussion and having heard Ms Mitchell-Knight, Assistant Director, Audit Scotland and relevant officers in further explanation of the report, the Committee agreed:-

(1)   to note the terms of the report, along with the scrutiny tool for Councillors contained at Appendix 2 to the report; and

(2)   that all Elected Members, including Lay Members on the Audit Committee, be encouraged to attend a future Members' development session in relation to the report.

The meeting closed at 2.58 p.m.

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Executive

Audit Committee: 12 June 2019

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Subject: Audit Scotland Review of Investigation into Tendering and Contracting Practices in Roads and Greenspace Services

1.   Purpose

1.1   The purpose of this report is to update members on the outcome of the Audit Scotland review of the Council's internal audit investigation into Tendering and Contracting Practices in Roads and Greenspace Services and recommendations arising.

2.   Recommendations

2.1   Committee is asked to:

i)   Note that this report has been considered by Council and referred to Audit Committee for scrutiny;

ii)   Note the contents of this report;

iii)   Note the report and recommendations from Audit Scotland at Appendix A; and

iv)   Note the Council action plan outlining progress to date and further planned activity at Appendix B

3.   Background

3.1   This report was initially submitted to the Special Council Meeting on 14 May 2019 where it was agreed that the report and appendices would be presented to the Audit Committee on 12 June 2019.

3.2   An investigation was undertaken by Internal Audit into tendering and contracting within Roads and Greenspace following an allegation by a member of the public to the Council's whistleblowing hotline in March 2016. The caller, who requested that their identity was not revealed, alleged that employees within the Council had received hospitality from a company which was engaged by the Council to undertake work within two service areas and that contracts were being awarded to that company as a result of hospitality provided.

3.3   Internal auditors examined a number of documents including receipts provided by the person who made the allegations which had names of individuals handwritten in pen on the back. These were queried as part of interviews with the employees whose names appeared on any of the receipts.

In a number of occasions the employees can evidence that they were not in attendance. The hospitality allegations were found to be unsubstantiated. The audit also analysed 27 contracts relating to 11 different contractors within the two service areas across the period 2013 to 2016 and found that within this sample, procurement procedures had not always been followed, resulting in most of this work being awarded outwith the Council defined methods of procuring such works. A summary of these findings accompanied by an action plan outlining how these procurement issues were being addressed was presented to the Council's Audit Committee on 12 December, 2018.

3.4 A disciplinary process was undertaken, in line with the Council's Disciplinary Policy, in relation to the procurement issues. This concluded in May 2018 and found there was no basis for action to be taken against any individual employee.

3.5 Police Scotland was notified by Internal Audit about the matter in May 2016 soon after the allegation was first received and conducted its own investigation. No criminality was established and no further action was taken. This concluded the police investigation.

3.6 A copy of the redacted report was issued to all elected members on February 7, 2019. Audit Scotland was contacted by the Council and confirmed that it would review the approach taken by the Council as part of its routine wider scope audit responsibility.

3.7 The Audit Scotland review included consideration of the work and findings reported by Internal Audit on contract tendering procedures. This incorporated:

- Consideration of the 2018 Internal Audit report I/038/17, Investigation Roads and Greenspace – Allegation of Hospitality and Tendering and Contract Arrangements.
- Interviews with officers, and an elected member
- Observation of the Council meeting on 14 February, 2019
- Review of relevant Council policies and procedures
- Review of a number of documents provided to us by third parties relating to the allegations of hospitality being provided to council employees.

4. **Main Issues**

4.1 Audit Scotland provided a summary report on its review of the Investigation into Tendering and Contracting Practices in Roads and Greenspace Services to the Council on April 25, 2019.

4.2 As already demonstrated in the action plan presented to the Audit Committee in December 2018, a number of required improvements, particularly in relation to procurement, had already been identified as part of the original investigation. As reported to Audit Committee in December 2018 and March

2019, work has been undertaken to address these improvement actions. These actions, together with the specific recommendations arising from the Audit Scotland review, have been incorporated into a comprehensive action plan which is attached at Appendix B and reflects the most up to date position in relation to progress.

4.3   Audit Scotland confirms in its report that its team agreed with the conclusions reached by internal audit, and were satisfied that the evidence compiled by internal audit supported the conclusions reached and reported.

4.4   The Internal Audit Investigation
        Based on an audit of a sample number of documents from 2013/14, 2014/15 and 2015/16, Internal Audit concluded that procurement policies were not always followed in Roads and Greenspace. This resulted in work being awarded without a tender process or without seeking sufficient quotes from contractors. Managers stated this practice was undertaken due to delivery pressures and the requirement to continue to deliver essential services. In practice some existing contracts had lapsed and in the absence of a replacement contract, contracts with historic rates were used with existing contractors. The service management made the Council's Procurement team aware of this approach at regular intervals.

4.5   Levels of non-compliance were and continue to be highlighted to Elected Members through performance indicators which are reported to Committee and Council through a range of reports including the Annual Performance Reports, Delivery Plans, Procurement Strategy and Annual Procurement Report.

4.6   Within the Council's current Financial Regulations there is a provision for the disclosure of departures from the Council's normal financial procedures to Elected Members, at the appropriate committee where expenditure exceeds or is likely to exceed £50,000. It has been highlighted through the audit process that this has not been done for all contracts and going forward additional measures are being implemented to address this. This includes reminding all Strategic Leads of the Financial Regulations and, in particular, areas of spend where a departure from normal processes is required to be approved, and continuing mandatory training for all staff involved in procuring contracts.

4.7   The most recently reported performance for recorded on contract spend was 74% (for 2017/18) with a target of 75% for 2018/19, this performance has increased steadily since 2011/12 when it was reported as 44%. The Council has set a target of 90% of all spend being on contract by the end of 2020/21. Additional controls have also been introduced to monitor spend against contracts within Roads and Greenspace. A Roads Civils Framework agreement has been in place since May 2018 which has introduced a definitive fixed pricing structure for projects in this service area.

4.8 As reported to Audit Committee in December 2018, an action plan was developed for the Council to address specific procurement issues raised in the internal audit and is progressing. Procurement practice, legislation and guidance has continued to evolve in recent years and in recognition of this, the Central Procurement function of the Council has been enhanced with new approaches developed and significant work undertaken to increase the percentage of spend that is recorded as on contract. This has included the recruitment of additional staff and the provision of further support to staff involved in the tendering process.

4.9 Disciplinary process
The findings of the internal audit investigation were reviewed and considered to ascertain whether a disciplinary process should be followed. A disciplinary process was undertaken, in line with the Council's Disciplinary Policy, in relation to the procurement issues and found there was no basis for action to be taken against any individual employee. The hospitality allegations were found to be unsubstantiated and therefore did not form part of this process.

4.10 Audit Scotland in its review stated that it was the opinion of its team that these conclusions were reasonable.

4.11 In determining whether any disciplinary process was required, consideration was given to whether there had been any breach of the employee code of conduct. At the time when these contracts were awarded, the wording of the policy was not explicit and therefore the associations did not constitute a breach. The code was revised in October 2018 to provide clearer instruction around the declaration of any such relationships and requirements around the register of hospitality. In light of the Audit Scotland report, this element of the disciplinary process has further been reviewed by the Strategic Lead - People and Technology and the Strategic Lead - Regulatory. The outcome of this review is that they agree with the view taken by Human Resources at the time that there was no breach due to the wording of the policy in place at the time. Further revisions to the code will now follow in consultation with the Joint Trades Unions.

5.   People Implications

5.1 There are no people implications arising from this report**.**

6.   Financial and Procurement Implications

6.1 The internal audit report advised that as a result of the lack of formal procurement practices having been implemented the services could not prove best value had been achieved. This has been reinforced by Audit Scotland in their report.

6.2 There are no direct procurement implications arising from this report, however organisationally an ongoing improvement in practice is required to maximise

spend that is on contract which will include improved compliance with Financial Regulations across the Council.

7. Risk Analysis

7.1 The Council is required to ensure best value for Council tax payers. The report identifies that as a result of lack of compliance with Financial Regulations the Council cannot prove best value has been achieved. Going forward increased levels of compliance will reduce this risk significantly.

8. Equalities Impact Assessment (EIA)

8.1 There are no equalities issues arising from this report.

9. Consultation

9.1 This report has been subject to consultation with colleagues across regulatory, resources and people and technology.

10. Strategic Assessment

10.1 The improvement actions outlined in this report will contribute to the Council's strategic priority of efficient and effective frontline services that improve the everyday lives of residents.

Joyce White
Chief Executive
Date: 22 May 2019

Person to Contact:	Stephen West, Strategic Lead for Resources
Appendices:	Appendix A - Audit Scotland Review of Investigation into Tendering and Contracting Practices in Roads and Greenspace Services; and Appendix B - Improvement Action Plan
Background Papers:	Report to Audit Committee: 12 December 2018 Report to Audit Committee: 20 March 2019 Report to Special Council: 14 May 2019
Wards Affected:	All

West Dunbartonshire Council

Audit Review of the Investigation of Tendering and Contracting Practices in Roads and Greenspace Services

AUDITSCOTLAND

Prepared for West Dunbartonshire Council

April 2019

Contents

Key Messages

Procurement practices and contract management

1. In March 2016, Internal Audit was made aware of allegations of receipt of hospitality and breaches of tendering and contracting practices in Roads and Greenspace services. In December 2018, a summary of Internal Audit's findings on these issues was presented to the Audit Committee. The Audit Committee noted the findings and the action plan for improvements in Roads and Greenspace services, and some generic actions for all council services.

2. In February 2019, all elected members were provided with a redacted version of the Internal Audit report. During the investigation period, members of the Audit Committee were not updated on progress. It would have been appropriate to update the members of the Audit Committee given the time taken to conclude on the investigation.

3. Internal Audit reported that in the period 2013/14-2015/16, council procurement policies and procedures had regularly been breached in awarding Roads and Greenspace contracts to suppliers. This resulted in most work being awarded without a tender process or without seeking sufficient quotes from contractors. Internal Audit said this left the council at significant financial and reputational risk.

4. Internal Audit has also reported procurement issues in fire detection and alarm services and issues are emerging from their ongoing work in social care service contracts.

5. Departures from the financial regulations where expenditure exceeds or is likely to exceed £50,000 are to be disclosed to members, at the appropriate committee. We have identified that this has not been done for all contracts. For these contracts the council has, therefore, not demonstrated to members that it has achieved Best Value in procuring these services. Any impact of this on the council's costs cannot be quantified.

6. Members of the Senior Management Team (SMT) were aware that procurement practices were not being followed for some service contracts, over a number of years. The SMT accepted this approach due to staffing pressures to secure delivery of services. Improvements have been implemented over time, and are ongoing. Additional staff have been employed since 2015 to work in the Corporate Procurement Unit (CPU). The council is reporting that the proportion of contracts awarded which comply with the regulations was 72% in 2017/18. Officers recognise that this needs to increase and have set a target of 90% of all spend being 'on contract' by the end of 2020/21.

7. The ongoing improvements to procurement practices have been reported to members. However, there is no explicit reference to any 'off contract' spend that breaches the council's procurement regulations, in the 2017/18 Annual Governance Statement or the Annual Procurement Report. The 2018/19 reports should include reference to where procurement practices have breached the council's procurement regulations.

8. We have identified that the council did not have effective controls in place to monitor revenue spend consistently against contracts across all services.

This is of particular concern where contracts are being awarded outwith the procurement processes. Since January 2019, additional controls have been put in place to monitor spend against contracts.

9. In our opinion, the council's controls to ensure personal relationships between officers and suppliers do not influence the awarding of contracts were not effective. It is not possible to identify whether this influenced the awarding of council contracts.

10. Senior officers should now establish and report to members on the full range of services where procurement procedures are not followed. This should be included in the council's Annual Governance Statement (AGS) in the 2018/19 accounts.

Council's investigation of the allegations

11. In our opinion, the time taken by Internal Audit to investigate and report on the allegations to the Audit Committee, between March 2016 and December 2018 was excessive. The format of the Internal Audit report was not appropriate for an investigation of this nature and could not be easily shared with members. The summary findings presented to the Audit Committee in December 2018 lacked the level of detail required by members for them to effectively scrutinise the issues identified.

12. Despite our views on the format of the report, based on the evidence reviewed by us, we agree with the conclusions reported by Internal Audit.

13. Internal Audit reported that the allegations of hospitality were not proven. During the investigation, Internal Audit were in contact with Police Scotland to share information about the allegations. Internal Audit reported that, *'in May 2017 Police Scotland concluded that they would not be progressing this matter any further as in their opinion there was insufficient evidence to build a criminal case in relation to the allegations of the receipt of hospitality linked to procurement activity.'* Police Scotland has confirmed this.

14. As a result of the Internal Audit findings, a disciplinary process concluded in May 2018. The process found there was no basis for action to be taken against any individual employee regarding the procurement regulation breaches and the allegations regarding hospitality. In our opinion, these conclusions are reasonable.

15. No disciplinary action has been pursued against any employees relating to the Internal Audit conclusion that staff failed to declare close personal relationships with contractors, in breach of the council's Code of Conduct. We agree with the conclusion of Internal Audit that the employee relationships should have been declared to comply with the council's employee Code of Conduct.

16. In our action plan at Appendix B, we recommended that senior officers should reconsider whether action should be taken regarding any breaches of the council's Code of Conduct. Officers have now considered this and are of the view that no disciplinary action is appropriate. The Strategic Lead – People and Technology and the Council's Monitoring Officer disagree with Internal Audit's assessment that employees had breached the Code of Conduct, "due to its wording" at the time. They feel there has been no breach of the Code of Conduct and the matter was fully considered by managers at the time, with no additional evidence now available to warrant review.

Introduction

Background

17. In January 2019, we were informed of concerns regarding how the council had responded to allegations of breaches of tendering and contract regulations at West Dunbartonshire Council. At the same time, the Chief Executive approached us to discuss the allegations made and to request an external audit review. We discussed the scope of our work with the Chief Executive, which was planned as part of our 2018/19 annual audit work.

18. As part of our routine audit work on the council's governance and systems of internal control, we reviewed the council's response to these issues. This report contains our findings.

Audit Approach

19. The scope of our work was discussed with the council and included a review of the timeline and the action taken by the council in investigating the allegations. Our work included:

- consideration of the 2018 Internal Audit report I/038/17, Investigation Roads and Greenspace – Allegation of Hospitality and Tendering and Contract Arrangements.

- interviews with officers, and an elected member

- observation of the council meeting on 14 February 2019

- review of relevant council policies and procedures

- review of a number of documents provided to us by third parties relating to the allegations of hospitality being provided to council employees.

20. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Audit findings

The council's approach to procurement of services

The procurement strategy

21. In 2017/18, the council's gross expenditure on services was £445 million. The council's total spend with third party suppliers was in the region of £165 million.

22. In 2017, the council's refreshed Corporate Procurement Strategy 2017/18-2020/21 was approved. This strategy contains the council's procurement vision for efficient and effective procurement and use of best practice methods of sourcing ensuring fairness, transparency and proportionality for all suppliers.

Procurement practices

23. Since 2016, the council's financial regulations have included a section on procurement regulations relating to contracts, supplies, works and services. All council officers are required to comply with these regulations. Prior to this, the 2013 financial regulations included a statement which said all employees must comply with the employee framework document for corporate procurement when purchasing goods, services and works.

24. Members of the SMT were aware that procurement practices were not being followed for some contracts over a number of years. Instead of tendering or seeking quotes from contractors, for some services, historical rates from previous contracts were used. Senior officers, including procurement staff, accepted this approach due to staffing pressures to secure delivery of services. This is evidenced, and reported to members, through the May 2018 Annual Procurement Report and the improvement actions reported in the Annual Governance Statements. The 2017/18 Annual Governance Statement includes references to:

- a number of improvements to procurement processes have been put in place, including more information on the intranet and the development of a council-wide pipeline. Following recent committee approval of the Contract & Supplier Management Policy, it is anticipated that after six months all new contracts will follow this policy

- roll-out of a Procurement Request Form and Procurement Awareness Toolkit across the council

- the implementation by 31 March 2019 of 'robust' commissioning and procurement arrangements within social services

- the implementation by 31 March 2019 of a contract and supplier management policy

- the ongoing implementation of commodity strategies for procurement activity.

25. The ongoing improvements to procurement practices have been reported to members. However there is no explicit reference to the fact that some 'off contract' spend, breached the council's procurement regulations. In our opinion, this should have been explicitly reported in the Annual Governance Statement and the Annual Procurement Report, see audit recommendations 1 and 10.

26. Where procurement regulations have not been followed, the council has not demonstrated that it is delivering Best Value in the award of these contracts. Any impact of this on the council's costs cannot be quantified.

27. Over a number of years, there is some evidence of improvements being made to procurement practices. Additional staff have been employed to the corporate procurement unit (CPU), doubling the number of staff since 2015 to 21.5 FTE. Mandatory training has also been provided to employees involved in procuring contracts.

28. The council reports that the proportion of contracts that are awarded in compliance with the regulations was 44% in 2011/12, 66.8% in 2015/16, 77% in 2016/17 and 72% in 2017/18. Officers recognise that this needs to increase and have set a target of 90% of all spend being 'on contract' by the end of 2020/21, see Appendix 2, recommendation 7.

29. Since 2017/18, in accordance with the Procurement Reform (Scotland) Act 2014, councils have been required to publish an Annual Procurement Report disclosing how its procurement activity complies with its procurement strategy. In May 2018, the 2017/18 Annual Procurement Report was presented to the Corporate Services Committee. The covering report says that the report must detail '*A statement of non-complying procurements and how the authority intended to comply in future*'. However, no such statement appears in the report.

Recommendation 1

The 2019 Annual Procurement Report should contain the information required by section 18 of the Procurement Reform (Scotland) Act 2014, including the extent of non compliance with the council's procurement regulations.

Procurement assessment results

30. Scotland Excel carries out Procurement and Commercial Improvement Programme (PCIP) assessments of councils in Scotland. The PCIP was introduced in 2015 and replaces the previous Procurement Capability Assessment (PCA). Both assessments score councils in a number of procurement areas and shows the score in percentages compared to the other councils.

31. West Dunbartonshire Council's PCA started from a low base but showed improvement from 17% in 2011 to 60% in 2014. The first PCIP report on the council published in August 2017 received an overall score of 64%, equalling the local authority average. The 2018 overall score increased to 76%.

The council's response to the allegations made

The Internal Audit Investigation

32. In March 2016, Internal Audit was made aware of allegations of receipt of hospitality and breaches of tendering and contracting regulations. The allegations covered hospitality received and contracts awarded in the period 2006 to 2016. Internal Audit investigated the allegations and reported to the Chief Executive in September 2017. The Internal Audit report I/038/17, Investigation Roads and Greenspace – Allegation of Hospitality and Tendering and Contract Arrangements was finalised in April 2018.

33. In December 2018, a [summary of Internal Audit's findings](#) was presented to the Audit Committee. The Audit Committee noted the findings and an action plan detailing specific actions for Roads and Greenspace services and generic actions to be implemented across the council.

34. We compared the December Audit Committee summary report with the Internal Audit report. We identified that some significant audit findings were omitted from the summary. In particular, the summary report did not include:

- the fact that Procurement financial regulations were *"regularly circumnavigated"*

- *"In the Auditor's opinion, this leaves the council at significant financial and reputational risk"*

- That there was "s*ystematic failure to follow appropriate and designated policies and procedures".*

In our opinion, the summary findings lacked the level of detail required by members to enable them to effectively scrutinise the issues identified.

35. We reported in March 2018 to the Audit Committee, that members of the Audit Committee are not provided with full completed Internal Audit reports and are only provided with summaries and the action plans. In our view, it would enhance transparency for members if full reports are presented in an appropriate format. Alternatively, summary reports can be presented if members are also given access to full reports. We acknowledge, in some circumstances, that redaction of information may be appropriate.

36. In December 2018, the Chair of the Audit Committee and the Audit Manager reported the results of the "*Audit Committee self-assessment and reporting on audit assignments"* exercise where they agreed to continue with the current approach. We note the Audit Committee's decision, but in view of our findings, in this report, we feel it is important that members are still assured that they receive the appropriate level of detail on Internal Audit findings to support informed discussions and scrutiny responsibilities. Members of the Audit Committee should reconsider whether the level of detail they receive relating to Internal Audit reports remains appropriate for their needs.

37. In February 2019, members received a redacted version of the Internal Audit report. In our opinion, the format of the full Internal Audit report was not appropriate for an investigation of this nature. It was very lengthy and consisted of 135 pages, including transcripts of interviews with employees and personal and commercial information. As a result, the full report could not be shared with members. The report was finalised in April 2018, but it shows a date of January 2018 on its cover. We would have expected the detailed audit work and transcripts of interviews to be recorded on audit files

and the report to be a summary of the findings and conclusions that could be shared with members.

Recommendation 2

The format of Internal Audit reports should be reviewed, and the level of detail provided to the Audit Committee should be reconsidered.

Internal Audit conclusions

38. The overall findings of the 2018 Internal Audit report were:

- the allegations of receiving hospitality were not proven

- personal relationships were not declared which is a breach of the council's Code of Conduct

- procurement policies and procedures were "regularly circumnavigated"

- work in Roads and Greenspace had been awarded without a contract or detailed specification

- the council's document retention policies had not been followed

- there was a systematic failure to follow appropriate policies and procedures

- the procurement policies in place across the council were "sufficient".

39. Internal Audit reported that 'the lack of adherence to procurement policies and procedures has led to an increased risk in the following areas:

- 'increased opportunity for fraud and corruption including bribery and falsification of invoices

- negative impact on reputation in the market place

- creation of a culture of non-compliance with all control measures leading to failure in corporate governance

- failure of the council to obtain or demonstrate "Best Value"

- inability of the council to determine resource requirements in service areas

- poor quality of work

- risk of litigation or enforcement in the following instances:

  - from contractors who believe they were not able to bid for work

  - health and safety violations

  - work not being carried out as per expectations.'

Scope of the Internal Audit work

40. The following areas were not covered by Internal Audit's work that we feel should have been considered and reported as part of the investigation:

- whether council's procedures for ensuring that procurement is performed in accordance with Official Journal of the European Union (OJEU) regulations were followed. There is a risk that, for the contracts where procurement regulations were not followed, the council may have breached OJEU regulations

- whether the contractors covered by the review were appropriately vetted, to ensure the quality of services procured

- whether any of the senior officers were aware that the procurement practices were not being followed

- whether disclosures were made to committees in instances where contracts were to be awarded outwith the procurement regulations.

Recommendation 3

Internal Audit should ensure that the scope of future procurement audits adequately covers relevant areas.

41. We have reviewed Internal Audit's files relating to the investigation. In our opinion, the documentation of the work could have been clearer to demonstrate how the work was carried out and the conclusions reached. Having said that, we are satisfied that the evidence compiled by Internal Audit supports the conclusions reached and reported. We have relied on Internal Audit's work previously and found no areas of concern with the quality of their work.

Recommendation 4

Internal Audit should review how they document complex investigations to ensure clear documentation, in accordance with Public Sector Internal Audit Standards.

Improvement actions from the Internal Audit report

42. Since the Internal Audit report findings were finalised, significant progress has been reported against the action plan. Progress is monitored in the council's performance management system, Pentana, and an update report provided to the Audit Committee in December 2018 and March 2019. This update report shows the responsible officer's view of the progress made against actions and has not yet been verified by Internal Audit.

43. The Internal Audit Plan for 2019/20 was reported to the March 2019 Audit Committee. This details the risk-based audit activity relating to Procurement which specifies *"review of compliance levels across the council and follow up on implementation of agreed actions following previous audits on procurement."* Internal Audit told the Audit Committee this work is due to be completed by June 2019 to provide assurance for the 2018/19 AGS.

44. Where the council does not comply with its governance arrangements and procedures, this should be disclosed within the AGS. The governance statement in previous years makes general references to improvement requirements in procurement. However, there is no explicit disclosure of non-compliance with the procurement financial regulations.

Recommendation 5

The Internal Audit follow up of tendering and contract arrangements should be reported and the results included in the 2018/19 Annual Governance Statement.

Time taken to complete the investigation

45. In our opinion, the time taken by Internal Audit to investigate and report on the allegations to the Audit Committee, between March 2016 to December 2018 was excessive. A timeline is included at Appendix A. Significant periods elapsed during the investigation where no progress was made. For instance, the response time from officers to provide information requested by Internal Audit was in excess of seven months. This was despite a large number of reminders issued and a site visit by Internal Audit. Another significant delay resulted when the draft report was issued for comment to officers. The draft report was issued in August 2017 but it was not finalised until April 2018. The disciplinary process concluded in May 2018. It then took until December 2018 for the findings to be reported to the Audit Committee. These time periods are excessive.

46. In these circumstances we would have expected Internal Audit to escalate the lack of response from staff to line management and then ultimately to the SMT and consider discussion with the Chair of the Audit Committee. The council should ensure that procedures are effective to ensure that staff respond timeously to Internal Audit requests.

Recommendation 6

The approach taken to investigating serious allegations should be reviewed. Staff should respond quickly to internal audit queries, to facilitate timely reporting of audit findings. Progress updates to the Audit Committee or appropriate member groups should also be considered.

Briefing note to members

47. On 11 March 2019, a Briefing Note was sent to all councillors from the Audit Manager providing further information on Internal Audit's findings. It explained that:

- 'Based on an audit of a number of documents from 2013/14, 2014/15 and 2015/16, Internal Audit concluded that procurement policies were not always followed in Roads and Greenspace. This resulted in work being awarded without a tender process or without seeking sufficient quotes from contractors. Managers stated this practice was undertaken due to delivery pressures, and the requirement to continue to deliver essential services. In practice, existing contracts had lapsed and in the absence of a replacement contract, contracts with historic rates were used with existing contractors. It was also noted that the service management made the council's Procurement team aware of this non-compliance at regular intervals.'

- 'Non-compliance with the procurement policies was and continues to be highlighted to elected members through service specific performance indicators which are reported to committee and council.'

- 'A disciplinary process was undertaken concluding in May 2018 in line with the council's Disciplinary Policy and this found there was no basis for action to be taken against any individual employee.'

- 'The nature of the evidence considered by the audit team in reaching the conclusion that the hospitality allegations could not be substantiated.'

- Police Scotland was notified by Internal Audit about this matter. 'No criminality was established, and no further action was taken'… 'In May 2017, the Police concluded that they would not be progressing this matter any further as, in their opinion, there was insufficient evidence.'

48. We can understand how members may have been frustrated about the level and timing of information they received from officers relating to the allegations made on the procurement issues. The first evidenced contact from the whistle-blower was in March 2016 and only selective findings were included in the Audit Committee papers in December 2018 (see paragraph 34). Members then received a redacted report, until the Audit Manager provided the briefing in March 2019. During that time, members were not updated on progress. See recommendation six.

Allegations of hospitality

49. The Internal Audit report states "the allegations of hospitality were not proven" as no conclusive evidence has been provided. Based on the evidence reviewed by us, we agree with the conclusions reported by Internal Audit.

50. Internal Audit have explained that, during the investigation, they were in contact with Police Scotland to share information about the allegations. Internal Audit reported that, *'in May 2017 Police Scotland concluded that they would not be progressing this matter any further as in their opinion there was insufficient evidence to build a criminal case in relation to the allegations of the receipt of hospitality linked to procurement activity.'* Police Scotland has confirmed this.

Non-compliance with council procedures

Procurement regulations

51. As part of the Internal Audit investigation, 27 contracts were reviewed within Roads and Greenspace services, with a value of £5.3 million. Internal Audit concluded that *"council wide procurement policies and procedures were regularly circumnavigated in both Roads and Greenspace in order to get work done quickly. This resulted in most work being awarded without a tender process or without seeking sufficient quotes from contractors. In many instances work within Roads and Greenspace was awarded without a contract or a detailed specification. In the auditor's opinion this leaves the council at significant financial and reputational risk."*

52. Departures from the financial regulations where expenditure exceeds or is likely to exceed £50,000 are to be disclosed to members, at the appropriate committee. Part 8 (b) of Section Q of the financial regulations stipulates that the *"procurement financial regulations will apply unless departure is expressly agreed by a meeting of the Council, the appropriate Service Committee or the Tendering Committee in advance of such a departure."* The previous standing orders had a similar requirement for spend above £50,000. From our review of committee papers and discussions with officers, we have identified that departures from the regulations were not always disclosed to the members at the appropriate committee. This issue was not referred to in the Internal Audit report, nor has it been included in the action plan.

Recommendation 7

Officers should comply with all procurement financial regulations. Committee approval should be obtained as required by the regulations. Committee papers should record how the procurement approach taken demonstrates Best Value for the council.

Declaring personal interests with contractors

53. All councils should have controls in place to ensure personal relationships between officers and suppliers do not influence the awarding of contracts. All West Dunbartonshire Council employees are required to comply with the council's employee Code of Conduct.

54. The Code of Conduct in place until October 2018 states at paragraph 8. *"Employees must notify the Chief Executive, in writing, if it comes to their knowledge that a contract, in which they have a personal or financial interest, whether direct or indirect, has been or is about to be, entered into by the Council"*

55. In October 2018, the council's Code of Conduct was revised and paragraph 12 says that '*employees must not allow any private interest to influence their decisions at work and any interest must be declared.*' Paragraph 8.1 provides further details and says that *"if an employee is involved in any work for the council in which close members of their family, friends or people living in the same household may have financial interests, these interests must be declared to and recorded by their line manager."*

56. The Internal Audit report says that '*the allegations of hospitality were not proven,*' however officers were personal friends with the contractors, and *"these relationships were not declared and should have been in accordance with the council's Employee Code of Conduct."* Internal Audit reported that they are '*unable to prove that procurement decisions were not influenced through friendships or socialising with*' contractors.

57. To remind employees of their Code of Conduct responsibilities, Internal Audit's action plan contains a high priority action for employees to be made aware of the need to declare personal relationships that could be perceived to facilitate an award of Council contracts. The council has recorded that this action is now complete and that staff are being reminded of their responsibilities through team meetings.

58. Since March 2018, the council has expanded guidance on offers of gifts, hospitality and declaring interests which all staff are expected to follow. However, this guidance does not include procedures to be followed by managers for contracts where a personal relationship has been declared. No records are currently required to be kept by line managers of any action taken. The action taken should be documented to demonstrate that personal relationships between officers and suppliers do not influence the awarding of contracts.

Recommendation 8

Council regulations should be revised to include actions to be followed by managers when personal relationships are declared between officers and contractors. Documentation should be maintained by managers and centrally for senior officers, to demonstrate action taken to avoid relationships influencing the award of contracts.

59. As a result of the findings above, we have concluded that the council's controls in place to ensure personal relationships between officers and suppliers do not influence the awarding of contracts were not effective. It is not possible to identify whether this has influenced the awarding of council contracts.

Monitoring spend against contracts

60. It is important that the council has effective controls in place to monitor expenditure against contracts awarded to suppliers. These controls are particularly important in the circumstances that contracts are being awarded outwith the procurement processes. We have identified that the council did not have effective controls in place to consistently monitor revenue spend against contracts across all council services. Since January 2019, additional controls have been put in place:

- quarterly monitoring of spend to ensure it is on contract

- quarterly monitoring of spend to ensure it is not in excess of the contract

- improvements to the procurement pipeline, a spreadsheet which outlines details for all planned contracts

- identification of contracts which are due to expire, which triggers a request to the service to re-procure the contract, in compliance with procurement regulations.

It is too early to assess the effectiveness of these controls.

Disciplinary Process

61. As a result of the Internal Audit findings, a disciplinary process concluded in May 2018. The employees considered for inclusion in the disciplinary process were those covered by the Internal Audit investigation. The process found there was no basis for action to be taken against any individual employee.

62. In our opinion, based on the findings reported in the Internal Audit report, there were three areas to be considered as part of this process:

- the breach of procurement regulations. As senior officers were aware of the breach of procurement regulations it was reasonable that no action was taken against the employees

- the hospitality allegations were not proven, therefore, it was appropriate that no disciplinary action was taken against employees

- non-compliance with the breach of the Code of Conduct in failing to declare close personal relationships with contractors. No disciplinary action has been taken against any employee with regard to this issue.

63. With regard to the Code of Conduct issues, the Internal Audit report said that, *"these relationships were not declared and should have been in accordance with the Employee's Code of Conduct."* The Internal Audit Report to the Audit Committee of 12 December 2018 stated *"there was a failure to declare personal associations with contractors, as per the employee Code of Conduct."* We agree with the conclusion of Internal Audit that the employee relationships should have been declared to comply with the council's Code of Conduct. The Code of Conduct in place until October 2018 states at paragraph 8. "*Employees must notify the Chief Executive, in writing, if it comes to their knowledge that a contract, in which they have a*

personal or financial interest, whether direct or indirect, has been or is about to be, entered into by the Council".

64. The council's Strategic Lead – People and Technology and the Council's Monitoring Officer have explained that they disagree with Internal Audit's assessment that employees had breached the Code of Conduct. They consider the wording of the council's code up to 2018, did not require such relationships to be disclosed. As a result, they feel disciplinary action was not justified. In 2018, the Code of Conduct was revised and the paragraph relating to employees disclosing personal relationships changed, see paragraph 55 for details.

65. In discussions between Internal Audit and HR in finalising the investigation report, HR officers did not raise any disagreement with Internal Audit's view on the breach of the Code of Conduct.

66. Given the different views of the council officers, on whether or not the Code of Conduct was breached, we recommended that the council review its position and clarify its final view on this issue.

Recommendation 9

In our action plan at Appendix B, we recommended that senior officers should reconsider whether action should be taken regarding any breaches of the council's Code of Conduct. Officers have now reviewed this decision and are of the view that no disciplinary action is appropriate, as they feel there has been no breach of the Code of Conduct and the matter was fully considered by managers at the time, with no additional evidence now available to warrant review.

Restructuring of Roads and Greenspace services

67. As of January 2019, the council has formed a shared service for roads with Inverclyde Council. Senior officers should consider whether any of the findings in this report impact on the consideration of any restructuring decisions.

Procurement weaknesses in other services

68. The 2018 Internal Audit report on Roads and Greenspace includes procurement practices and contracts awarded since 2013/14. There is a risk that similar weaknesses in procurement practices have continued with some contracts in this service.

69. In December 2018, Internal Audit also reported to the Audit Committee *Investigation: Fire Detection and Fire Alarm Systems.* This covered similar allegations regarding the procurement and tendering arrangements. Internal Audit reported that *"procurement processes in relation to fire alarm upgrades and maintenance have not been adequately followed, controls over checking and review of work done by third party contractors has not been adequate and there has been a lack of management oversight."* This report covered the period between 2013 – 2017.

70. A further Internal Audit report '*Allegations in relation to WDC Tower Blocks*' concluded that, while there was no substance to any of the allegations made, *"the arrangements for procurement processes were not fully adhered to in that the Council's Corporate Procurement Unit were not involved."* This report covered the year 2016 – 2017.

71. Internal Audit is currently carrying out a planned exercise covering the tendering of social care services, which is due to be reported in May 2019. We have been told that issues are emerging.

Recommendation 10

Senior officers should now establish and report to members on the full range of services where procurement procedures are not being followed and improvement actions should be monitored. Explicit reference should be made to breaches of the council's procurement regulations.

Other Allegations

72. At the Council meeting on February 14, 2019, a query was raised by an elected member regarding alleged tampering of a tender document for work on a car park in Dalmuir. From review of this contract, there is no evidence to support the allegation that the contract was tampered with or that the lowest bid was not selected for this contract.

Appendix A – Timeline

Date	Event
March 2016	Internal Audit was made aware of the allegations and subsequently met with the informant and Police Scotland
October 2016	Internal Audit requested sample documentation from services
December 2016	Internal Audit interviewed employees
May 2017	All sample evidence received
May 2017	Police Scotland advised that they were not progressing any action
June 2017	Further interviews with employees
August 2017	Draft report issued for comment to officers
September 2017	Draft report sent to the Chief Executive
Jan 2018	Updated version of report issued to officers
April 2018	Internal Audit Report finalised between officers
May 2018	Annual Procurement Report reported to Corporate Services committee
May 2018	Disciplinary process concluded
Dec 2018	Summary Internal Audit findings and the action plan reported to the audit committee
January 2019	External Audit was informed of concerns regarding how the council had responded to allegations of breaches of tendering and contract regulations at the council. At the same time, the Chief Executive approached us to discuss the allegations made and the scope of our work
February 2019	A redacted Internal Audit report was provided to members
March 2019	A briefing note was sent to all councillors from the Audit Manager providing more information on this issue
April 2019	External Audit report issued to the Council

Appendix B – Action plan

Audit Recommendations	Management response	Responsible officer and target date
1.The 2019 Annual Procurement Report should contain the information required by section 18 of the Procurement Reform (Scotland) Act 2014, including the extent of non compliance with the council's procurement regulations. **Risk** There is a risk of non-compliance with section 18 of the Procurement Reform (Scotland) Act 2014. **Paragraph 29**	The 2019 Annual Procurement Report will contain information required by the Act, including the extent of compliance.	Procurement Manager 22 May 2019
2.The format of all Internal Audit reports should be reviewed, and the level of detail provided to the Audit Committee should be reconsidered. **Risk** There is a risk that members are not provided with the appropriate level of detail to support them in their scrutiny role. **Paragraph 37**	1. The format of Internal Audit reports has been reviewed as a lessons learned exercise, e.g. transcripts from interviews would not normally be included, and personal and commercial information kept to appropriate levels of detail. 2. The level of detail provided to Audit Committee is included in this review and will be reported to a future Audit Committee	Audit Manager 30 April 2019 Audit Manager 12 June 2019
3. Internal Audit should ensure that the scope of future procurement audits adequately covers relevant areas. **Risk** There is a risk that weaknesses with procurement practices are not reported. **Paragraph 40**	The audit work undertaken was an investigation not a planned audit. Internal Audit will build this into future planned procurement audit	Audit Manager 30 April 2019
4. Internal Audit should review how they document complex investigations to ensure clear documentation, in accordance with Public Sector Internal Audit Standards. **Risk** There is a risk that there is a lack of documentation to support the judgements in Internal Audit reports. **Paragraph 41**	Internal Audit will utilise the Team Mate electronic audit system to document all audit investigations, including document and activity logs on complex investigations	Audit Manager 30 April 2019

Audit Recommendations	Management response	Responsible officer and target date
5. The Internal Audit follow up of tendering and contract arrangements should be reported and the results included in the 2018/19 Annual Governance Statement. **Risks** There is a risk of financial loss and reputational damage to the council if the required improvements have not been implemented. There is a risk that the Annual Governance Statement disclosures are not comprehensive. **Paragraph 44**	This follow-up audit is in progress and will be completed in time to inform the Annual Governance Statement for 2018/19.	Audit Manager 31 May 2019
6. The approach taken to investigating serious allegations should be reviewed. Staff should respond quickly to internal audit queries, to facilitate timely reporting of audit findings. Progress updates to the Audit Committee or appropriate member groups should also be considered. **Risk** There is a risk that members are not provided with sufficient information to support them in their scrutiny role. **Paragraph 46**	1. Internal Audit will create a protocol on expected response times which will set out clearly the timescale for escalation where responses are not forthcoming or delayed. 2. Ongoing reports to Audit Committee on whistleblowing and other investigations will be enhanced from the next due report. 3. Audit Manager has set-up a regular meeting with the Chair of the Audit Committee. 4. Audit Manager, Chief Executive and Strategic Lead - Resources will consider wider Member awareness on emerging issues on an ongoing basis	Audit Manager 31 May 2019 Audit Manager 25 September 2019 onwards Audit Manager Complete Audit Manager Chief Executive Strategic Lead-Resources Ongoing
7. Officers should comply with all procurement financial regulations. Committee approval should be obtained as required by the regulations. Committee papers should record how the procurement approach taken demonstrates Best Value for the council. **Risk** There is a risk that the council breaches its regulations and does not achieve Best Value. **Paragraph 52**	All Strategic Leads will be reminded of the Financial Regulations and in particular those areas of spend where a departure from normal processes is required to be approved. Mandatory training has been provided and will continue to be provided to employees involved in procuring contracts. The Procurement Team will advise Service areas as appropriate in this regard following the review of the on	Strategic Lead – Resources 30 April 2019 Procurement Manager Ongoing Procurement Manager Ongoing

Audit Recommendations	Management response	Responsible officer and target date
	contract spend analysis and when agreeing priorities with service areas.	
8. Council regulations should be revised to include actions to be followed by managers when personal relationships are declared between officers and contractors. Documentation should be maintained by line managers and centrally for senior officers, to demonstrate action taken to avoid relationships influencing the award of contracts. **Risk** There is a risk of financial loss and reputational damage to the council. **Paragraph 58**	The Council will amend its guidance and Code of Conduct to make explicitly clear, the considerations and actions expected of managers when personal relationships are declared between officers and contractors. The timescale suggested, reflects the consultation required with the Joint Trades Union and reporting policy changes to the relevant Council Committee.	November 2019 Strategic Lead, People and Technology Strategic Lead - Regulatory
9. Senior officers should reconsider whether action should be taken regarding any breaches of the council's Code of Conduct. **Risk** There is a risk of reputational damage to the council and a perception by employees that non-compliance with council regulations is acceptable. **Paragraph 66**	At the time of investigation officers disagreed with the assessment that employees had breached the Code of Conduct. As a result disciplinary action was not considered to be justified. Different officers have now reviewed this position and agree with the view taken at the time that there was no breach and no disciplinary action is appropriate for that reason. In addition it would be grossly unfair to employees to re-open decisions taken a considerable time ago on disciplinary matters in the absence of fresh information. The associated risk is not accepted on this action as it is not accepted any employees breached the code then in place. In 2018, the Code of Conduct was revised, with additional supporting guidance to make it clear regarding when employees should disclose personal relationships accordingly the same situation should not arise again.	No further action planned.
10. Senior officers should now establish and report to members on the full range of services where procurement procedures have not been followed and improvement actions should be monitored. Explicit reference should be	1. The Annual Procurement Report will provide enhanced information as to levels of on and off contract spend.	Procurement Manager 22 May 2019 and Ongoing

Audit Recommendations	Management response	Responsible officer and target date
made to breaches of the council's procurement regulations. **Risk** There is a risk that members are not provided with sufficient information to support them in their scrutiny role. **Paragraph 71**	2. The Annual Governance Statement within the annual accounts will be enhanced to provide more information on issues and actions agreed to improve.	Strategic Lead – Resources 12 June 2019 and ongoing

West Dunbartonshire Council

Audit Review of the Investigation of Tendering and Contracting Practices in Roads and Greenspace Services

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Appendix B

Tendering & Contracting: Roads and Greenspace & Generic Actions

Generated on: 23 April 2019

Project 139. Tendering & Contracting
Roads and Greenspace (Report Issued January 2018)
Generic Actions (Issued October 2018)

Recommendation	Action Status Progress Bar	Actual Due Date of Action	Agreed Action	Sub-Action Progress Bar	Sub-Action Status Icon	Sub-Action Due Date	Sub-Action Assigned To	Sub-Action Latest Note
1. Requirements of WDC Code of Conduct and Financial Regulations All employees should ensure that they are fully aware of the requirements of the WDC Code Of Conduct. Where appropriate to their role, employees should ensure awareness of the Financial Regulations. Management should continue to keep themselves informed of future development and training on financial regulations and ensure that employees are advised as appropriate.

(High Risk) | 100% | 31-Dec-2018 | Roads and Greenspace Specific Action Agree. Environment and Neighbourhood management team will consider and note the contents of the WDC Code of Conduct and Financial Regulations at the next Environment & Neighbourhood Team meeting. Environment & Neighbourhood Managers are booked on Procurement training and will, in future, seek support from the CPU as appropriate. | 100% | ✅ | 28-Feb-2018 | Ian Bain; Raymond Walsh | Complete. |
| | | | Generic Action Code of conduct and Financial Regulations are in place and reviewed regularly. New employees | 100% | ✅ | 31-Dec-2018 | All Strategic Leads (HSCP – Heads of Service) | Complete. |

			are provided with access to these documents as part of offer and acceptance of employment and reinforced through the induction process. SLG will ensure appropriate ongoing training and awareness is in place for employees in line with be the best conversations, 121 meetings and development plans, additionally to ensure ongoing awareness as roles changes and revised versions are issued.					
2. Declaration of Personal Relationships on the Register of Interests			Roads and Greenspace Specific Action Agree.	100% ✓		31-Jan-2018	Ronnie Dinnie	Complete.
Management and relevant employees need to be made aware of the requirement to declare personal relationships that could be a conflict of interest. This declaration should be in line with the Employee Code of Conduct; further information is available in the Council wide guidance on the Register of Interests. (High Risk)	100%	31-Dec-2018	Generic Action Agreed and continues to be in place. SLG will ensure appropriate awareness for staff on updates to policy and practice.	100% ✓		31-Dec-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.
3. Training on Procurement Policies The current procurement policies that are in place across the Council are sufficient, however, in order to ensure adherence, all appropriate employees within service areas across the Council must undertake training on the	100%	31-Mar-2019	Roads and Greenspace Specific Action Agree. Management will seek assistance from Procurement on the training opportunities available to achieve compliance with Procurement procedures.	100% ✓		31-Jan-2018	Ronnie Dinnie	Complete.

procurement procedures. (High Risk)			Generic Action SLG and managers ensure through be the best conversations and development plans that employees receive appropriate training and are kept up to date following updates in practice and policies.	100% ✅		31-Mar-2019	All Strategic Leads (HSCP – Heads of Service)	Complete.
4. Development of Record Keeping System Management across the Council must ensure, in conjunction with the Corporate Procurement Unit, that a consistent system for record keeping is developed and an officer in a supervisory / management role takes responsibility for the procurement and the award of each contract and ensures that adequate records are prepared and maintained. (High Risk)	100% 31-Dec-2018		Roads and Greenspace Specific Action Agree. A list of all future contracts will be maintained and reports submitted to the Tendering Committee by Corporate Procurement will also be retained by relevant Manager. In addition, documentation will also be retained relating to the specification, quotations, contract details and monitoring of work.	100% ✅		30-Apr-2018	Ian Bain; Raymond Walsh	Completed.
			Generic Action SLG will ensure CPU will continue to work with management teams and have appropriate systems in place. This is in line with policy and procedure.	100% ✅		31-Dec-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.
5. Appropriate Form of Contract Internal Audit recognise the significant procurement pipeline and the ongoing reporting of performance of the Council in terms of "on contract" spend and that moving to a position closer to 100% of spend being "on contract" will take time and in some cases exigencies of continued service provision will	100% 31-Dec-2018		Roads and Greenspace Specific Action Agree, a proper specification for all works will be produced. Assistance will be required from Procurement and Legal to develop standard terms and conditions for contracts.	100% ✅		30-Apr-2018	Ian Bain; Annabel Travers; Raymond Walsh	Completed. Minor civil contract is the appropriate form of contract for works under £50k and over £50k. This contract award was agreed at Tender Committee.

mean that some spend will continue to be "off contract" until appropriate procurement processes can be completed. In recognising this Internal Audit would remind managers that in procuring supplies and services an appropriate form of contract should be put in place for all works that are undertaken [over £2k]. Such contracts will contain a clear specification of works and will be let through the Council's quotation process [Quick Quotes for contracts with an estimated value of between £10k and £50k, seek a minimum of three written quotes for contracts with an estimated value of between £2k and £9,999.99], and through the Public Contracts Scotland (PCS) portal for all those above £50k, all in accordance with the relevant legislation and procedures narrated in Section Q of the Financial Regulations. Ongoing monitoring of "on contract" performance is continued through public performance reporting. (High Risk)			Tender Request forms will be completed by Service Managers and Tender Strategy Documents will be prepared in conjunction with CPU.					
			Generic Action In line with contracts and supplier management policy strategy and financial regulations. This is monitored and progressed by CPU and SLG / Management teams	100%	✅	30-Nov-2018	All Strategic Leads (HSCP – Heads of Service)	This is an ongoing process.
6. Variations to Original Specifications As per the Financial Regulations, any variation to original specifications which will have a budgetary impact and / or potentially impact upon the achievement of the key purpose of the project should be authorised by an appropriate Officer of WDC subject to budgetary provision being available and approved before work is commenced.	100%	31-Dec-2018	Roads and Greenspace Specific Action Agree.	100%	✅	28-Feb-2018	Ian Bain; Raymond Walsh	Completed.
			Generic Action Agreed.	100%	✅	31-Dec-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.

(High Risk)								
7. Phases of Work If works or other purchases are to be done in phases/stages, the full development/works and associated procurement approach must be agreed with the Corporate Procurement Unit. Works should not be artificially split into phases/stages/contracts. (High Risk)	100%	31-Dec-2018	Roads and Greenspace Specific Action Agree. In some instances the full extent of work in not known or quantifiable at the start of phase 1 however it is recognised that if there are additional phases due to the project being extended or additional external funding being made available Procurement will be notified.	100%	✓	28-Feb-2018	Ian Bain; Raymond Walsh	Completed.
			Generic Action Agreed.	100%	✓	31-Dec-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.
8. List of Contracts A running list of contracts must be maintained by service areas, covering both revenue and capital jobs. A key financial control is the requirement for cost control through the use of commitment accounting and reconciliation of commitments to actual spend and to ledgered spend. All service areas should ensure that appropriate commitment accounting processes in the management of contracts are in place and maintained that reconciles to the general ledger. This would allow management to monitor work being done and assist in cost control. (Medium Risk)	100%	31-Dec-2018	Roads and Greenspace Specific Action Agree. Service Managers will request assistance from Finance Business Partners to put in place commitment accounting process as described. Managers will seek guidance from Finance Business Partners to show best practice examples that are in operation across the Council.	100%	✓	31-Dec-2018	Ian Bain; Raymond Walsh	Complete.
			Generic Action CPU in conjunction with SLG should review and ensure this is in place in the most efficient , effective manner.	100%	✓	31-Dec-2018	All Strategic Leads (HSCP – Heads of Service); CPU	Complete.

9. Monitoring of Works Contracts It is recommended that a formal monitoring process is put in place whereby a named WDC officer for each works contract is required to make a site visit and sign off a document to confirm that the works invoiced have been completed as invoiced and invoices for that particular job can be passed for payment. The process for this is per the recently approved Contract and Supplier Management Policy. (Medium Risk)	100%	31-Dec-2018	Roads and Greenspace Specific Action Agree.	100% ✓	28-Feb-2018	Ian Bain; Raymond Walsh	Completed.
			Generic Action SLG for those "works " contracts will ensure this is in place in line with new policy.	100% ✓	31-Dec-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.
10. Document Archiving All documentation contained within any archived storage area should be reviewed and documents destroyed as necessary in order to comply with data retention policies and to make documents easily accessible. (Medium Risk)	100%	31-Dec-2018	Roads and Greenspace Specific Action (a) Agree. Discussion will take place with the relevant staff to determine requirement to retain data from the existing archive store in order to ensure compliance with the established document retention policy. (b) Strategic Leads within in Regeneration, Environment & Growth whose services are storing documents within this area will also be required to ensure that current policies are being complied with.	100% ✓	31-Dec-2018	Ian Bain; Richard Cairns; Raymond Walsh	Complete.
			Generic Action This is in place in line with GDPR.	100% ✓	31-Oct-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.
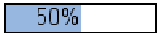
			Roads and Greenspace Specific Action Agree. Advise will be sought from Procurement should this set of circumstances occur.	100% ✓	28-Feb-2018	Ian Bain; Raymond Walsh	Completed.
11. Quote Disparities If there are large differences in the quotes received from contractors, advice should be sought from the Central Procurement Unit on any potential course of action. (Medium Risk)	100%	31-Dec-2018	Generic Action Agreed in line with policy and procedure.	100% ✓	31-Dec-2018	All Strategic Leads (HSCP – Heads of Service); CPU	This already happens and is controlled by the Corporate Procurement Unit (CPU) for higher value procurements. The CPU will amend the guidance for works / goods / services valued at less than £50K to reflect this requirement.
12. Roads Operations - Best Value An exercise should be performed to determine if Roads Operations are offering the Council "best value", in particular this exercise should establish why quotes are often uncompetitive and determine the rationale behind costing within the service. Consideration should be given as to the types of works which Road Operations can physically undertake and should therefore be expected to quote. (Medium Risk)	75%	30-Sep-2019	Roads and Greenspace Specific Action Agree. This will form part of the Shared Service agenda should the Council agree to progress or otherwise be subsequently reviewed	75% ▶	30-Sep-2019	Raymond Walsh	Following the introduction of the Minor Civils Framework Contract (delayed for 10 weeks) we have undertaken a high level review of costs and our continued participation in APSE permits benchmarking with our family group and the wider roads services. It is intended to further review upon completion of twelve months from introduction, therefore providing a more robust assessment, this would be undertaken in September 19.

13. Use of Purchase Orders Purchase orders should not be used as a substitute for contracts. When undertaking general purchasing of goods if purchase orders are used the form should be filled out in full and authorisation should be clear and legible. (Medium Risk)	100%	31-Dec-2018	Roads and Greenspace Specific Action Agree.	100% ✔	30-Apr-2018	Ian Bain; Raymond Walsh	Complete.
			Generic Action Agreed in line with policy and procedure.	100% ✔	31-Dec-2018	All Strategic Leads (HSCP – Heads of Service)	Complete.
14. Recommending of External Contractors A council wide procedure should be developed that establishes under what circumstances Officers can recommend external contractors to third parties and that provides guidance on wording that can be used and where a recommendation is likely to be inappropriate. (Medium Risk)	100%	31-Oct-2018	Roads and Greenspace Specific Action The Corporate Procurement Manager (CPM) will develop a clear procedure with input from Legal Services and Human Resource Services, available to all Council staff that states when Council employees can and cannot recommend an external contractor and the reasons why.	100% ✔	31-Oct-2018	Annabel Travers	Completed.

Improvement Action Plan arising from Audit Scotland Report

Generated on: 29 April 2019

Project 25. Audit Review of the Investigation of Tendering and Contracting Practices in Roads and Greenspace Services (Report Issued April 2019)

Action Code	Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
T&PSR/EAAP/182	1. Annual Procurement Report The 2019 Annual Procurement Report should contain the information required by section 18 of the Procurement Reform (Scotland) Act 2014, including the extent of non compliance with the council's procurement regulations. **Risk** There is a risk of non-compliance with section 18 of the Procurement Reform (Scotland) Act 2014.	The 2019 Annual Procurement Report will contain information required by the Act, including the extent of compliance.	▶	50%	22-May-2019	22-May-2019	Annabel Travers	The 2019 Annual Procurement Report with the information required by section 18 of the *Procurement Reform (Scotland) Act 2014*, will be reported to Corporate Services Committee in May 2019. Council spend will be analysed quarterly and a report will be submitted to the Corporate Service Committee on a six-monthly basis showing off contract spend and measures for moving such spend on to contract.
T&PSR/EAAP/183	2. Format of Internal Audit Reports The format of all Internal Audit reports should be reviewed, and the level of detail provided to the Audit Committee should be reconsidered. **Risk** There is a risk that members are not provided with the	1. The format of Internal Audit reports has been reviewed as a lessons learned exercise, e.g. transcripts from interviews would not normally be included, and personal and commercial information kept to appropriate levels of detail.	▶	50%	12-Jun-2019	12-Jun-2019	Colin McDougall	This action has two milestones, progress against which is as follows: 1. This is complete - the format of Internal Audit reports has been reviewed, taking into account the approach adopted by other Councils.

Action Code	Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
	appropriate level of detail to support them in their scrutiny role.	2. The level of detail provided to Audit Committee is included in this review and will be reported to a future Audit Committee						2. The level of detail on internal audit reports provided to the Audit Committee will be reported to the Audit Committee on 12th June 2019 for consideration by Members.
T&PSR/EAAP/184	3. Scope of future procurement audits Internal Audit should ensure that the scope of future procurement audits adequately covers relevant areas. **Risk** There is a risk that weaknesses with procurement practices are not reported.	The audit work undertaken was an investigation not a planned audit. Internal Audit will build this into future planned procurement audits.	✔	100%	30-Apr-2019	30-Apr-2019	Colin McDougall	This arrangement has been established going forward.
T&PSR/EAAP/185	4. Documenting of Investigation Work Internal Audit should review how they document complex investigations to ensure clear documentation, in accordance with Public Sector Internal Audit Standards. **Risk** There is a risk that there is a lack of documentation to support the judgements in Internal Audit reports.	Internal Audit will utilise the Team Mate electronic audit system to document all audit investigations, including document and activity logs on complex investigations.	✔	100%	30-Apr-2019	30-Apr-2019	Colin McDougall	The TeamMate electronic audit software system will now be used more extensively for investigation work, in particular for complex and larger scale cases undertaken by the Internal Audit team.
T&PSR/EAAP/186	5. Follow-up Audit Work The Internal Audit follow up of tendering and contract arrangements should be reported and the results	This follow-up audit is in progress and will be completed in time to inform the Annual Governance Statement	▶	25%	31-May-2019	31-May-2019	Colin McDougall	This audit assignment is in progress and the findings will be used to inform the Annual Governance Statement for 2018/19.

Action Code	Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
	included in the 2018/19 Annual Governance Statement. **Risks** There is a risk of financial loss and reputational damage to the council if the required improvements have not been implemented. There is a risk that the Annual Governance Statement disclosures are not comprehensive.	for 2018/19.						
T&PSR/EAAP/187	6. Approach to Investigating Serious Allegations The approach taken to investigating serious allegations should be reviewed. Staff should respond quickly to internal audit queries, to facilitate timely reporting of audit findings. Progress updates to the Audit Committee or appropriate member groups should also be considered. **Risk** There is a risk that members are not provided with sufficient information to support them in their scrutiny role	1. Internal Audit will create a protocol on expected response times which will set out clearly the timescale for escalation where responses are not forthcoming or delayed. 2. Ongoing reports to Audit Committee on whistleblowing and other investigations will be enhanced from the next due report. 3. Audit Manager has set-up a regular meeting with the Chair of the Audit Committee. 4. Audit Manager, Chief Executive and Strategic Lead - Resources will consider wider Member awareness on emerging issues on an ongoing basis	▶	50%	25-Sep-2019	25-Sep-2019	Colin McDougall; Stephen West; Joyce White	This action has four milestones, progress against which is as follows: 1. A protocol on expected response times will be completed by 31 May 2019. 2. Ongoing reports to the Audit Committee on whistleblowing and other investigations will be enhanced from the next due report to the Audit Committee on 25 September 2019. 3. This is complete - a regular meeting between the Audit Manager and Chair of the Audit Committee has been set up. 4. This is complete - the Audit Manager, Chief

Action Code	Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
								Executive and Strategic Lead - Resources will consider wider Member awareness on emerging issues on an ongoing basis.
T&PSR/EAAP/188	7. Compliance with Procurement Financial Regulations Officers should comply with all procurement financial regulations. Committee approval should be obtained as required by the regulations. Committee papers should record how the procurement approach taken demonstrates Best Value for the council. **Risk** There is a risk that the council breaches its regulations and does not achieve Best Value.	All Strategic Leads will be reminded of the Financial Regulations and in particular those areas of spend where a departure from normal processes is required to be approved. Mandatory training has been provided and will continue to be provided to employees involved in procuring contracts. The Procurement Team will advise Service areas as appropriate in this regard following the review of the on contract spend analysis and when agreeing priorities with service areas.	▶	66%	30-Apr-2019	30-Apr-2019	Annabel Travers; Stephen West	This action has three milestones with progress as follows: 1. The communication to Strategic Leads reminding them of the Financial Regulations and in particular those areas of spend where a departure from normal processes is required; will be sent to the Strategic Leads on the week commencing 29/04/2019. The Strategic Leads will be instructed to cascade the communication to their teams. 2. Mandatory training has been provided and will continue to be provided to employees involved in procuring contracts. 3. The CPU will continue to advise service areas as appropriate on the Financial Regulations and review spend (minimum of quarterly) with service areas and when developing the commodity and contract strategies.

Action Code	Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
T&PSR/EAAP/189	8. Declaration of Personal Relationships Council regulations should be revised to include actions to be followed by managers when personal relationships are declared between officers and contractors. Documentation should be maintained by line managers and centrally for senior officers, to demonstrate action taken to avoid relationships influencing the award of contracts. **Risk** There is a risk of financial loss and reputational damage to the council.	The Council will amend its guidance and Code of Conduct to make explicitly clear, the considerations and actions expected of managers when personal relationships are declared between officers and contractors. The timescale suggested, reflects the consultation required with the Joint Trades Union and reporting policy changes to the relevant Council Committee.	▶	1%	30-Nov-2019	30-Nov-2019	Peter Hessett; Victoria Rogers	The two Strategic Leads will consider the required changes before discussions take place with the Joint Trades Union.
T&PSR/EAAP/190	10. Reporting on Procurement Compliance Levels Senior officers should now establish and report to members on the full range of services where procurement procedures have not been followed and improvement actions should be monitored. Explicit reference should be made to breaches of the council's procurement regulations. **Risk** There is a risk that members are not provided with sufficient information to support them in their scrutiny role.	1. The Annual Procurement Report will provide enhanced information as to levels of on and off contract spend. 2. The Annual Governance Statement within the annual accounts will be enhanced to provide more information on issues and actions agreed to improve.	▶	0%	12-Jun-2019	12-Jun-2019	Annabel Travers; Stephen West	This action has two milestones with progress as follows: 1. The 2019 Annual Procurement Report with the information required by section 18 of the *Procurement Reform (Scotland) Act 2014*, will be reported to Corporate Services Committee in May 2019. A report will be submitted to the Corporate Service Committee on a six-monthly basis showing off contract spend and measures for moving such spend on to contract.

Action Code	Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
								2. The draft Annual Governance Statement will be provided to Audit Committee on 12 June 2019 and thereafter to Council on 26 June as part of the draft Annual Accounts for 2018/19. The statement will include enhanced information regarding the levels of compliance within service areas and plans to minimise this going forward.

WEST DUNBARTONSHIRE COUNCIL

Report by the Strategic Lead - Resources

Audit Committee: 12 June 2019

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Subject: **Prudential Indicators 2018/19 to 2028/29 and Treasury Management Strategy 2019/20 to 2028/29**

1.   Purpose

1.1   The purpose of this report is to advise Members of the proposed Prudential Indicators for 2018/19 to 2021/22 and Treasury Management Strategy (including the Investment Strategy) for 2019/20 to 2021/22.

1.2   The report also advises Members of the indicative prudential indicators for the period from 2022/23 to 2028/29.

2.   Recommendations

2.1   Members are requested to note that on 27 March 2019 Council:

(a)   Agreed the following Prudential Indicators and Limits discussed in Appendix 1 and set out within Appendix 6 for the period 2019/20 to 2021/22:

- Capital Expenditure and Capital Financing Requirements (Tables A and B);
- Forecast and estimates of the ratio of financing costs to Net Revenue Stream (Table D);

(b)   Approved the policy for loans fund advances discussed in Appendix 1 in section 3;

(c)   Approved the Treasury Management Strategy for 2019/20 to 2021/22 (including the Investment Strategy) contained within Appendices 2 to 6;

(d)   Agreed the following Treasury Prudential Indicators and Limits discussed in Appendix 2 and set out within Appendix 6 for the period 2019/20 to 2021/22:

- Operational Boundaries (Table F);
- Authorised Limits (Table G);
- Counterparty Limits (Table J); and
- Treasury Management Limits on Activity (Table L);

(e)   Noted the draft Prudential and Treasury Management Indicators for the period 2022/23 to 2028/29 discussed in Appendices 1 and 2 and set out within Appendix 6;

(f) Approved the statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.3);

(g) Referred this report to the Audit Committee to ensure further scrutiny takes place.

3. Background

3.1 With the introduction of the Prudential Code, the Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor a range of prudential indicators covering the forthcoming three years.

3.2 The Council's treasury activities are strictly regulated by statutory requirements (*Code on the Investments of Money by Scottish Local Authorities*) and a professional code of practice (*CIPFA Treasury Management Code of Practice*). The code requires an annual strategy to be reported to Council in advance of the forthcoming year outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:

(a) Mid-year monitoring report on actual treasury activity during the year including revised indicators where appropriate; and

(b) Year-end report on actual treasury activity for the previous year.

3.3 Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions include setting the council tax (s56 (6) (b)) and borrowing money (s56 (6) (d)), which requires the authority, that is full Council, to discharge. The Section 56 provisions were extended to require Council to approve the Annual Investment Strategy via the *Code on the Investments of Money by Scottish Local Authorities* (issued on 1 April 2010) been issued under section 40 of the Local Government in Scotland Act 2003.

3.4 As a result of Section 56, both the Prudential Indicators and the Treasury Management Strategy (including the Investment Strategy) are required to be approved by full Council before the start of the financial year.

3.5 The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury polices, increased Member training and awareness and greater frequency of information.

3.6 One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and polices. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit Committee.

3.7 The proposed and draft Prudential Indicators 2018/19 to 2028/29 and Treasury Management Strategy 2019/20 to 2028/29 should be referred to the Audit Committee once approved by Council to ensure further scrutiny takes place.

4. Main Issues

4.1 The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix 6 of this report details the Council's expected year end indicators for 2018/19, revises the indicators for 2019/20 to 2021/22 and projects the indicators to 2028/29, with those for the period 2022/23 to 2028/29 being indicative at this time.

4.2 Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy (which includes details of both debt and investment) for 2019/20 to 2028/29 is included in Appendix 6 (with the period 2022/23 to 2028/29 being indicative at this time) to complement the prudential indicators relating to the treasury activity.

4.3 Details of the risks, mitigating controls and limits associated with each of the permitted investment categories are shown in Appendix 3. Credit rating type and definitions are attached as Appendix 4 and a list of approved sovereign countries for investments are attached as Appendix 5.

4.4 For information, in December 2017, CIPFA issued a revised Prudential Code. As a result, from 2019/20, all local authorities will be required to prepare a Capital Strategy report, which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

4.4.1 The aim of this report is to ensure that all elected members fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

4.4.2 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

4.4.3 The Council's Capital Strategy is included in the papers presented to Members at March Council to ensure compliance with the updated Code.

4.4.4 The attached treasury strategy includes information as to the potential implementation of a loans fund review based on current understanding of planned changes to legislation in 2019/20.

5.   Option Appraisal

5.1   No option appraisal was required for this report.

6.   People Implications

6.1   There are no people implications arising from this report.

7.   Financial and Procurement Implications

7.1   The prudential indicators detailed in Appendix 6 show the Council's likely and indicative capital financing for the period 2017/18 to 2025/26 while the treasury management indicators detailed in Appendix 6 show the likely borrowing requirement for the same period.

7.2   Table E in Appendix 6 indicates that in each year the gross borrowing requirement (which includes short term borrowing for cashflow purposes) is below the capital financing requirement and does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and following two financial years (Appendix 2 – section 2.1 and 2.2).

7.3   As a key indicator of prudence this illustrates that the Council only undertakes long term borrowing for capital purposes and that over the last few years investment balances have been utilised to fund capital expenditure due to the concerns over the general economic environment and restricted counterparty lists.

7.4   There are no procurement issues arising from this report.

8.   Risk Analysis

8.1   There are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1 and 2:

(a)   Capital receipts which affect the capital financing and borrowing requirement may not materialise and if this occurs then additional borrowing will be required in order to fund the financing requirement;

(b)   The risk of Counterparties default (i.e. loss of principal sum invested) must also be taken into account; however the robust controls included within the investment strategy (Appendix 2 – section 6) will assist in mitigating this risk; and

(c)   Capital inflation may increase capital expenditure levels, which in turn may affect the capital financing and borrowing requirement leading to an increase in borrowing, assuming no additional capital receipts are available.

9.   Equalities Impact Assessment

9.1   No equalities impact assessment was required in relation to this report.

10.   Environmental Sustainability

10.1 No assessment of environmental sustainability was required in relation to this report.

11.   Consultation

11.1 Legal and finance have been consulted in relation to this report and appendices

12.   Strategic Assessment

12.1 Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan. This report forms part of the financial governance of the Council.

Stephen West
Strategic Lead - Resources
Date: 14 March 2019

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| **Person to Contact:** | Jennifer Ogilvie, Finance Business Partner (Strategic Finance and Development), Church Street, Dumbarton, Telephone (01389) 737453 Email: Jennifer.ogilvie@west-dunbarton.gov.uk |

Appendices:	1	Prudential Indicators 2018/19 to 2028/29
	2	Treasury Management Strategy 2019/20 to 2028/29
	3	West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
	4	Counterparty Rating Explanations
	5	Approved Countries for Investment
	6	Prudential and Treasury Indicators

Background Papers: Treasury Management Strategy – Council 5 March 2018

Wards Affected: All wards affected.

Prudential Indicators 2018/19 to 2028/29

1.   The Capital Expenditure Plans

1.1   The Council's gross capital expenditure plans are summarised in Table A within Appendix 6 and this forms the first of the prudential indicators. Total expenditure is partially funded by resources such as capital receipts, capital grants, etc. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need.

1.2   A certain level of capital expenditure will be grant supported by the Government; anything above this level will be funded from the Council's own resources.

1.3   There are two main limiting factors which may impact on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs; and

- The Government may use a control to limit either the total of all councils' plans nationally, or in the event of an assessment by central government that local plans are unaffordable at a specific council, it may implement a local control. No such control has been implemented since the inception of the prudential code, however, HM Treasury keep this under review.

1.4   The summary of capital expenditure, as per the capital plan update reported to Council on 14 February 2019 and 27 March 2019 for HRA and General Services respectively, is shown in the table A in Appendix 6. The HRA capital plan refresh extends to 2023/24 with the period from 2024/25 to 2028/29 extracted from the HRA Business Plan for the purposes of Prudential Indicator calculations.

1.5   Under section 22 of Schedule 3 of the Local Government (Scotland) Act 1975 a local authority may establish a capital fund to be used for "defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest on loans)". Furthermore paragraph 24 of Finance Circular 7/2018 confirms that capital receipts may also be used to "fund the cost of premiums, either as they are incurred, or as they are recharged back to the General Fund/ HRA".

1.6   The capital plan update for General Services reported to Council on 27 March 2019 assumes the use of £7.795m of capital receipts to fund the principal element of loan charges between 2018/19 and 2021/22.

2.   The Council's Borrowing Need (the Capital Financing Requirement)

2.1   The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The net capital financing need (as indicated in Table A in Appendix 6) impacts directly on the CFR.

2.2   Following accounting changes the CFR includes any other long term liabilities (i.e. PPP schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and

therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £105.914m of such schemes within the CFR.

2.3 The CFR projections for both General Services and HRA are shown in table B in Appendix 6 and show that the CFR for the HRA is projected to increase each year from 2018/19 to 2028/29 with the CFR for General Services being anticipated to increase each year from 2018/19 to 2022/23 and then decreasing from 2023/24 to 2028/29 due to reduced levels of projected capital spend.

2.4 The expected impact of the capital expenditure decisions above on the Council's debt and investment position are shown in the treasury strategy (Appendix 2).

3. Loans Fund Review and the Statutory repayment of loans fund advances

3.1 As reported to Council in November and December 2018 officers have been undertaking a review of the Council's loans fund. While Cabinet Secretary's letter provided clarity of the Scottish Government's approach to setting new legislation to allow this it is planned for the new financial year.

In the period since the December 2018 officers have monitored ongoing communications regarding this issue and, while the Scottish Government will bring new legislation on this during 2019/20 and this legislation will allow Councils to revise loan repayment period for debt borrowed since 1996, it is not at all clear that this will allow retrospective adjustments to be made on borrowing prior to 2016 legislation. On that basis, and being prudent in this regard, two options were identified which do not involve retrospective revision:

- For borrowing since 2016 legislation and guidance – review repayment periods based on prudential review of expected asset lives; and

- For borrowing prior to 2016 – review repayment periods based on prudential review of expected asset lives for remaining borrowing as at 1 April 2019 on the basis that legislation will be enacted in 2019/20 to allow this.

As a result of this officers have reported the second option above to Council in March 2019 for consideration.

Should the promised 2019/20 legislation allow retrospective review then this opportunity would be available for consideration at that time. When this legislation is approved the Section 95 officer will undertake a further review of the prudential approach and updates future gaps as part of the next refresh of the Long-term Finance Strategy

The Council is required to set out its policy for the statutory repayment of loans fund advances. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

Given the uncertainty around the ongoing loans fund review the undernoted policy remains unchanged at this time, however once the position is clearer regarding the ongoing loans fund review the policy will require to be amended,

3.2 A variety of options are provided to Councils so long as a prudent provision is made each year as detailed below:

- **Statutory method** – loans fund advances will be repaid by the annuity method (option 1). The Council is permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile as detailed below.

- **Depreciation method** – annual repayment of loans fund advances will follow standard depreciation accounting procedures (option 2);

- **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3);

- **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (option 4).

3.3 Council is recommended to approve the following policy for loans fund advances at the current time due to the uncertainty surrounding the ongoing loans fund review.

- For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method** (option 1), with all loans fund advances being repaid by the annuity method.

- Recognising that the Council has forward capital expenditure plans, has already committed to that plan and the revenue implications of that plan, the policy for loans fund advances made from 1 April 2016 to 31 March 2021 the policy will be to mainly apply the **Statutory Method** (option 1), with all loans fund advances being repaid by the annuity method unless an alternative method is more appropriate. Advances will be considered on a case by case basis to determine the method to be used.

- For loans fund advances made after 1 April 2021, the policy for the repayment of loans advances will be to apply the following options, selecting the most suitable method from the list below for each individual advance.

    o **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3). It is likely that the equal instalment method will be used;

    o **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (option 4).

3.4 The annuity rate applied to the loans fund repayments is based on historic interest rates and is currently 9%.

3.5 Table C in Appendix 6 details the loans fund repayment profile for 2018/19 onwards based on the balance outstanding at 31 March 2018 and capital expenditure plans 2018/19 to 2028/29 as per Table A. The profile does not assume any impact of the ongoing loans fund review.

4. Affordability Prudential Indicators

4.1 The previous sections cover the overall capital and control of borrowing, but within this framework prudential indicators are required to assess the affordability of the capital

investment plans. These indicate the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

4.2 Actual and Estimates of the ratio of financing costs to net revenue stream
This indicator is detailed in Table D in Appendix 6, and identifies the trend in financing cost of capital (loan charges and long term liability financing) against the net revenue stream (funding sources e.g. Scottish Government revenue support grant, council tax and HRA rental income).

The estimates of financing costs include current commitments and the impact of capital expenditure as per Table A and this indicator shows the percentage of total council revenue expenditure that is spent on repayment of loan charges and long term liability capital and interest repayments.

Treasury Management Strategy 2019/20 – 2028/29

1. Background

1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators in Appendix 1 consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy which need approval.

1.2 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised December 2017).

1.3 As a requirement of the Code Council is required to adopt a Treasury Management Policy Statement and four Treasury Management clauses. These form part of the Council's financial regulations and the following documents were adopted on 5 March 2018:

- Treasury Management Policy Statement
- Treasury Management Clauses
- The Treasury Management Role of the Section 95 Officer

1.4 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years, however in line with the longer capital planning process treasury management indicators have been provided (where appropriate) covering the period to 2028/29. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:

- Mid-year monitoring report on actual activity during the year including revised indicators where appropriate; and
- Year-end report on actual activity for the previous year.

1.5 This strategy covers:

- The Council's debt and investment projections;
- Limits to the Council's borrowing activity;
- The economic climate and expected movement in interest rates;
- The Council's borrowing, debt and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities; and
- Policy on ethical investments

2. The Council's debt and investment projections

2.1 The Council's forecast treasury portfolio position at 31 March 2019 with forward projections are summarised in Table E in Appendix 6 and shows the gross debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any under or over borrowing.

2.2 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. This is illustrated by comparing the estimated gross debt as at 31 March 2019 with the CFR as at 31 March 2022.

2.3 **The Section 95 Officer (Strategic Lead - Resources) reports that the Council has complied with this prudential indicator, and no difficulties are envisaged for the current or future years.** This view takes into account the capital plan refresh reports for General Services and HRA.

3. **Limits to Borrowing Activity**

3.1 The Operational Boundary is detailed in Table F in Appendix 6 and is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

3.2 The Authorised Limit for External Borrowing – a further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is not allowed to exceed. This needs to be set or revised by Members. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the authorised limit detailed in Table G in Appendix 6.

3.3 **Advance Borrowing -** This Council will not borrow more than or earlier than required purely in order to profit from the investment return of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.3.1 Advance borrowing will only be taken for risk management purposes subject to sound justification. The Section 95 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial. A cautious approach to any such borrowing will be adopted, however where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

3.3.2 Full consideration will be given to balancing investment risks, such as the credit and interest risk resulting from the temporary investment of the sums, against the risk of adverse interest rate movements in addition to the existing debt maturity profile over the medium term.

3.3.3 As required by The Investment Regulations (Code on the Investments of Money by Scottish Local Authorities) which came into force on 1 April 2010 the Council will appraise all risks associated with advance borrowing activity. The Council will fully document the justification for the decision prior to the activity being undertaken, with subsequent reporting either within the mid-year or annual reporting mechanism.

4. **Prospect for Interest Rates**

4.1 The Council has appointed Link Asset Services (formerly Capita) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table H in Appendix 6 gives the Link Asset Services central view.

4.2 The interest rate forecasts detailed in Table H are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

4.2.1 In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

4.2.2 If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus. However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

4.3 **Balance of risks to the UK** - The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

4.3.1 One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

4.3.2 Downside risks to current forecasts for UK gilt yields and PWLB rates currently includes:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to

the election in March 2018 of a government which has made a lot of anti-austerity noise. The EU rejected the original proposed Italian budget and demanded cuts in government spending. The Italian government nominally complied with this rebuttal – but only by delaying into a later year the planned increases in expenditure. This particular can has therefore only been kicked down the road. The rating agencies have downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some European banks. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- Other minority EU governments. Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. The Spanish government failed to pass a national budget in mid February so a snap general election is now scheduled for April 28.

- Italy, Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU. Elections to the EU parliament are due in May/June 2019.

- The increases in interest rates in the US during 2018, combined with a potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some emerging market countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.

- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

4.3.3 Upside risks to current forecasts for UK gilt yields and PWLB rates includes:

- Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

4.4 Given the level of uncertainty around BREXIT and the assumptions contained within the interest rate forecasts the following is a summary of the BREXIT timetable and process:

- March 2017 - UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18   EU27 leaders endorsed the withdrawal agreement
- Dec 2018   vote in the UK Parliament on the agreement was postponed
- 21.12.18 – 8.1.19   UK parliamentary recess
- 15.1.19   Brexit deal defeated in the Commons vote by a large margin
- 28.1.19   Further votes in the Commons
- 14.2.19   Further votes in the Commons
- 27.2.19   Further votes in the Commons
- 21.3.19   European Council summit at which a Brexit option could be considered
- By 29.3.19   another vote (?) in UK parliament
- By 29.3.19   if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- By 29.3.19   if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19   Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transition period ending around December 2020.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transition period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

5.   Borrowing and Debt Strategy 2018/19 – 2028/29

5.1   At the end of 2017/18 the Council was temporarily over-borrowed due to securing PWLB borrowing of £15m on 28 March 2018 at advantageous interest rates. Table E in Appendix 6 forecasts that the Council will return to a broadly neutral borrowing position at the end of 2018/19 and will maintain this going forward. This indicates that the capital borrowing need (the Capital Financing Requirement) will be fully funded with external borrowing which is a mixture of short term and long term debt.

5.2   Against this background and the risk within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

5.3   If it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

5.4   If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

5.5   Any decisions will be reported to Members via the Members Bulletin at the next available opportunity.

6.   Investment Strategy

6.1   The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular). Council had also adopted both the Treasury Management Code of Practice and the Prudential Code and is required to adopt the revised editions. The day to day investment policies and practices are contained in the Council's Treasury Management Practices, which reflect the requirements of these codes. These practices are regularly reviewed.

6.2   **Key Objectives** – Following the economic background above, the current investment climate has one over-riding risk consideration - counterparty security risk. As a result of these underlying concerns, officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy. The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6.2.1 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, outlooks and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Link Asset Services ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

6.2.2 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Link Asset Services in producing its colour codings which show the varying degrees of creditworthiness.

6.2.3 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

6.2.4 The aim of the strategy is to generate a list of highly creditworthy counterparties which will enable diversification, and thus avoidance of concentration, with the prime intention of providing security of investment and minimisation of risk.

6.3 **Investment Strategy** – The process for investment strategy under the regulations covers a wide range of Council investments and will be broadly managed in the following way:

- Short Term Cash – Cash relating to day to day cash flow will be maintained on a shorter term basis in cash type products with consideration to the liquidity requirements outlined above.

- Longer Term Cash – Cash relating to reserves, provisions and balances on the balance sheet may be held for longer periods of time in cash type products or in longer term bonds or funds depending on:

  - Cash flow requirements:
  - The underlying expectation for interest rates; and
  - The economic background of these investments may be held longer term.

- Service Type Investments – These types of investments will predominately be policy driven and approved by Members. Shareholdings, development opportunities, loans to

third parties, equity instruments and investment properties held for rental returns) will be regularly reviewed to judge the investment performance.

- Non Service Type Investments – Investments such as Joint venture delivery companies such as Hub West Scotland and investments in regeneration partnerships and development opportunities

6.4 Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service
A development for Member reporting is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are additional new requirements to the Member reporting.

6.4.1 These benchmarks are targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

6.4.2 In the context of benchmarking, assessing security is a very subjective area to assess. Security is currently evidenced by the application of minimum quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch/ Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. Table I in Appendix 6 shows average defaults for differing periods of investment grade products for each Fitch/ Moody's Standard and Poors long term rating category.

6.4.3 The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

6.4.4 As required by the CIPFA Treasury Management Code of Practice The Council will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the Council seeks to maintain:

- Bank overdraft - £1.000m; and
- Liquid short term deposits of at least £5m available on an overnight basis.

6.4.5 Local measures of yield investment benchmarks that will be used to assess returns are:

- Internal returns above the 7 day LIBID rate;
- Internal returns above the 1 month LIBID rate for fixed investments; and
- Internal returns above the Council's instant access account.

6.5 Council Permitted Investments – The Investments Regulations (Code on the Investment of Money by Scottish Local Authorities) requires Council approval of all the types of investment to be used and set appropriate limits for the amount that can be held for each investment type.

These types of investment are termed permitted investments and any investments used which have not been approved as a permitted investment will be considered ultra vires.

6.5.1 The permitted investments which may be used in the forthcoming year are noted below. Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in Appendix 3.

- **Cash Type Instruments**

  - Deposits with the Debt Management Account Facility (UK Government);
  - Deposits with other local authorities or public bodies;
  - Money Market Funds
    - Constant Net Asset Value
    - Low Volatility Net Asset Value;
  - Call accounts, deposit accounts with financial institutions (banks and building societies;
  - Term deposits with financial institutions (banks and building societies);
  - UK Government Gilts and Treasury Bills;
  - Certificates of deposits will financial institutions (banks and building societies); and
  - Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates, etc).

- **Other Investments**

  - Investment properties;
  - Loans to third parties, including soft loans;
  - Loans to a local authority company;
  - Shareholding in a local authority company;
  - Non-local authority shareholdings;
  - Joint venture delivery companies such as hub West Scotland;
  - Regeneration partnerships and development opportunities;
  - District Heating Schemes; and
  - Local Authority Mortgage Scheme (LAMS).

6.5.2 Permitted investments related to the Common Good are also shown in Appendix 3, and where applicable the same counterparty selection criteria as noted in 6.6 below will be applied.

6.6 **Investment Counterparty Selection Criteria**
The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6.6.1 The Section 95 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria selects which counterparties the Council will choose from, rather than defining what its investments are.

6.6.2 Credit rating type and definitions are attached as Appendix 6.

6.6.3 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to any counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.6.4 The criteria for providing a pool of high quality cash type investment counterparties is:

- **Category 1 - Good Credit Quality** – the Council will only use financial institutions (including certificates of deposit and corporate bonds) which:

  - Are UK banks; and/or
  - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA; The UK will be excluded from any Sovereign rating criteria.
  - And have, as a minimum, the following Fitch, Moody's and Standard and Poors (S&P) credit ratings (where rated):
    - Short Term – F1 (or equivalent from Fitch, Moody's and S&P)
    - Long Term – A- (or equivalent from Fitch, Moody's and S&P)

  The difference between the ratings will be reflected in the money limits as noted in Table K in Appendix 6.

- **Category 2** – **Part nationalised UK banks** – Lloyds Bank Group and Royal Bank of Scotland Group. These banks can be included if they continue to be part nationalised or they meet the ratings in Category 1 above.

- **Category 3**- **The Council's own banker** for transactional purposes if the bank falls below the above criteria specified in category 1, although in this case balances will be minimised in both monetary size and time.

- **Category 4 - Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined in category 1.

- **Category 5 - Building Societies** – the Council will use all Societies which meet the ratings for banks outlined in category 1.

- **Category 6 - Money Market Funds** – the Council will use either CNAV or LVNAV money market funds that are AAA rated (by at least one of the 3 rating agencies).

- **Category 7 - UK Government** (including gilts, treasury bills and the DMADF)

- **Category 8 - Local Authorities, etc**

6.6.5 Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved which will provide officers with the flexibility to deal with any unexpected occurrences. Officers can restrict the pool of available counterparties from these criteria to safer instruments and institutions.

6.6.6 The time limits for institutions on the Council's cash type counterparty list are as noted in Table J in Appendix 6.

6.6.7 The Council's bankers are currently the Clydesdale Bank Plc which falls within Category 3. It is recognised that the money limit of £5million may be breached for purely operational purposes on a temporary overnight basis only. The Strategic Lead - Resources will endeavour to avoid this scenario but this allows for circumstances that are outwith the Council's control where funds may be deposited unexpectedly or at short notice into the Council's accounts after the dealing deadline for the day has passed. In such a circumstance the funds will require to be kept on an overnight basis in the Council's bank account until appropriate arrangements can be made for investment.

6.6.8 Table J does not include a monetary limit for category 7 which are funds deposited with the UK Government namely the Debt Management Account Deposit Facility (DMADF). This facility allows local authorities to deposit surplus cash on flexible terms and receive a market related rate of interest. Funds are held by the Bank of England and the scheme carried the Government's own sovereign credit rating offering the highest available security and therefore no maximum monetary limit has been set.

6.6.9 Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above and the list of approved countries for investments are detailed in Appendix 5. In addition:

- No more than 25% will be placed with any country outside of the UK at any time;
- Limits in place above will apply to Group companies; and
- Sector limits will be monitored regularly for appropriateness.

6.6.10 Use of additional information other than credit ratings – Additional requirements under the Code of Practice now requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

6.6.11 Economic Investment Considerations – Current forecasts on shorter-term interest rates, on which investment decisions are based, show a potential for the current 0.75% Bank Rate increasing to 1% in September 2019. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

6.6.12 There is an operational difficulty arising from the current banking crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

6.6.13 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 95 Officer (Strategic Lead - Resources) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

6.6.14 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds and strongly rated. The credit criteria have been amended to reflect these facilities.

6.7   Sensitivity to Interest Rate Movements - Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. Table K in Appendix 6 highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

6.8   Ethical Investments - This is the placing of funds and selecting investments in a manner that reflects an authority's ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged.

6.8.1 The following policy statement was approved on 25 October 2017:

6.8.2 The Council will not knowingly invest directly in organisations (including financial institutions and money market funds) whose activities and practices pose a risk of serious harm to individuals and/or groups, or whose activities are inconsistent with the Council's vision, values and priorities. This could include avoiding direct investment in organisations with material links to:

- Human rights abuse (e.g. child labour);
- Environmentally harmful activities (e.g. destruction of habitat); and
- Socially harmful activities (e.g. gambling)

6.8.3 In order to give effect to its commitment to this policy the Strategic Lead (Resources) contacted all investment counterparties on 9 January 2018 advising of our policy.

6.8.4 In accordance with the further commitments that were given in October 2017 it is considered that this policy statement remains relevant and does not require to be amended at this time.

7.   Treasury Management Limits on Activity

7.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

- *Upper limits on variable interest rate exposure* – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments

- *Upper limits on fixed interest rate exposure* – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

- *Maturity structures of borrowing* – These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- *Total principal funds invested for greater than 364 & 365 days* - These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The proposed indicators are shown within Table L in Appendix 6.

7.2 The upper limit applies to the maturity structure of fixed interest rate borrowing in Table M. The level has been set to take account of the way that local authorities have to record certain market loans where the maturity date is deemed to be the next call date rather than the eventual repayment date.

8. Performance Indicators

8.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available;
- Debt – Average rate movement year on year; and
- Investments – Internal returns above the 7 day LIBID rate.

8.2 The results of these indicators will be reported in the Treasury Annual Report for 2017/18.

9. Treasury Management Advisors

9.1 The Council uses Link Asset Services as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

9.2 The current treasury advisor contract was awarded to Link Asset Services following a quick quote exercise and commenced on 1 May 2018 for a period of two years till 30 April 2020 with an option to extend for a further one year until 30 April 2021.

9.3   The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not place upon external service providers.

9.4   The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

9.5   Whilst the advisers provide support to the internal treasury function the final decision on treasury matters remains with the Council.

10.   The Monitoring of Investment Counterparties

10.1 The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Strategic Lead - Resources and, if required, new counterparties which meet the criteria will be added to the list.

West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Cash Type Instruments			
Deposits with the Debt Management Account Facility (UK Government) (**Very low risk**)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	As shown in Table J.
Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	As shown in Table J.
Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs are either Constant Net Asset Value (CNAV) or Low Volatility Net Asset Value (LVNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.	As shown in Table J.
Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	As shown in Table J.
Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than the first three categories above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Structured deposit facilities with banks and building societies (escalating / de-escalating rates, etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Corporate Bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Corporate bonds will be restricted to those meeting the base criteria. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Other Types of Investments			
Investment properties	These are properties that are not used to facilitate service delivery but are held solely to earn rentals or for capital appreciation or both. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments, likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by rational behind the service the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Joint venture delivery companies such as hub West Scotland	Public sector organisations across a hub territory will work in partnership with each other, and a private sector delivery partner, in a joint venture delivery company called hub West Scotland. .	Any investment in hub West Scotland requires approval from the Section 95 Officer (Strategic Lead - Resources) and the Chief Executive in consultation with the Leader of the Council and the Leader of the Opposition and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Regeneration partnerships and development opportunities	Investments undertaken with the prime intention of local area regeneration.	Any investment in a regeneration partnership / development opportunity requires Member approval with each application supported by rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Investment in Projects procured and managed by third parties e.g. District Heating Schemes	Investments undertaken to assist in facilitating third party projects where the Council has an interest in the successful outcome of the project. Expectation of a financial return for the Council.	Any investment in such projects requires Member approval and each application will be supported by a business case for the investment and the expectation of a financial benefit to the Council.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest. Under this scheme the Council is required to place funds for a number of years with the bank which is participating in this scheme	Any investment in the LAMS requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Rating	Rating	Explanation
Fitch -Short Term	F1+	Indicates exceptionally strong capacity for timely payment of financial commitments
	F1	Indicates strong capacity for timely payment of financial commitments
Fitch - Long Term	AA-	Indicates very strong capacity for timely payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings
Moody's - Short Term	P-1	Banks based Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short term deposit obligations
Moody's - Long Term	Aa	Offer excellent credit quality, with susceptibility to long term risks with a vulnerability to greater fluctuations within protective elements
	A	Offer excellent credit quality, but elements suggest a Susceptibility to impairment over the long term
Standard & Poors - Short Term	A-1	Indicates a strong capacity to meet institutions financial commitments. Within this category, certain obligors are designa with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is EXTREMELY STRONG
Standard & Poors - Long Term	AA-	Indicates strong capacity for timely payment of financial commitments
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more susceptible to the adverse effects of changes in circumstances or in economic conditions than is the case for higher rated category

West Dunbartonshire Council and Common Good Funds Permitted Investments, Approved Countries for Investments

Based on lowest available rating

AAA
- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Finland
- Hong Kong
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- U.K.

AA-
- Belgium
- Qatar

Table A - Net Capital Financing Need

General Services and HRA Shown Separately

£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
General Services	**54,564**	**62,714**	**54,598**	**41,894**	**32,113**	**23,162**	**15,508**	**15,768**	**11,572**	**11,574**	**11,516**
Financed by:											
Capital receipts	428	8,487	9,243	4,468	4,358	2,245	1,698	4,043	-	-	-
Capital grants	24,505	20,650	21,173	18,903	16,312	16,440	11,281	9,634	8,704	8,704	8,704
Revenue	38	91	-	-	-	-	-	-	-	-	-
Net financing need for the year	**29,593**	**33,486**	**24,182**	**18,523**	**11,443**	**4,477**	**2,529**	**2,091**	**2,868**	**2,870**	**2,812**
£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
HRA	**25,362**	**57,902**	**52,260**	**26,330**	**23,590**	**23,590**	**20,152**	**13,960**	**14,309**	**14,666**	**16,288**
Financed by:											
Capital receipts	-	-	-	-	-	-	-	-	-	-	-
Capital grants	5,744	15,204	4,594	2,360	2,360	2,360	-	-	-	-	-
Revenue	7,429	7,257	6,117	5,573	4,277	3,577	2,140	2,229	2,868	2,771	1,772
Net financing need for the year	**12,189**	**35,441**	**41,549**	**18,397**	**16,953**	**17,653**	**18,012**	**11,731**	**11,441**	**11,895**	**14,516**

General Services and HRA Combined

£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
General Services	54,564	62,714	54,598	41,894	32,113	23,162	15,508	15,768	11,572	11,574	11,516
HRA	25,362	57,902	52,260	26,330	23,590	23,590	20,152	13,960	14,309	14,666	16,288
Capital Expenditure	**79,926**	**120,616**	**106,858**	**68,224**	**55,703**	**46,752**	**35,660**	**29,728**	**25,881**	**26,240**	**27,804**
Financed by:											
Capital receipts	428	8,487	9,243	4,468	4,358	2,245	1,698	4,043	-	-	-
Capital grants	30,249	35,854	25,767	21,263	18,672	18,800	11,281	9,634	8,704	8,704	8,704
Revenue	7,467	7,348	6,117	5,573	4,277	3,577	2,140	2,229	2,868	2,771	1,772
Net financing need for the year	**41,782**	**68,927**	**65,731**	**36,920**	**28,396**	**22,130**	**20,541**	**13,822**	**14,309**	**14,765**	**17,328**

West Dunbartonshire Council Prudential and Treasury Indicators

Table B - Capital Financing Requirement

£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
Capital Financing Requirement											
CFR – General Services	323,747	348,952	363,966	373,643	376,096	371,392	364,365	356,658	349,595	342,836	336,682
CFR – HRA	218,434	247,316	281,932	293,075	301,993	311,129	319,718	321,812	323,655	325,942	330,333
Total CFR	**542,181**	**596,268**	**645,898**	**666,718**	**678,089**	**682,521**	**684,083**	**678,470**	**673,250**	**668,778**	**667,015**
Movement in CFR	27,833	54,087	49,629	20,820	11,371	4,432	1,562	(5,613)	(5,220)	(4,472)	(1,764)

Movement in CFR represented by											
Net financing need for the year (above)	41,782	68,927	65,731	36,920	28,396	22,130	20,541	13,822	14,309	14,765	17,328
Less scheduled debt amortisation and other financing movements	(13,949)	(14,840)	(16,102)	(16,100)	(17,025)	(17,698)	(18,979)	(19,435)	(19,529)	(19,236)	(19,091)
Movement in CFR	**27,833**	**54,087**	**49,629**	**20,820**	**11,371**	**4,432**	**1,562**	**(5,613)**	**(5,220)**	**(4,472)**	**(1,764)**

Table C - Loan Fund Repayment Profile

£000	General Services	HRA	Total
Under 12 months	4,925	6,312	11,237
2 years to 5 years	21,495	28,781	50,277
6 years to 10 years	27,606	46,783	74,389
11 years to 15 years	27,534	53,409	80,943
16 years to 20 years	30,244	54,296	84,540
21 years to 25 years	33,887	48,358	82,245
26 years to 30 years	38,650	48,703	87,353
31 years to 35 years	31,632	28,163	59,795
36 years to 40 years	26,221	10,605	36,826
41 years to 45 years	12,935	2,817	15,752
46 years to 50 years	13,497	2,693	16,190
51 years to 55 years	19,394	3,245	22,639
56 years to 60 years	23,505	4,086	27,591
60 years plus	34,086	49,859	83,945
Total	**345,612**	**388,110**	**733,722**

Table D - Ratio of Financing Costs to Net Revenue Stream

	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
General Services	10.32%	10.55%	11.10%	11.17%	11.35%	11.49%	11.63%	11.66%	11.59%	11.36%	10.96%
HRA	27.54%	27.72%	29.70%	31.59%	33.29%	34.32%	36.13%	36.26%	35.53%	35.11%	35.75%

Table E - Gross Debt compared to the Underlying Need to Borrow (CFR)

£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
External Debt											
Debt at 1 April	425,291	438,836	496,026	549,266	573,777	588,534	596,119	601,286	600,005	599,510	599,711
Maturing Debt	(185,560)	(164,439)	(14,499)	(485)	(11,091)	-	(8,750)	(6,158)	-	-	(5,000)
New Borrowing - Maturing Debt	168,560	164,439	14,499	485	11,091	-	8,750	6,158	-	-	5,000
New Borrowing - CFR	30,546	57,189	53,240	24,511	14,757	7,585	5,167	(1,280)	(496)	201	2,013
Debt at 31 March	**438,836**	**496,026**	**549,266**	**573,777**	**588,534**	**596,119**	**601,286**	**600,005**	**599,510**	**599,711**	**601,724**
Long Term Liabilities at 1 April	105,914	103,201	100,099	96,488	92,797	89,412	86,258	82,654	78,321	73,597	68,924
Change in Long Term Liabilities	(2,713)	(3,102)	(3,611)	(3,691)	(3,385)	(3,153)	(3,605)	(4,333)	(4,724)	(4,673)	(3,777)
Long Term Liabilities at 31 March	**103,201**	**100,099**	**96,488**	**92,797**	**89,412**	**86,258**	**82,654**	**78,321**	**73,597**	**68,924**	**65,147**
Gross Debt at 31 March	542,038	596,124	645,754	666,574	677,945	682,377	683,939	678,326	673,106	668,635	666,871
Capital Financing Requirement	542,181	596,268	645,898	666,718	678,089	682,521	684,083	678,470	673,250	668,778	667,015
Under / (Over) Borrowing	**144**	**144**	**144**	**144**	**144**	**144**	**144**	**144**	**144**	**144**	**144**

Table F - Operational Boundary

£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
External Debt	596,241	655,737	710,329	706,269	729,507	742,271	746,650	747,567	740,962	735,277	731,343

West Dunbartonshire Council Prudential and Treasury Indicators

Table G - Authorised Limit

£000	Revised 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
External Debt	650,445	715,349	774,904	770,475	795,826	809,751	814,527	815,528	808,323	802,120	797,829

Table H - Interest Rate Forecast

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
5yr PWLB Rate	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%

Table I - Historic Risk of Default

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.10%	0.18%	0.27%	0.36%
AA	0.02%	0.04%	0.10%	0.17%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
BB	0.71%	2.00%	3.47%	4.92%	6.22%
B	2.90%	7.00%	10.67%	13.74%	16.12%
CCC	18.74%	26.47%	31.60%	35.37%	38.17%

Note - The AAA default risk is actually higher than the AA default risk due the number of AAA rated institutions left

Table J - Counterparty Limits

Investment Category	Fitch (or equivalent)	Money Limit	Time Limit
1	F1+ / AA-	£10million	364 days
	F1 / A-	£5 million	
2	F1/A-	£10 million (per group)	364 days
3		£5 million	Overnight
4		£5 million	364 days
5	As in 1 above	£10million and £5million	364 days
6	Sector Limit	£25 million	Very liquid no time limit applies
	Fund Limit	£5 million	
7		No limit	6 months
8	Sector imit	£25 million	364 days
	Fund Limit	£5 million	

Table K - Sensitivity to Interest Rate Movements

£000	2019/20 Estimate	1%	-1%
Variable Rate Debt Payments	N/A	N/A	N/A
Variable Rate Investment income	75	150	(75)

Table L- Treasury Management Limits on Activity

	2019/20 Upper	2020/21 Upper	2021/22 Upper
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	50%	50%	50%

Maturity Structure of fixed interest rate borrowing						
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%
12 months to 2 years	0%	50%	0%	50%	0%	50%
2 years to 5 years	0%	50%	0%	50%	0%	50%
5 years to 10 years	0%	50%	0%	50%	0%	50%
10 years to 20 years	0%	50%	0%	50%	0%	50%
20 years to 30 years	0%	50%	0%	50%	0%	50%
30 years to 40 years	0%	50%	0%	50%	0%	50%
40 years to 50 years	0%	100%	0%	100%	0%	100%
50 years to 60 years	0%	100%	0%	100%	0%	100%
60 years to 70 years	0%	100%	0%	100%	0%	100%
Principal sums invested > 364 & 365 days	£nil	£7m	£nil	£7m	£nil	£7m

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 12 June 2019

Subject: Internal Audit Annual Report to 31 March 2019

1.   Purpose

1.1   The purpose of this report is to advise Members of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2018/19 and to advise Members of the contents of the Assurance Statement given to Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - Resources) in support of the Annual Governance Statement. This report outlines how audit assurances are obtained.

2.   Recommendations

2.1   It is recommended that Members note the contents of this report.

3.   Background

3.1   The Public Sector Internal Audit Standards (PSIAS) became effective on 1st April 2013 (revised in 2017) and require that:

"The chief audit executive [WDC: Audit Manager] *must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.*

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:
*   *The opinion;*
*   *A summary of the work that supports the opinion; and*
*   *A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme".*

3.2   Attached at Appendix A is information on the completion of the key audit work, i.e. systems audits, computer audits and a significant investigation. The Assurance Statement is included at Appendix B. A suite of Key Performance Indicators is detailed at Appendix C.

3.3 A six monthly progress report was provided to the Audit Committee during the course of 2018/19.

4. Main Issues

4.1 The risk-based systems audits and ICT audits contained within the Audit Plan for 2018/19 are shown in the tables included at Appendix A, showing the number of agreed actions for each of these reports. The numbers in brackets denotes the number of outstanding actions as at 28 May 2019 and the information in the "Comments Column" provides further information on the status of outstanding actions.

4.2 Internal Audit recommendations, as detailed in Appendix A, have timescales for completion in line with the following categories:

Category	Expected implementation timescale
High Risk: Material observations requiring immediate action. These require to be added to the department's risk register	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
Medium risk: Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed
Low risk: Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action plan being agreed

4.3 On the basis of the key Internal Audit work performed in 2018/19 as summarised in Appendix A, it can be concluded that the Council's control procedures in key areas are operating as expected during the period under review, although it is recognised that:

- For risk-based audits, 68 recommendations were made by Internal Audit to improve controls of which 30 have now been implemented;
- For ICT audits, 9 recommendations were made by Internal Audit to improve controls of which 4 have now been implemented; and
- For investigations, 46 recommendations were made by Internal Audit to improve controls of which 41 have now been implemented.

4.4 The Audit Manager is pleased to report good progress across the Council on audit recommendations and is of the opinion that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2019. However, in relation to procurement, an Internal Audit report provided to the Audit Committee in December 2018 highlighted that a number of procurement processes had been completed without following the Council's Financial Regulations. This was confirmed by an Audit Scotland review. Improvement plans from both audits have been agreed by management which aim to increase compliance and management processes.

4.5 The work of Internal Audit, External Audit and external inspection agencies who reported on the Council's work has been reviewed. Assurances were sought from Strategic Directors and Strategic Leads (HSCP – Heads of Service) on the implementation of action plans and recommendations and the Chief Executive, Strategic Directors and Strategic Leads have been asked to provide assurance statements to the Audit Manager, including their opinion of the control environment operating within their own service areas.

4.6 The Internal Audit Annual Report for 2018/19 included at Appendix B includes the Audit Manager's independent and objective opinion as to the adequacy and effectiveness of internal controls within the Council and has informed the Council's annual Governance Statement.

4.7 A suite of Key Performance Indicators is detailed at Appendix C.

5.   People Implications

5.1 There are no people implications.

6.   Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £661,000 have been identified during 2018/19, against a target of £225,000.

6.2 There are no procurement implications arising from this report.

7.   Risk Analysis

7.1 There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide assurances over the Council's system of internal financial control to those charged with governance.

8.   Equalities Impact Assessment (EIA)

8.1 There are no issues.

9.   **Consultation**

9.1   This report has been subject to consultation with appropriate Strategic Leads.

10.   **Strategic Assessment**

10.1   This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

....
Stephen West
Strategic Lead - Resources
Date: 29 May 2019

Person to Contact:	Colin McDougall, Audit Manager Telephone (01389) 737436 E-mail: colin.mcdougall@west-dunbarton.gov.uk
Appendices:	1 - Audit Plan 2018/19: Completed Audits; 2 - Assurance Statement for the year ended 31 March 2019 from the Audit Manager; and 3 - Key Performance Indicators
Background Papers:	Audit Committee – 21 March 2018: Internal Audit Plan 2018/19
Wards Affected:	All wards

Audit Plan 2018/19: Completed Audits

Number of Agreed Actions				
Report Title	**High**	**Medium**	**Low**	**Comments**
Systems Audits:				
Burial Grounds / Crematorium	0 (0)	1 (0)	0 (0)	The one action has been completed.
Central Repairs & Maintenance Budget (from 2016/17 Audit Plan)	0 (0)	3 (1)	1 (1)	One of two outstanding actions is now overdue.
Management of Capital Projects (from 2017/18 Audit Plan)	4 (0)	0 (0)	0 (0)	All actions have been completed.
Housing – Tenancy, Allocations and Lettings (from 2017/18 Audit Plan)	0 (0)	5 (0)	2 (0)	All actions have been completed.
Grants Administration Process Undertaken by CVS	0 (0)	2 (0)	1 (0)	All actions have been completed.
WeBuy	0 (0)	0 (0)	4 (0)	All actions have been completed.
Main Accounting	0 (0)	0 (0)	1 (0)	The one action arising has been completed.
Balance Sheet Reconciliations	0 (0)	0 (0)	4 (2)	The two outstanding actions are not yet due.
Building Standards	3 (1)	4 (2)	3 (1)	The four outstanding actions are not yet due.
Children with additional needs transitioning into adults	0 (0)	1 (1)	0 (0)	The one outstanding action is not yet due
Charging Policy (non-residential services)	1 (1)	5 (5)	1 (1)	This report has recently been issued and none of the actions are yet due.
Asset Management Plan - Fleet	2 (2)	4 (4)	3 (3)	This report has recently been issued and none of the actions are yet due.
Year End Stock Count Visits 2018/19	0 (0)	1 (1)	0 (0)	The one outstanding action is not yet due
Performance Indicators Review – Library Visits	0 (0)	0 (0)	5 (5)	The five outstanding actions are not yet due.
Performance Indicators Review – Museum Visits	0 (0)	1 (1)	6 (6)	The six outstanding actions are not yet due.
Total	**10 (4)**	**27 (15)**	**31 (19)**	

1

Number Of Agreed Actions				
Report Title	**High**	**Medium**	**Low**	**Comments**
Computer Audits:				
ICT Software Management Controls	0 (0)	0 (0)	3 (3)	The three outstanding actions are not yet due
ICT Device Management Controls	0 (0)	1 (0)	1 (1)	The one outstanding action is not yet due
ICT Network Controls	0 (0)	2 (0)	2 (1)	The one outstanding action is not yet due
Total	**0 (0)**	**3 (0)**	**6 (5)**	
Investigations				
Tendering & Contracting Roads and Greenspace:				
• Specific Actions	7 (0)	7 (1)	0 (0)	One medium risk action is outstanding.
• Generic Actions	7 (0)	5 (0)	0 (0)	All actions have been completed.
Investigation: Fire Detection and Fire Alarm Systems	10 (1)	5 (0)	0 (0)	It is anticipated that the one outstanding action will be completed during June 2019.
Investigation: Overpayment of Wages – Home Care	1 (0)	1 (0)	0 (0)	Both actions have been completed.
Investigation – School Meals	0 (0)	1 (1)	0 (0)	The one outstanding action is not yet due.
Investigation – School Funds	0 (0)	1 (1)	1 (1)	The two outstanding actions are is not yet due.
Total	**25 (1)**	**20 (3)**	**1 (1)**	
OVERALL TOTAL	**35 (5)**	**50 (18)**	**38 (25)**	

Note: Figures in ( ) denote actions which remain outstanding as at 29 May 2019

2

Assurance Statement for the year ended 31 March 2019 from the Audit Manager

To the Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - Resources)
As Audit Manager of West Dunbartonshire Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Group Accounts prepared by the Council for the year ended 31 March 2019.

Respective responsibilities of management and internal auditors in relation to internal control
It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal financial control and to monitor the continuing effectiveness of that system. It is the responsibility of the Audit Manager to provide an annual overall assessment of the robustness of the internal financial control system.

The Council's framework of governance, risk management and internal control
The Council has a responsibility to ensure that its business is conducted in accordance with legislation and proper standards.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and how it accounts to communities. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The main objectives of the Council's internal control systems are to ensure:

• Adherence to management policies and directives in order to achieve the organisation's objectives;
• Economic, efficient, effective and safe use of resources and assets;
• The relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
• Compliance with statutory requirements.

The system of internal control is a significant element of the governance framework. Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control in order to identify and prioritise the risks that would prevent the achievement of the Council's strategic objectives

1

The work of 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.

The Council's Internal Audit Section operates in accordance with the *Public Sector Internal Audit Standards* (PSIAS) which have been agreed to be adopted from 1st April 2013 (revised in 2017) by the relevant public sector Internal Audit Standard setters. PSIAS applies the Institute of Internal Auditors International Standards to the UK Public Sector.

PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that internal audit activity:

• Is conducted in accordance with an Internal Audit Charter;
• Operates in an efficient and effective manner; and
• Is perceived to be adding value and improving operations.

An internal self-assessment of internal audit practices has been carried out by the Audit Manager every year since PSIAS became effective on 1st April 2013, with improvements identified and implemented as appropriate. PSIAS also requires, as outlined in Standard 1300 "QAIP", that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".

An initial external review was carried out during 2015/16 and the next external review is due to be carried out within one to two years.

The Internal Audit Section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council. All Internal Audit reports identifying system weaknesses and / or non-compliance with expected controls are brought to the attention of management and the Audit Committee together with appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. A programme of follow-up on assignment findings and recommendations provides assurance on the complete and timeous implementation of both internal Audit and External Audit recommendations.

2

Internal Audit and Corporate Fraud staff regularly attended the following external user group meetings:

- SLACIAG, the purpose of which is to develop and improve the practice of internal audit activity with Scottish local authorities. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professional / governing bodies and promoting SLACIAG as the representative body for internal audit in local authorities. The Council's Audit Manager attended all four of the quarterly meetings of SLACIAG during 2018/19 and also further meetings in his role as a member of the SLACIAG management committee;

- SLACIAG Computer Audit sub group: either an Auditor or the ICT Security Officer attends this forum which has the aim of ensuring that audit teams are better equipped to perform technical Information Systems auditing; and

- The Scottish Local Authority Investigators Group (SLAIG): This group consists of fraud practitioners from local authorities in Scotland, with the objectives of:

  o Raising the profile of the counter fraud agenda;
  o Sharing good practice;
  o Raising awareness of the risk of fraud; and
  o Ensuring that fraud is investigated in a professional manner.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2019, including risk based systems audits, ICT audits, investigations, follow-up reviews and one-off exercises;
- The assessment of risk completed during reviews of the annual audit plan;
- The assurance statements signed by the Strategic Directors and Strategic Leads on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2019;
- The assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2019;
- Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies;
- My knowledge of the Council's governance, risk management and performance monitoring arrangements; and
- An Internal Audit report provided to the Audit Committee in December 2018 highlighted that a number of procurement processes had been completed without following the Council's Financial Regulations. This was confirmed by an Audit Scotland review. Improvement plans from

3

both audits have been agreed by management which aim to improve compliance and management processes.

Limitation to Resources or Scope of Internal Audit Work

There were sufficient resources available to deliver the programme of audit assignments contained within the 2018/19 Audit Plan and no significant threats emerged to the independence of the internal audit activity such as inappropriate scope or resource limitations.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2019.

Signature: *Colin J McDougall*

Title: Audit Manager

Date: 29 May 2019

4

Key Performance Indicators

Actual for 2017/18	Performance Indicator	Actual for 2018/19	Target for 2018/19
95%	Efficiency of Adherence to Audit Plan	97.9%	90%
79%	Percentage of planned risk based audits completed by 31 May (following year end)	97%	100%
5.2	Training days per Auditor	3.8	4
77%	Audits completed within budgeted days	66.7%	80%
71%	Draft reports issued within 21 days of fieldwork completion	100%	80%
86%	Final reports issued within 14 days of agreement of action plan	100%	80%
100%	Level of full compliance with the Public Sector Internal Audit Standards (PSIAS)	89.7%	100%
£312,000	Corporate Fraud Team – financial value of fraud detected and being recovered	£661,000	£225,000

1

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 12 June 2019

Subject: Counter Fraud Annual Report 2018/19

1.   Purpose

1.1   The purpose of this report is to advise Members of the Council's fraud prevention, detection and investigation activity.

2.   Recommendations

2.1   It is recommended that Members note the contents of this report.

3.   Background

3.1   The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

3.2   The primary responsibility for the prevention, detection and investigation of fraud rests with management, supported by the Corporate Fraud Team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. One of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.

3.3   In March 2018 a revised Counter Fraud and Corruption Strategy was approved by the Audit Committee.

3.4   Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the results in the Counter Fraud Annual Report 2018/19 contained herein within Section 4 below.

4.   Main Issues

Ongoing Corporate Fraud Team Work
4.1   During the financial year 2018/19, the Corporate Fraud team's day to day work has resulted in actual recoveries, charges and re-billings as detailed below, against a target of £225,000.

Description	Amount (£)
Council Tax Reduction	65,151
Council Tax Single Person's Discount	38,938
Scottish Welfare Fund Grant	8,014
National Fraud Initiative	54,751
J/W Housing Benefit	13,681
Non DWP Housing Benefit	284,094
Non DWP HB	175,437
Non DWP CTB	5,402
Internal Fraud	475
Administrative Penalties	15,510
Total	**£661,454**

National Fraud Initiative

4.2 The National Fraud Initiative (NFI) is a series of bi-annual exercises run by the Cabinet Office and Audit Scotland to identify or prevent fraud and error by matching electronic data held by public bodies. Participating bodies are required to investigate data discrepancies within a timescale and report back on any savings.

4.3 The most recent bi-annual exercise was released in January 2019, providing matched datasets for organisations to investigate. WDC was provided with a total of 5,955 matches datasets of which 1,242 were described as "high risk" matches and 4,713 additional matches. There is an expectation that organisations will examine all "High Risk" matches and a proportion of the other matches too.

4.4 To date a total of 1,811 cases have been closed off, with £5,774 of fraud and £20,720 of errors being identified to date (included within the above figures).

Single Person's Discount (SPD)

4.5 In addition to the above, the Council's Revenues and Benefits team have been working through a separate NFI matched dataset of analysis between the Council Tax System and other datasets. This matched dataset provided a total of 3,112 individual cases to investigate of which 1,251 have been examined to date.

Fraud Risk Self-Assessment

4.6 A Fraud Risk self-assessment tool has recently been completed by Strategic Leads (HSCP – Heads of Service), the purpose being to:
- Make a high level, balanced assessment on the Council's exposure to the risk posed by financial crime; and
- Develop a time-bound improvement plan to increase resilience to fraud.

4.7 The outputs from this work will assist with formulating the future approach to fraud awareness and fraud prevention within the Council.

<u>Integrity Group</u>

4.8 The Council has set up an Integrity Group for which the initial meeting has been arranged.

4.9 The Integrity Group involves officers from a number of different Council departments as well as our Community Partners including Police Scotland. Its purpose is to:

- Improve the Council's resilience to crime, fraud and corruption;
- Identify potential vulnerabilities in systems and procedures;
- Have an action plan to address them;
- Help ensure that policies are in place to protect us;
- Improve lines of communication both within the Council and with the Police and other Councils; and
- Monitor policies and practice in this area.

4.10 Whilst West Dunbartonshire has processes and procedures in place to prevent fraud and corruption, the existence of an Integrity Group will ensure an holistic approach to crime, fraud and corruption.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £661,000 have been identified during 2018/19, against a target of £225,000.

6.2 There are no procurement implications arising from this report.

7. Risk Analysis

7.1 Management need to ensure that internal control systems are monitored continuously to ensure that fraud prevention and detection procedures are effective and robust. An effective approach to counter fraud activity across the Council, as supported by Internal Audit and the Corporate Fraud Team significantly contributes to this process.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

10.1 This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

....
Stephen West
Strategic Lead - Resources
Date: 28 May 2019

Person to Contact:	Colin McDougall, Audit Manager
	Telephone (01389) 737436
	E-mail: colin.mcdougall@west-dunbarton.gov.uk

Appendix: None

Background Papers: Counter Fraud and Corruption Strategy

Wards Affected: All wards

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 12 June 2019

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Subject: Annual Report on the Audit Committee

1.   Purpose

1.1   The purpose of this report is to provide members with an Annual Report on the Audit Committee for 2018/19.

2.   Recommendations

2.1   It is recommended that members:

i)   Approve the Annual Report on the Audit Committee for 2018/19; and
ii) Agree that the report should thereafter be referred to Council for consideration.

3.   Background

3.1   A self-assessment was carried out on the Audit Committee as reported to meeting on 12 December 2019. This self-assessment was based on the CIPFA publication "*Audit Committees: Practical Guidance for Local Authorities and Police" (2018 Edition).* This included an action to introduce an annual report on the Audit Committee to account for its performance and explain its work. There was also an action to provide feedback on the performance on the Audit Committee from those interacting with the committee or relying on its work. This feedback is also included in the annual report.

3.2   The Audit Committee Annual Report for 2018/19 is intended to provide assurance to both the full Council and to identify any actions for the Audit Committee to improve its effectiveness.

4.   Main Issues

4.1   The Audit Committee Annual Report for 2018/19 is appended with the main issues identified being:
*   The Audit Committee has met four times during the financial year with every meeting being quorate;
*   The Audit Committee sought assurance on the adequacy and effectiveness of the Council's systems of corporate governance and internal control for efficient operations and for the highest standards of probity and accountability. This was achieved through reports received

from internal audit, other Council functions and external audit with focus in particular on internal control and governance;

- The self-assessment as reported to the Audit Committee on 12 December 2018 indicated in overall terms that the Audit Committee demonstrates a good level of compliance with expected good practice and it is largely effective in discharging its roles and responsibilities;
- Areas of good practice and improvement actions are detailed in the appendix; and
- The Audit Committee has provided assurance to the Council as detailed in the appendix.

5. People Implications

5.1 There are no personnel issues with this report.

6. Financial and Procurement Implications

6.1 There are neither financial nor procurement implications arising directly from this report.

7. Risk Analysis

7.1 There is a risk that if the Audit Committee does not address some of the issues highlighted from the review it will not maximise the opportunity for effective scrutiny. Implementing the suggested improvement action plan following from the self-assessment, including the annual report and obtaining feedback will mitigate this risk.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads. In addition, services have been consulted in the update of action plans.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

....
Stephen West
Strategic Lead - Resources
Date: 29 May 2019

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Person to Contact: Colin McDougall, Audit Manager
                             Telephone (01389) 737436

E-mail: colin.mcdougall@west-dunbarton.gov.uk

Appendix: Annual Report on the Audit Committee

Background Papers: Report to Audit Committee on 12 December 2018: Audit Committee Self-Assessment and reporting on audit assignments

Wards Affected: All Wards

West Dunbartonshire Council
Audit Committee
Annual Report 2018/19 from the Chair

Introduction
This annual report has been prepared to inform West Dunbartonshire Council of the work carried out by the Council's Audit Committee during the financial year 2018/19. This is in recognition of the CIPFA *publication "Audit Committees: Practical Guidance for Local Authorities and Police" (2018 Edition)*. This included an action to introduce an annual report on the Audit Committee to account for its performance and explain its work in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Meetings
The Audit Committee has met four times during the financial year comprising meetings on 13 June 2018, 26 September 2018, 12 December 2018 and 21 March 2019 to consider reports relevant to the Audit cycle and other matters as deemed appropriate. Pre-Agenda meetings were also held ahead of Committee involving the Chair and appropriate officers.

The purpose and remit of Audit Committee as detailed in the Council's Standing Orders is to:
- Monitor, and make recommendations on the development of, the Audit, activity of the Council; and
- Scrutinise the monitoring and review activity of the thematic and regulatory committees.

To fulfil this remit, the Audit Committee sought assurance on the adequacy and effectiveness of the Council's systems of corporate governance and internal control for efficient operations and for the highest standards of probity and accountability. This was achieved through reports received from internal audit, other Council functions and external audit with focus in particular on internal control and governance.

The Audit Committee approved a revised version of the Internal Audit Charter which is the terms of reference for Internal Audit and the Annual Audit Plan for 2018/19. At each meeting it considered Internal Audit's action plans from recently issued reports, together with monitoring progress on the completion of previously issued reports. It also considered the annual plan and reports from Audit Scotland, the Council's External Auditors, including the Annual Report to Members and the Controller of Audit on the annual audit of the Council for 2017/18 and monitoring the implementation of agreed actions arising. In addition, a number of national reports prepared by Audit Scotland on behalf of the Accounts Commission were also considered.

The Audit Committee also received reports on:
• Treasury Management;
• Scottish Public Services Ombudsman (SPSO) report on complaints handling by West Dunbartonshire Council for the year 1 April 2017 – 31 March 2018;
• Capital Post Project Reviews; and
• Creating of Non Domestic Rates Member / Officer Working Group

The minutes of Audit Committee meetings have previously been remitted to Council for approval but this is being changed so that the minutes of the previous Audit Committee are first confirmed as a correct record at the next Audit Committee before being remitted to Council for approval.

Membership of the Audit Committee
In accordance with West Dunbartonshire Council's Standing Orders membership of the Audit Committee comprises 8 Elected Members and 2 Lay Members with Lay Members not being members of any political party. The quorum of the Audit Committee is 3 Elected Members.

The Chair of the Audit Committee is from the Opposition (as is the Vice Chair). The committee has two Lay Members, with there being a vacancy during the first half of the year. The Administration has a minority of members on the Audit Committee.

Attendance by members of the Committee at Audit Committee meetings in 2018/19 was:

Member	**Date of Meeting**			
	13/06/18	**26/09/18**	**12/12/18**	**20/03/19**
Cllr John Mooney (Chair)	Present	Present	Present	Apologies
Cllr Jim Brown	Present	Present	Present	Present
Cllr Karen Conaghan	Apologies	Present	Present	Present
Cllr Daniel Lennie	Present	Apologies	Apologies	Apologies
Cllr Jonathan McColl	Present	Present	Apologies	Present
Cllr John Millar	Present	Apologies	Absent	Apologies
Cllr Martin Rooney	Present	Present	Present	Present (Chair at this meeting)
Cllr Brian Walker	Present	Apologies	Apologies	Present
Lay Member Eilidh McKerry	Apologies	Present	Apologies	Present
Lay Member Chris Johnstone (from 12/12/18)	n/a	n/a	Present	Apologies

2

Every meeting of the Audit Committee during 2018/19 was quorate.

Attendance by Officers
The Chief Executive attended three meetings. The Strategic Director – Transformation & Public Service Reform (T&PSR), the Strategic Lead – Resources and the Audit Manager attended all four meetings.

Other senior officers also attended meetings as appropriate for items on the Agenda for which their presence was relevant. Representatives from the Council's external auditors - Audit Scotland - were present at every meeting.

Skills and Knowledge
Members of the committee were consulted at the 12 December 2018 meeting in relation to skills and knowledge with no particular issues being identified.

Self-Assessment of the Audit Committee
The self-assessment as reported to the Audit Committee indicated in overall terms that the Audit Committee demonstrates a good level of compliance with expected good practice and it is largely effective in discharging its roles and responsibilities. Areas of good practice include:
- Elected Members and Offices are considered to have good awareness of the role and purpose of the Audit Committee;
- The Chair of the Audit Committee is from the Opposition (as is Vice Chair);
- The Committee has Lay Members;
- The Administration has a minority of members on the Audit Committee;
- The Audit Committee has good working relations with External Audit, Internal Audit, the Chief Executive, Strategic Director – T&PSR and the Strategic Lead – Resources; and
- The Audit Committee supports the role of audit in improving internal control and governance.

The self-assessment, however, also identified areas where there is an opportunity for improvement, these being:

Detail	Comments
Submit the draft Annual Governance Statement to the Audit Committee as a standalone document	This is included in the Agenda for this meeting
Introduce this self-assessment process on an annual basis	Next self–assessment will be reported to the Audit Committee in December 2019
Provide reports on Risk Management to the Audit Committee	A half-yearly reported on Risk Management with be provided from the September 2018 meeting
Provide reports on Best Value to the Audit Committee	A Best Value report is being submitted to this meeting
Obtain feedback on the performance of the Audit Committee from those interacting with the committee or relying on its work	Feedback is in the process of being gathered and the outputs of this will be presented to a future committee.

3

Introduce an annual report on the Audit Committee to account for its performance and explain its work to Council	This is the purpose of this particular committee report
The Chairs of the Council's and the West Dunbartonshire Heath & Social Care Partnership Board Audit Committees meet to discuss their respective governance arrangements	This will be arranged once a self-assessment of HSCP Audit Committee has been carried out
Extend reports to the Audit Committee on post-project reviews to non-capital projects of significant scale	This will be done whenever such a project completes
The work of internal audit should be enhanced to provide more specific assurance on value for money arrangements e.g. transformation, sustainability, and performance management	Not due to be implemented until 31 March 2020
Amend annual assurance statements to require more information on value for money arrangements e.g. transformation, sustainability, and performance management	This will be developed during 2019/20
Provide more specific information on counter fraud work to the Audit Committee	An Annual Counter Fraud report is being submitted to this meeting
Develop a fraud risk assessment process	Complete

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the Minutes of the Audit Committee meetings throughout the year;
- The Audit Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in the CIPFA Position Statement relating to its Audit functions;
- It did this through material it received from Internal Audit, External Audit, and assurances from Management. It focussed on matters of internal control and governance, giving advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and its stakeholders;
- For all audit reports, the Audit Committee considered whether it was satisfied that an adequate management response was in place to ensure action would be taken to manage risk and address concerns on internal controls and governance arrangements. The Committee acknowledges that all the audit recommendations are input to Pentana, the Council's performance management system, and that there is a system in place of on-going follow-up by Internal Audit and reporting thereon;
- The Audit Committee has received and considered material to fulfil its scrutiny role on treasury management activity; and

4

- The Audit Committee will review the audited Annual Accounts for 2018/19 alongside External Audit's report on their annual audits 2018/19.

Councillor John Mooney
Chair of the Audit Committee
29 May 2019

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WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Communications, Culture & Communities

Audit Committee: 12 June 2019
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Subject: West Dunbartonshire Best Value Assurance Report

1.   Purpose

1.1   The purpose of this report is to update members on progress towards delivery
of the improvement plan agreed with Accounts Commission following the
2018 Best Value Assurance process of West Dunbartonshire Council.

2.   Recommendations

2.1   Members are asked to:
  - Note the progress made to date against the Best Value Assurance
    Report (BVAR) improvement plan for West Dunbartonshire Council

3.   Background

3.1   The Local Government in Scotland Act 2003 established statutory duties for
Scottish Local Authorities, focused on securing Best Value. Under these
arrangements West Dunbartonshire Council was last audited in 2006, with
follow up reports published until 2010.

3.2   The Best Value Assurance process took place in West Dunbartonshire from
January to April 2018. Audit Scotland carried out an evidence review of
strategies and documents, as well as conducting a range of interviews and
attending key council meetings.

3.3   The BVAR for West Dunbartonshire was presented to Accounts Commission
on 7 June 2018 and published on Thursday 28 June, along with the Accounts
Commission findings, on the Account Commission website. The report was
circulated to all elected members on the date of publication, along with a
briefing note on Commission findings. Following this, the report and a
supporting improvement plan were considered by Council in August 2018.
The improvement plan was approved for delivery during 2018/19 – 2019/20,
with progress updates to be reported through Audit Committee.

3.4   The BVAR provided an assessment of the Council and its performance since
the last audit in 2006. Overall the audit was positive, providing independent
external assurance on delivery of Best Value in West Dunbartonshire. The
Commission endorsed the recommendations made in the Audit Scotland
report and also noted the significant progress made by Council since the most
recent audit follow-up report in 2010.

3.5 Based on the BVAR, Audit Scotland made five recommendations which provide direction on the key areas which Council should focus improvement activity over the coming period. These recommendations cover the themes of:

- Capital project management
- Workforce planning
- Reducing absence
- Developing the Community Alliance
- Enhancing cross party working

4. Main Issues

BVAR & Recommendations

4.1 The improvement plan agreed by Council in August 2018 detailed the actions and timescales for delivery of these in each of the five recommendation areas of the BVAR. Lead officers were also identified in the improvement plan.

4.2 Work on the range of actions identified to address the recommendation areas of the BVAR has been monitored through Performance & Monitoring Review Group on a monthly basis. In addition, it was agreed that progress would be reported to Audit Committee on a regular basis over the period of the plan with a final report presented to Council following conclusion of the improvement plan.

4.3 Audit Scotland is currently reviewing progress of the improvement plan as part of their core annual audit activity. In doing this, the senior auditor met with the performance & strategy manager to gain a general overview of the actions areas. Following this, individual meetings were being arranged with action lead officers as required.

4.4 The scorecard report, attached as appendix 1, describes progress to date in each of the five action areas. Good progress has been made on delivery of the agreed actions on cross party working, capital programme management and workforce.

4.5 The Strategic Lead for Housing & Employability has highlighted that the initial delivery date for action area 4 on community empowerment may prove challenging. Work on development of the community empowerment strategy is progressing; however it is anticipated to continue beyond the agreed June 2019 target date. This is to ensure full ownership and support for the strategy and supporting action plan across key stakeholder groups at a Council and partnership level.

5. People Implications

5.1 There are no people or personnel implications directly associated with this report. Actions will be delivered within existing capacity.

6. Financial and Procurement Implications

6.1 There are no financial or procurement implications directly associated with this report. Actions will be delivered within existing budgets.

7. Risk Analysis

7.1 Council is required to act on the recommendations made by Audit Scotland and the findings of Accounts Commission. Failure to deliver on the agreed improvement plan would present a risk to the Council's statutory duty to deliver best value and to the reputation of the organisation.

8. Equalities Impact Assessment (EIA)

8.1 The improvement plan and associated actions do not have specific relevance to any protected group. The progress report on activity does not require an impact assessment to be undertaken.

9. Consultation

9.1 The improvement actions contained in appendix one were developed in consultation with all key services.

10. Strategic Assessment

10.1 The improvement plan and response to the BVAR and Accounts Commission findings ensures delivery of the Council priorities:
- open, accountable and accessible local government
- efficient and effective frontline services that improve the everyday lives of residents

Malcolm Bennie
Strategic Lead – CCC
13 May 2019

Person to Contact:	Amanda Coulthard, Performance & Strategy Manager Amanda.coulthard@west-dunbarton.gov.uk
Appendices:	**BVAR Improvement Plan – progress report**
Background Papers:	**West Dunbartonshire Council Best Value Report 2018**
Wards Affected:	**All**

Best Value Assurance Improvement Plan 2018

Capital Programme Management

Audit Scotland recommendation	Action area	Status	Progress Bar	Due Date	Latest Note	Managed by
To reduce the level of slippage on the capital plan, the council should review its project management processes. The council could use the Major capital investment in councils: good practice guide as the basis of a self-assessment	Capital Planning project management approach to be reviewed and updated with a focus on reducing slippage	✅	100%	29-Mar-2019	Analysis of drivers for slippage carried out along with a review of current practice against highlighted guidance. Existing programme management guidance will be subject to ongoing review based on learning from these exercises.	Richard Cairns

Workforce Planning

Audit Scotland recommendation	Action area	Status	Progress Bar	Due Date	Latest Note	Managed by
Workforce plans are in place and should be further developed to include forecasts of workforce numbers, the expected shape of the workforce and costs, over the planning period. Progress should be monitored	Workforce planning framework to be embedded and further developed. Long term risk-based scenario planning will be developed, including the forecasting of workforce numbers, composition and costs	▶	75%	31-Aug-2019	This action has 4 milestones, 3 of which are complete. The final action area focuses on embedding work on forecasting (size, composition and cost) through long term workforce plans and is on track for delivery by the due date.	Victoria Rogers

Attendance

Audit Scotland recommendation	Action area	Status	Progress Bar	Due Date	Latest Note	Managed by
Some staff are finding the pace of change challenging and staff absence remains an issue. The council is taking positive steps to try and address this and should continue to explore opportunities for improvement	Employee wellbeing strategy will be implemented and measures embedded	▶	80%	31-Oct-2019	This action has 5 milestones, 4 of which are complete. The final action, to embed lean process improvement in the wider strategic improvement framework, will be delivered by the due date (although ongoing implementation of the 5 year Employee Wellbeing Strategy will continue thereafter).	Victoria Rogers

Community Empowerment

Audit Scotland recommendation	Action area	Status	Progress Bar	Due Date	Latest Note	Managed by
The Community Alliance (CA) brings together representatives from neighbourhood, interest and user groups. The council sees it as an important engagement link with the community but there are a number of challenges that it needs to address. The council should continue to offer help to further develop the role of the CA and help it reach its full potential	Community Empowerment Strategy, with supporting mechanism in place for strategic engagement of community organisations, will be put in place using principles of engaging communities framework	▶	66%	30-Jun-2019	The first draft of a new Community Empowerment Strategy has been developed, informed by significant engagement with communities. Further engagement will take place up to the end of May 2019 to seek additional comment and participation ahead of finalisation of the strategy by the end of June 2019. A supporting action plan will then be developed before the plan is presented to both Council and Community Planning West Dunbartonshire for agreement. This will result in a delay to the original due date of June, with the intention to deliver by November 2019. This revision to dates was agreed through the member/officer community empowerment steering group.	Peter Barry

Cross-party working

Audit Scotland recommendation	Action area	Status	Progress Bar	Due Date	Latest Note	Managed by
Councillors should consider working in cross-party groups to address the financial challenges which exist and the important decisions required in the future	Cross party working group arrangements to be explored to ensure Elected Members are sufficiently informed and have all relevant information available to inform decision making.	✅	100%	28-Feb-2019	Options in relation to cross party working have been reviewed and considered by officers with a view to developing a model for discussion. Leaders from all 3 groups have agreed a way forward on this activity.	Peter Hessett

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 12 June 2019

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Subject: **Audit Scotland report: West Dunbartonshire Council: Management Report 2018/19 - May 2019**

1.   Purpose

1.1   The purpose of this report is to provide Committee for information a report which has been received from our external auditors – Audit Scotland – and to provide information to Members as to management actions implemented following receipt of this report.

2.   Recommendations

2.1   The Committee is invited to note the report and the agreed improvement actions.

3.   Background

3.1   Part of the planned work of Audit Scotland as the Council's external auditors, which was described in their report to this Committee on 20 March 2019, is to produce a management report on financial governance.

3.2   This report contains a summary of the key issues identified during the interim audit work carried out by the external auditors. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts.

4.   Main Issues

4.1   Representation from the Audit Scotland team will be in attendance at the Committee to present the report and to answer questions.

4.2   The report states at paragraph 4 that the auditors have identified several control weaknesses as summarised at Exhibit 1, where management response, responsible officer and target date are also included.

5.   People Implications

5.1   The people issues arising from this report are in relation to implementing improved processes in a number of systems and can be implemented from within existing resources.

6.   Financial and Procurement Implications

6.1   There are no financial or procurement implications arising from this report.

7.   Risk Analysis

7.1   Failure to address the recommendations outlined in the report could impact on the final audit opinion awarded to the Council in respect of the audit in future financial years.

8.   Equalities Impact Assessment (EIA)

8.1   There are no equalities issues arising from this report.

9.   Consultation

9.1   This report has been subject to consultation with appropriate Strategic Leads.

10.   Strategic Assessment

10.1   The report is for noting and, therefore, does not directly affect any of the strategic priorities.

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Stephen West
Strategic Lead - Resources
Date: 28 May 2019

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Person to Contact: Stephen West, Strategic Lead - Resources
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Appendices: Audit Scotland report: West Dunbartonshire Council:
                            Management Report 2018/19/

Background Papers: None

Wards Affected: All Wards

West Dunbartonshire Council

Management report 2018/19

AUDIT SCOTLAND

Prepared for West Dunbartonshire Council
May 2019

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at West Dunbartonshire Council (WDC). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We will consider the results of this testing when determining our approach to the audit of the 2018/19 annual accounts.

2. Our responsibilities under the *Code of Audit Practice* require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

3. We are also currently carrying out our work on the audit dimensions as required by the *Code of Audit Practice*. This will be reported in our 2018/19 Annual Audit Report.

Conclusion

4. We have identified several control weaknesses as summarised in Exhibit 1 overleaf where we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2018/19 annual accounts.

Work summary

5. Our 2018/19 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, we tested controls in the following areas: budget monitoring and control; feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.

Bank reconciliations   **Payroll controls**   **IT access**   **Budgets**

6. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year

cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

7. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

8. The key control and wider dimension risks identified during the interim audit are detailed in Exhibit 1. These findings will inform our approach to the financial statements audit where relevant.

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

Additional follow-up work

10. Our testing has identified that we will need to perform additional audit work as as a result of weaknesses identified and reported below with the new cash receipting system for NDR and Council Tax. We will need ensure that all reconciliations with the general ledger have been completed by the year end. We will also need to increase our sample sizes to enable us to gain assurance over the figures produced by the system for the financial statements.

Exhibit 1
Key findings and action plan 2018/19

Issue identified	Management response	Responsible officer and target date
Audit findings		
New cash receipting system		
A new cash receipting system; Capita was introduced to the council in October 2018. A number of weaknesses have been identified with its implementation		
An initial system error resulted in the payments analysis report produced by the system showing direct debit payment reversals creating a new debit entry, rather than a credit entry to cancel out the original transaction.	The payments analysis report is being corrected by the system provider. However there are other reports which are being used which provides the correct information and the correct information is being recorded in the ledger.	Section Head – Governance Administration & Financial Control 31 December 2019
In addition, staff have grouped and posted transactions of different types together, which has added to the significant delays in completing the reconciliations for both the NDR and Council Tax systems. Discrepancies are also not being followed up from	The grouping of transactions was done deliberately and will simplify processes. The delay in reconciliations was partly due to the requirement to utilise staff to implement the new system and due to some unplanned staff absence. Management will prioritise the timely completion on reconciliations in such circumstances. The reconciliations referred	Section Head – Governance Administration & Financial Control 30 June 2019

Issue identified	Management response	Responsible officer and target date
prior periods. As at 19 March 2019, the reconciliations available were: • period 9 for NDR (completed 31 December 2018), and; • period 6 for Council Tax (completed 30 September 2018) **The delay in completing reconciliations and following up discrepancies, increases the risk of error in the financial statements**	to are up to date in time for the completion of the financial statements.	
Council tax breach of the Friends and Family Policy Through discussions with the Section Head – Revenues and Benefits, we were made aware of an instance where a member of staff accessed a family member's council tax account. Unauthorised changes were made to this account, unsupported by any evidence received by the council, at that time. Employees are required to disclose family and friends when they first join the team, but not an ongoing basis. Once disclosed, staff are barred from accessing those accounts. **There is a risk that employees can access family and friends accounts that have not been disclosed and make unauthorised changes.**	All staff have been reminded of the Friend and Family policy and the need to strictly adhere to the same. Although the policy states employees must notify of any new friend and/or family members living within our area, employees will now be contacted quarterly by email for an updates to friends and family.	Business Support Manager Complete, and new process now in place.
IT access to systems From our testing of IT access rights of various systems, we have identified the following weaknesses. Payroll All users of the Chris21 system require approval of the Section Head. During our testing we identified one instance where a user had been given access but there was no evidence of authorisation.	New online form has been developed for all requests to be automatically routed to relevant Section Head for approval only progressing to WMS team to action on confirmation of approval.	Business Support Manager Complete, new process now in place
Cash & Bank Since the implementation of Capita in October 2018, the team have not been following the previous process of reviewing user access to the new system on a monthly basis. WeBuy	A process to review user access on a monthly basis will be implemented.	Section Head – Governance & Administration Control 31 July 2019

Issue identified	Management response	Responsible officer and target date
From our sample testing, we identified one member of staff who is set up as an approver on the WeBuy system but is not set up as a formal authorised signatory. We have also identified that there is no formal review of the user listing for those with access to Agresso (the general ledger) moving teams and/or roles within the council. **There is a risk that employees have inappropriate levels of access to systems.**	Previous sample testing omitted 1 staff member who should have had Webuy authorisation removed prior to being an authorised signatory. The list of authorised signatories is now up to date and any new authorisers are checked against the authorised signatory list before adding on. The 6 monthly user access check has been updated to include authorised signatory check on new authorisers added since last check.	Business Partner – Procurement Developments Complete April 2019.
	An annual process will be introduced to get confirmation from all managers re validity of staff access to systems. Managers will also be reminded of their responsibility for advising when staff leave the organisation or change roles on an ongoing basis..	Section Head FMIS Support 31 July 2019
Segregation of duties – WeBuy During the previous year, Internal Audit identified that there were some users with both requisitioner access as well as approver access to authorise orders within the WeBuy system. From our testing we have identified two instances where this was was still the case. **There is a risk that the lack of segregation of duties may result in fraud or error.**	The requisitioner role has now been removed from one officer's profile as they are an approver. Both approver and requisitioner have now been removed from the other officer's profile.	Business Partner – Procurement Developments Complete April 2019
	The user access review process was updated to ensure the dual role check takes place during the 6 monthly review	Business Partner – Procurement Developments 31st May 2019

Source: Audit Scotland

Review of Internal Audit's work

11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an assessment of the internal audit function at the Council. This confirmed that overall the internal audit function has adequate documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Some specific areas for note are:

- We reported in our Annual Audit Plan that management and elected members monitor and scrutinise progress on internal audit actions through regular reports to CMT (monthly) and to Audit Committee (at each Committee). From our review of the reports and minutes of the audit committee, we have identified that there are internal audit actions which have not been implemented by the due date agreed. We will report a progress update in our Annual Audit Report.

- We have identified areas for improvement on a specific investigation reported by Internal Audit in 2018. Our findings are reported at paragraph 14.

Main Accounting System

12. During the year the Internal Audit team undertook a review of the operation of controls over the main accounting system, including the controls over standing data. We have reviewed this work, with reference to International Standard on Auditing 610 - Using the work of internal auditors, to confirm that we can place reliance on the work of Internal Audit.

13. Our review of internal audit's work concluded that this had not identified any significant weaknesses in the main accounting function control environment that could result in a material misstatement in the information produced from the system. However, as a result the weaknesses identified, we will perform additional testing where necessary within the main accounting system as part of our financial statements audit.

Investigation: Roads and Greenspace – Allegation of Hospitality and Tendering & Contracting Arrangements

14. As part of our audit responsibilities, we completed an audit review on the investigation of tendering and contracting practices in Roads and Greenspace services. The findings were reported to a special meeting of the Council on 14 May 2019.

15. We identified that the time taken by Internal Audit to investigate and report on the allegations to the Audit Committee, between March 2016 and December 2018 was excessive. The format of the Internal Audit report was not appropriate for an investigation of this nature and could not be easily shared with members. The summary findings presented to the Audit Committee in December 2018 lacked the level of detail required by members for them to effectively scrutinise the issues identified.

16. In relation to our findings we made the following recommendations:

- The format of all Internal Audit reports should be reviewed, and the level of detail provided to the Audit Committee should be reconsidered.

- Internal Audit should ensure that the scope of future procurement audits adequately covers relevant areas.

- Internal Audit should review how they document complex investigations to ensure clear documentation, in accordance with Public Sector Internal Audit Standards.

- The approach taken to investigating serious allegations should be reviewed. Staff should respond quickly to internal audit queries, to facilitate timely reporting of audit findings. Progress updates to the Audit Committee or appropriate member groups should also be considered.

17. Our recommendations have been accepted by the Audit Manager and improvement actions agreed. A number of the improvements have already been implemented and target dates set for the remaining actions. We will monitor and report on progress in our 2018/19 Annual Audit Report.

18. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

West Dunbartonshire Council

AUDIT SCOTLAND

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WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 12 June 2019

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Subject: Accounts Commission report: *Local government in Scotland Challenges and Performance 2019*

1.   Purpose

1.1   The purpose of this report is to provide Committee a national audit report, for information and consideration, which has been received from the Accounts Commission.

2.   Recommendations

2.1   The Committee is invited to:
- Note the attached report and the position of the Council in terms of the report's recommendations as detailed at 4.2, along with the scrutiny tool for councillors contained at Appendix 2 and the availability of an on line tool; and
- Consider whether a future Elected Members' development session should take place in relation to this report.

3.   Background

3.1   The report covers three areas:

- The context for councils;
- How councils are responding; and
- Current performance and the impact on communities.

3.2   The Accounts Commission report: *Local government in Scotland Challenges and Performance 2019,* published in March 2019, is intended to inform the public and its representatives and, in particular, local government councillors and senior council officers to support them in their complex and demanding roles. Scotland's councils are managing to improve and maintain most services. But Scottish Government funding to councils is likely to reduce in future; this, combined with increased demand and less flexibility over spending decisions, means councils need to think differently about how they deliver services to the public.

4.   Main Issues

4.1   The report contains a number of key messages:

- *"Councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. Councils are also central to delivering many high-level public sector objectives, such as the integration of health and care services and involving citizens more in decisions about public services.*

- *These reforms require councils to collaborate with partners, with the third sector and with communities, to think differently about how they deliver and fund services. Thinking differently about services is important to meet the growing and changing needs of their communities in the coming years. New ways of working can lead to increasingly complicated lines of accountability.*

- *Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile. All councils expect an increase in the proportion of people aged over 65 and almost a third of councils expect an increase in the proportion of children under 15.*

- *Councils have made good progress in developing medium-term financial planning and continue to manage their funding gaps through savings and use of reserves. All councils increased council tax to the maximum three per cent in 2018/19 and many increased their fees and charges to raise income. Some councils are looking at other options to raise income.*

- *Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, but national workforce data is insufficient to clearly understand how individual services areas are affected.*

- *Despite reducing funding and increasing demands, across local government most performance indicators are improving or being maintained, although some service areas show more strain. There remains performance variation among councils that cannot be readily explained by differences in context or spend. Better use of data and benchmarking could lead to further improvement and efficiencies."*

4.2. The report contains a number of recommendations that councils should address, with the report stating that, while councils have continued to find ways to manage funding gaps and have made good progress with medium-term financial planning, they face an increasingly complex, changing and uncertain time ahead. To continue to improve the outcomes for their

communities within this context, councils need to be open to transformational change and implement new ways of working.

The report's recommendations are detailed in the table below along with WDC's position.

Report recommendation	WDC current position
Assure themselves that they have adequate leadership and management capacity in place. This should include development arrangements that prepare and support councillors and senior managers to respond to the challenging and changing local and national demands.	**Elected Members** • Induction Robust, structured induction programme for elected members following LG elections, implemented immediately and rolled out during the weeks and months thereafter • Member Seminars Awareness programme supported by regular seminars providing key information at appropriate intervals to support members in undertaking their role. • Personal development planning available on a voluntary basis supporting the development of skills and competencies • Access to Improvement Service website and resources. • Positive Communication Regular meetings with leader, group leaders conveners and shadow conveners **Leaders and Senior Managers** • Senior managers network lead by the Chief Executive bringing together the organisation's leadership on a regular basis • Strategic Leadership Group • Joint leadership development in conjunction with Elected Members • Succession planning: Has led to

	development opportunities such as new employee / line manager induction; Influential Leaders programme for middle managers
Undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands.	The long-term financial planning process seeks to describe how the Council does this over a period of 10 years, though looking into the future with no clarity of levels of funding is a significant concern.
Continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change.	• Community Empowerment Strategy & action plan being developed with extensive consultation and collaboration; • Your community neighbourhood model of service delivery and community engagement, a partnership approach; • Community budgeting model being further refined to include greater collaboration; • Developing new methods of engagement, e.g. community soups; • Participation request process being developed in collaboration with local people; • Asset transfer process to be further developed and promoted working alongside Community Ownership Support service; • Close links with CVS including via Empowerment Delivery & Improvement group; • Partner agencies and the third sector are represented through community planning structures. This mechanism ensures a consistent approach while also allowing opportunities for innovation and collaborative working to be explored; and • The Council's Engaging Communities Framework provides a model, toolkit and consistent approach to engagement of our citizens.

Improve data to: • help inform the difficult decisions councils have to make; and • support benchmarking, learning and sharing of experience and effective practice with others that will contribute to improving service quality, efficiency and outcomes for communities	Council participates in the Local Government Benchmarking Framework (LGBF) and a range of external benchmarking groups such as APSE and CIPFA. This ensures that we are able to undertake robust benchmarking and share learning / best practice to drive improvement; and In addition, we undertake self-evaluation across services and are building a arrange of additional service specific benchmarking measures which focus on cost, service delivery and user satisfaction. The creation of a data analysis function within the performance and strategy team allows better utilisation of existing data generated by services and external agencies. In addition, ongoing engagement of citizens through telephone survey, citizens panel and routine consultation activity ensures that decision making is informed by the views of our citizens.
Ensure they have workforce planning that is clear about the workforce needed now and in the future, where the gaps are and what training or other action is needed to fill them. This should be supported by better workforce data.	• Workforce planning is integral to with the service planning process. The workforce data, trends and changes are analysed quarterly and reported annually to the relevant service committee; • Workforce data is reviewed regularly to inform business decisions with a focus on future requirements such as training or identification of and addressing skills gaps. One example is absence data showing mental health as an area of concern and this informed the focus on mental health during 2018/19; • Monthly workforce management meetings aim to improve data and its use in supporting managers; and • An annual training needs analysis facilitates the efficient procurement and delivery of learning opportunities.
Be able to demonstrate how spending decisions and priorities	Savings and efficiency options reported to Elected Members describe the impact on

have impacted on service delivery and the outcomes of residents, as well as how they are delivering against the national performance framework.	the community. The Council has a set of Corporate Priorities which are embedded with a performance scorecard identifying the expected and measured outcomes to the Council and community. Performance against the national framework is also reported regularly identifying areas for improvement.

4.3 To help councillors, the following supplements have been produced to accompany this report:

- A scrutiny tool which captures a number of potential questions for councillors. This is attached at Appendix 2 and is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's position and to scrutinise performance; and
- An on line tool which shows how councils are performing. It is designed to allow councillors, officers and members of the public to better understand how their council is performing compared to others. The link to the on line tool is:

http://www.audit-scotland.gov.uk/local-government-in-scotland-challenges-and-performance-2019

5. People Implications

5.1 There are no direct people implications arising from this report.

6. Financial and Procurement Implications

6.1 There are no direct financial or procurement implications arising from this report.

7. Risk Analysis

7.1 Taking cognisance of the key messages in the report will help councillors and senior council officers in their complex and demanding roles.

8. Equalities Impact Assessment (EIA)

8.1 There are no equalities issues arising from this report.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

10.1 The report is for noting and, therefore, does not directly affect any of the strategic priorities.

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Stephen West
Strategic Lead - Resources
Date: 13 May 2019

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Appendix:	Appendix 1: Accounts Commission report: *Local government in Scotland Challenges and Performance 2019* Appendix 2: Scrutiny tool for councillors
Background Papers:	On line tool available at: http://www.audit-scotland.gov.uk/local-government-in-scotland-challenges-and-performance-2019
Wards Affected:	All Wards

Local government in Scotland

Challenges and performance 2019
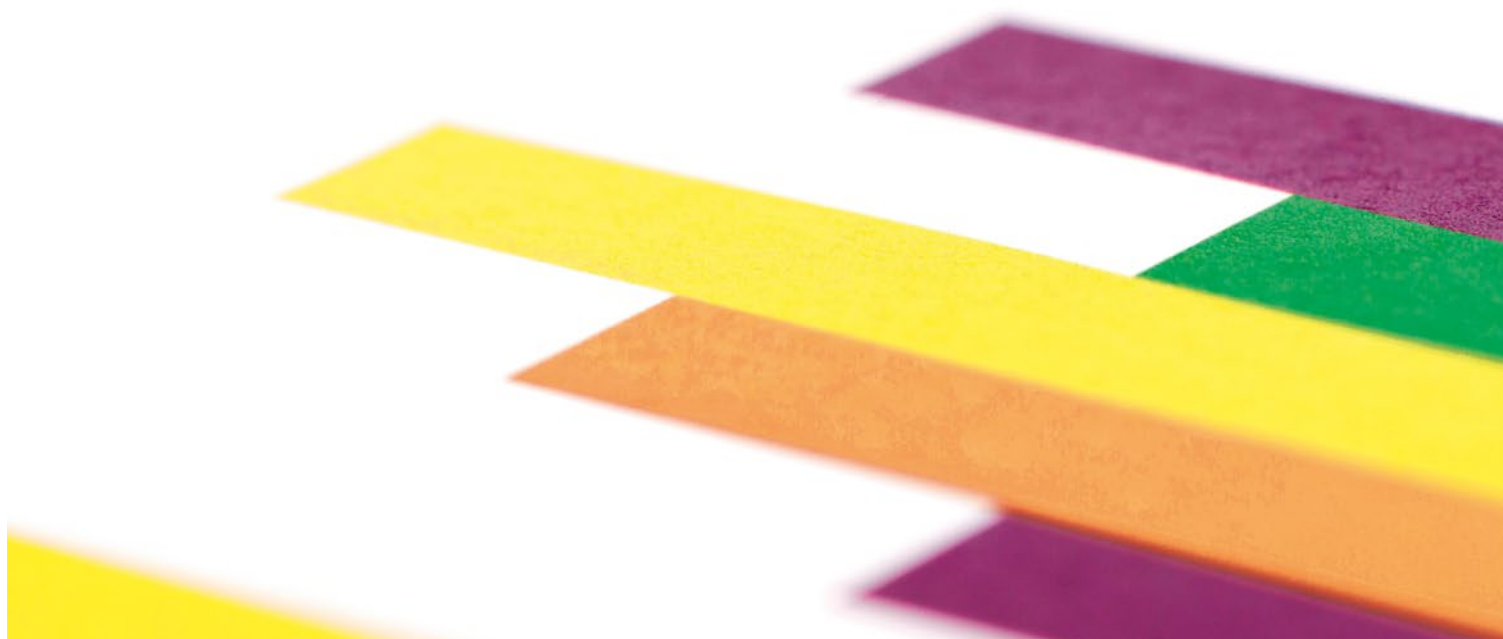
ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 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

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📊 **Exhibit data**

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

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

Audit team

The core audit team consisted of: Carol Calder, Kathrine Sibbald, Ashleigh Madjitey and Ruth Azzam, with support from other colleagues and under the direction of Claire Sweeney.

Chair's introduction

Councils have an increasingly challenging role. They need to respond to the changing needs of their local population. At the same time, they have a pivotal role in helping to deliver a range of key national priorities for Scotland. This is at a time when the outlook is for finances to tighten further and for demand for services to continue to increase, as populations change and there are more people living in poverty.

The important role councils play is clear, but there are many uncertainties, which makes planning for the future more challenging as it becomes more critical than ever. The UK's withdrawal from the EU is imminent as I write this introduction, but the process and implications remain unclear. The medium to longer-term impact of changes to the Scottish Government's financial powers and the details surrounding the local governance review are also still unknown.

However, we find that councils across Scotland have continued to work hard to maintain services to their communities, despite the increasing challenges and pressures. They have stepped up and have continued to improve how they use their resources. But, in many councils the change and improvement work has focused on efficiencies. To address the growing gap between demand and resources, more fundamental, transformational changes are needed in service provision, and the pace of change needs to improve in some councils. Transformational change is about more than just efficiency. There needs to be a focus on how services are best delivered to communities and, in particular, how councils protect and empower the most vulnerable members of those communities.

Objective and relevant data are essential. Nationally, across councils, data are fundamental for the assessment of performance, benchmarking and improvement. Locally, data should support the redesign and change of processes and services. It is important for councils to have good-quality workforce data to inform organisation-wide workforce planning that supports the shape of future operations.

The pressure on council budgets has led to the exploration of alternative approaches to increasing income such as extending fees and charging schemes and the options for introducing local taxes. This is a development of interest to the Commission that we will monitor and consider in future overview reports.

We published an update report *Health and social care integration* ⊕ in November 2018, which found that although integration authorities have made some progress they must overcome significant barriers to speed up change. The Commission will continue to have a close interest in the progress of integration authorities and in their financial management.

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

Graham Sharp
Chair of the Accounts Commission

Summary

Key messages

1 Councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. Councils are also central to delivering many high-level public sector objectives, such as the integration of health and care services and involving citizens more in decisions about public services.

2 These reforms require councils to collaborate with partners, with the third sector and with communities, to think differently about how they deliver and fund services. Thinking differently about services is important to meet the growing and changing needs of their communities in the coming years. New ways of working can lead to increasingly complicated lines of accountability.

3 Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile. All councils expect an increase in the proportion of people aged over 65 and almost a third of councils expect an increase in the proportion of children under 15.

4 Councils have made good progress in developing medium-term financial planning and continue to manage their funding gaps through savings and use of reserves. All councils increased council tax to the maximum three per cent in 2018/19 and many increased their fees and charges to raise income. Some councils are looking at other options to raise income.

5 Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, but national workforce data is insufficient to clearly understand how individual services areas are affected.

6 Despite reducing funding and increasing demands, across local government most performance indicators are improving or being maintained, although some service areas show more strain. There remains performance variation among councils that cannot be readily explained by differences in context or spend. Better use of data and benchmarking could lead to further improvement and efficiencies.

Recommendations

While councils have continued to find ways to manage funding gaps and have made good progress with medium-term financial planning, they face an increasingly complex, changing and uncertain time ahead. To continue to improve the outcomes for their communities within this context, councils need to be open to transformational change and implement new ways of working.

To make effective progress councils should:

- assure themselves that they have adequate leadership and management capacity in place. This should include development arrangements that prepare and support councillors and senior managers to respond to the challenging and changing local and national demands

- undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands

- continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change

- improve data to:
  - help inform the difficult decisions councils have to make
  - support benchmarking, learning and sharing of experience and effective practice with others that will contribute to improving service quality, efficiency and outcomes for communities

- ensure they have workforce planning that is clear about the workforce needed now and in the future, where the gaps are and what training or other action is needed to fill them. This should be supported by better workforce data

- be able to demonstrate how spending decisions and priorities have impacted on service delivery and the outcomes of residents, as well as how they are delivering against the national performance framework.

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About this report

1. This report provides a high-level, independent view of the challenges facing councils in Scotland, how councils are responding to tightening budgets and how this has affected services. It draws on findings from *Local government in Scotland: Financial overview 2017/18* ⊕, published performance data and local government audit work in 2018. This includes annual audits, Best Value Assurance Reports (BVARs) and national performance audits. All national and individual council audit reports are available on our website ⬉.

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

- The current and future challenges facing councils.

- How councils are responding to these challenges.

- The impact on performance in key service areas and public satisfaction.

3. To help councillors, we have produced the following supplements to accompany this report:

- *A scrutiny tool* ⊕ with examples of questions that councillors could ask to help them understand their council's position, scrutinise performance and assist in making difficult decisions. Councillors should feel they fully understand, and are satisfied with, the answers to the questions that are most relevant to them in their role within the council.

- An online tool ⬉ that shows how councils are performing. It is designed to allow councillors, officers and members of the public to better understand how their council is performing compared to others.

4. We draw on a range of sources of evidence for this report. Financial information is taken from the Local Government Financial Circulars,[1] Local Government finance statistics,[2] the Scottish Government's provisional outturn and budget estimates[3] and councils' annual accounts. Performance information is gathered from the Local Government Benchmarking Framework (LGBF),[4] the National Performance Framework (NPF) indicators[5] and relevant reports from other scrutiny bodies, such as Education Scotland and the Care Inspectorate.

5. To make financial information clear and comparable in the report we:

- Refer to real terms changes, this means we have adjusted the figures to take account of inflation. Our analysis of local government funding adjusts figures into 2018/19 prices to reflect the current year.

- Look at historical trends in financial data using data from 2013/14 where possible. National police and fire services were established in 2013 and so were not included in local government accounts from 2013/14. It is not always possible to use 2013/14 as some information is only available for more recent years.

- Adjusted figures to 2017/18 costs where the report comments on council performance in 2017/18.

Part 1

The context for councils

Councils must respond to an increasingly complex policy agenda while dealing with a high degree of uncertainty

6. Councils have a responsibility to provide a wide range of services to their residents and communities. These include educating children, looking after the elderly, collecting bins, maintaining local roads and ensuring buildings meet safety standards. Councils' work is influenced by the wider economic and political environment, UK and Scottish Government policy and demographics.

7. The context that councils are working in has become characterised by reducing budgets (paragraphs 25–36), increasing demand for services (paragraphs 37–41) and the delivery of an increasingly complex range of national policies. Within this challenging context, councils need to continue to work towards local priorities and improving outcomes for their communities. Exhibit 1 (page 11) illustrates some of the major current examples of policy and legislative change.

8. Some policy changes by the UK and Scottish governments increase expectations on councils, many come with financial implications and others increase uncertainty. Significant current issues include:

- Withdrawal from the European Union (EU) – At the time of writing this report, it is planned that on 29 March 2019, the UK will leave the EU. As the process is still on-going there is a high level of uncertainty about what this will mean for councils, which makes planning difficult. This is an area which is fast changing and will have a long-term impact on councils.

- Scotland's new financial and social security powers – The 2012 and 2016 Scotland Acts introduced new financial and social security powers. As a result, Scotland's budget is influenced by Scottish ministers' tax decisions and how well the Scottish economy performs compared to the rest of the UK. This means the Scottish budget is likely to become more variable than it has been through the block grant from the UK Government. In its five-year strategy, the Scottish Government estimates that the Scottish budget could vary by up to six per cent by 2022/23.[6] If the Scottish budget varies, funding to local government through the Scottish Government settlement will also be affected, in particular, services that are not financially protected as Scottish Government priorities.

- Local governance review – In 2018, the Scottish Government and COSLA launched a review of how powers and responsibilities are shared across national and local government and with communities. The aim of the review is to give local communities more say in how public services in their area are run. The Scottish Government and COSLA plan to continue consulting with stakeholders through 2019 as legislation is developed. It is not yet clear how this review will affect councils and how it will affect partnership working with other organisations, such as the NHS.

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

What scenario planning has your council done for events such as EU withdrawal and increasing budget uncertainty?
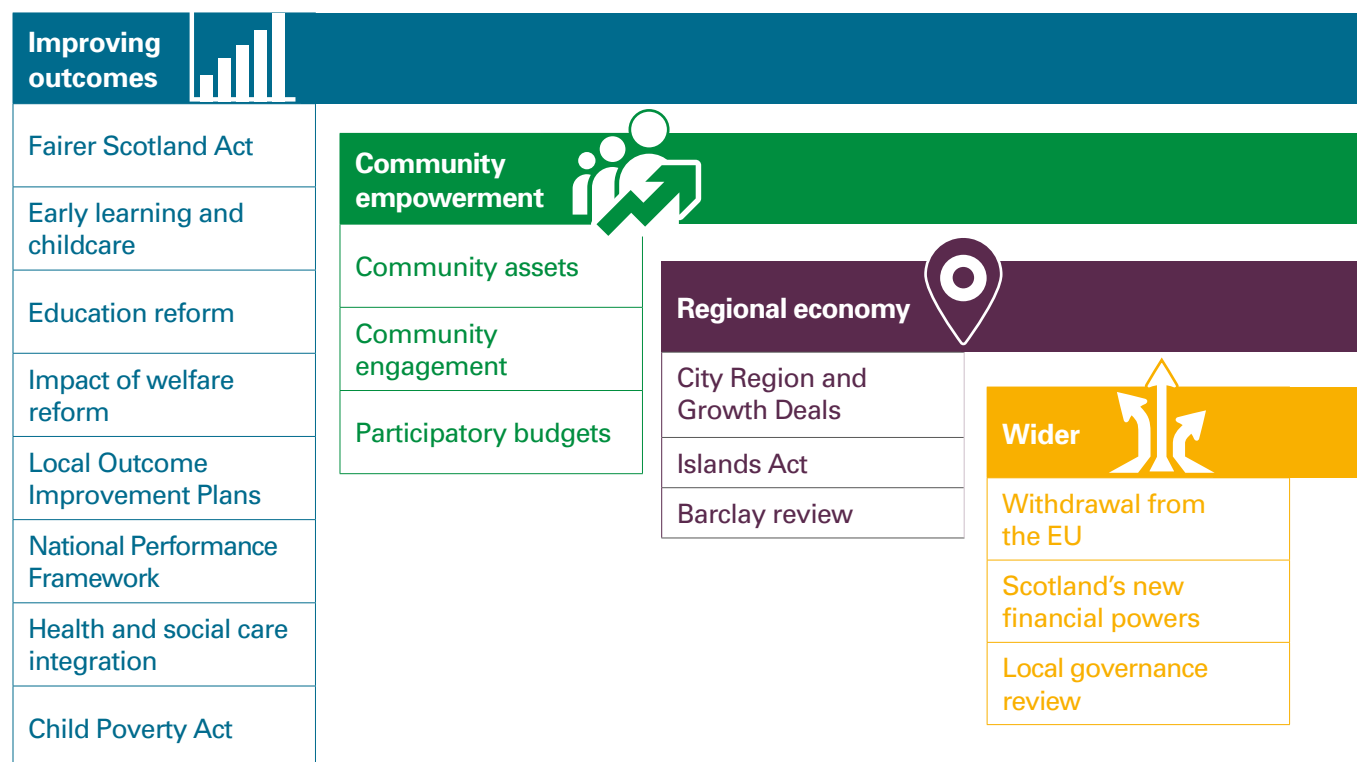
Audit Scotland published a briefing paper on the *EU withdrawal* ⊕ in October 2018 highlighting the risks including workforce, funding and financial implications.

Audit Scotland has produced a policy briefing on *new financial powers* ⊕

Exhibit 1
Current major policy and legislative changes affecting local government
Many of the changes in national policy are interdependent.

Improving outcomes
Fairer Scotland Act
Early learning and childcare
Education reform
Impact of welfare reform
Local Outcome Improvement Plans
National Performance Framework
Health and social care integration
Child Poverty Act

Community empowerment
Community assets
Community engagement
Participatory budgets

Regional economy
City Region and Growth Deals
Islands Act
Barclay review

Wider
Withdrawal from the EU
Scotland's new financial powers
Local governance review

Source: Audit Scotland

9. This context makes it difficult for councils to know how they will need to respond in the future and makes longer-term financial planning challenging but even more vital. With increased uncertainty, scenario planning within medium and longer-term planning becomes increasingly important. We will continue to monitor national developments, councils' preparations and their responses to these issues through our audit work.

10. The examples in Exhibit 1 contribute to a complex picture of interacting policy initiatives. Many of the policy changes and initiatives are interdependent and will influence each other. For example, good community empowerment (giving people more influence over how services are planned) should contribute to a range of initiatives and activities that improve outcomes. This complex picture means that:

- Councillors and senior officers need to have a wide and current understanding of policy issues and how these relate to local priorities and needs, to plan and make complex decisions locally. This can be challenging where capacity is already stretched.

- It is more important than ever for councils to plan for different scenarios in terms of funding and demand for services. This includes finding different ways to deliver services efficiently and effectively.

- There is an increasing need for effective partnership working with other public, private and third-sector organisations and their communities.

Are you clear what Community Empowerment involves and what it means for your council?

Improving outcomes is a priority both at a local and national level but reporting arrangements still need to develop

11. In June 2018, the Scottish Government and COSLA launched their revised National Performance Framework (NPF).[7] All councils signed up to the priorities and vision for Scotland it sets out. There is a strong focus on increased wellbeing, improving outcomes, and economic growth that is sustainable and benefits all sections of society.

12. Councils are key contributors to delivering this vision to improve the outcomes for the people of Scotland, alongside their community planning partners. Councils and their partners need to have regard to the NPF and consider how this framework fits with local decision-making, local outcome priorities and measures. A significant amount of council activity is already focused on themes that reflect those of the NPF. For example, most councils have a strategic focus on reducing inequality within their communities.

13. Councils also have a role in delivering a range of national initiatives that will contribute to the themes of the NPF, such as:

- Delivering 1,140 hours of free childcare to all three-year olds and eligible two-year olds.

- Improving educational outcomes, especially for the most deprived pupils, through the Pupil Equity Fund (extra money to some schools with children from poorer backgrounds) and a commitment to maintain teacher numbers.

- Contributing to the delivery of 50,000 affordable homes including 35,000 for social rent.

- Implementing the requirements of the Fairer Scotland Duty which places a legal responsibility on public bodies in Scotland, including councils, to actively consider how they can reduce inequalities caused by socioeconomic disadvantage, when making strategic decisions.

Although there is ongoing work that will contribute, it is not yet clear what role councils are expected to have in achieving all of the NPF aims, what that would mean for councils' resources or how progress and targets will be monitored and reported on.

Councils cannot deliver their priorities alone

14. Councils have a long history of working closely with other organisations. This includes delivering some services through the third and private sectors and through arm's-length external organisations (ALEOs). This also includes local partnership working with other public sector bodies, such as the NHS, the third sector and other local and national organisations through local partnership activities, including Community Planning Partnerships. Councils need to build on their partnership working experience to respond to the changing context.

15. Councils face a difficult balance of a move towards more regional working and collaboration, and a need to maintain a focus on local priorities, local decision-making and local accountability. Many of the national policies introduced in recent years have involved some elements of working with partners, for example in regional partnerships to deliver economic development or through the health and social care integration joint boards.

Councils and the Scottish Government are focused on improving outcomes across Scotland. Examples of these include improving employment opportunities, reducing anti-social behaviour, giving children the best start in life and helping people live longer and healthier lives.

Do you know if your council's governance and accountability structures are fit for purpose, given increasingly complex ways of working?

If you sit on a board, do you fully understand your responsibilities to that board and the council?

Regional economic developments mean more collaborative and partnership working

16. Councils are pursuing City Region Deals and Growth Deals as ways to drive local economic growth. These involve significant partnership working. The Scottish Government has committed to all areas in Scotland being part of a deal:

- There are four signed City Region Deals in Scotland, involving 17 councils and various other partners.

- A further six councils are developing two City Region Deals.

- The remaining councils are working on alternative investment proposals, such as Growth Deals and Island Deals.

17. Councils work with their partners to propose projects to include in their deal, based on the anticipated benefits to their regional economies. The Scottish and UK governments then decide which projects to fund, typically over a ten to 20-year period. To date, the governments have jointly committed £2.1 billion to the four signed City Region Deals. This is supported by around £1.6 billion committed by councils and other partners. Most of the funding for the four signed deals has been allocated to infrastructure projects, such as roads and buildings. However, deals also include innovation, employability and skills, technology, housing and digital projects such as improved broadband. The Scottish Government expects that councils and partners signed up to deals will form Regional Economic Partnerships to work together on regional issues.

18. We are carrying out an audit of City Region and Growth deals which will be reported towards the end of 2019.

The Community Empowerment Act gives citizens a greater role and this requires a change in how councils operate

19. The Community Empowerment (Scotland) Act 2015 gives people more influence over how their councils and their partners plan services. It is intended that councils will devolve power to communities to make a difference to their local areas through:

- Community asset transfers – where communities can take responsibility for land and buildings.

- Participation requests – where people can ask to take part in decisions about council services.

- Participatory budgeting – where communities can have a say in how the council should spend public money locally.

20. As part of the Act, local authorities also have statutory oversight of community councils and are required by statute to consult community councils about planning applications and licensing matters.

21. Councils are considering how they balance an increase in community involvement with a responsibility and accountability for the sustainability of services delivered to their citizens. Some progress is being made with community empowerment, particularly with ensuring formal arrangements are in place. We consider this further in Part 2 (paragraphs 70–78).

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City Region and Growth Deals are long-term agreements between the Scottish Government, the UK Government and councils to improve regional economies.

Accountability is increasingly complex

22. A result of a more collaborative way of working is an increasingly complex governance and accountability landscape. This has implications for councils:

- Councillors now sit on more boards than before. In our May 2018 report, *Councils' use of arm's-length external organisations* ⊕ (ALEOs) we noted that this can make it difficult for small councils to manage potential conflicts of interest.

- There can be disagreements around shared governance arrangements. In our *Health and social care integration update* ⊕ report we noted that a lack of collaborative leadership and different cultures in councils and health boards were affecting the pace of change.

- Councils still have a responsibility to track performance management and provide scrutiny proportionate to the risk involved. The roles of councillors and officers in overseeing collaborative activities needs to be clear.

- There is a duty to ensure that communities are involved in decision-making processes where appropriate. This may be more difficult to manage with more complex governance structures.

23. The discussion and decision-making on some issues is moving further from councils themselves, but councils retain the overall accountability to the local community. It is increasingly important that councillors and officers have an appropriate understanding of their roles and skills, including in governance and leadership, when leading work delivered through complex partnerships, boards and other mechanisms.

24. Formal governance arrangements must be kept current to cover local decisions made about representation, delegation, scope of responsibilities and reporting. Councils, and their partners, should ensure arrangements meet their needs but take care to minimise additional complexity of governance arrangements as new ways of working are adopted.

Scottish Government funding to councils has reduced in real terms since 2013/14 but increased slightly between 2018/19 and 2019/20

25. Councils need to continue to deliver on the increasingly complex range of local and national priorities and initiatives, despite several years of reducing funding and increasing demands on services. Between 2013/14 and 2019/20, total revenue funding has fallen six per cent in real terms. Scottish Government funding to councils is forecast to continue to reduce in the medium-term.

26. Scottish Government funding is the largest source of income for councils. Overall, total revenue funding will increase by 1.1 per cent in real terms between 2018/19 and 2019/20 (Exhibit 2, page 15).

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Governance describes the structures, systems, processes, controls and behaviours for managing activities.

Accountability is the way individuals or groups are held responsible for managing and planning how resources are used and how well performance aims are achieved. For example, chief executives in councils are accountable to councillors.

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Revenue funding is funding from Scottish Government to councils for day-to- day services.

Total revenue funding consists of general resource grants, specific revenue grants and non-domestic rates income (NDR).

Core revenue funding includes the general resource grant and non-domestic rate income, and reflects the funding councils have control over to provide services.

Exhibit 2
Funding from Scottish Government to councils
Total revenue funding increased slightly between 2018/19 and 2019/20.

Cash				Change 17/18 to 18/19		Change 18/19 to 19/20		Change 17/18 to 19/20	
	2017/18 (£m)	2018/19 (£m)	2019/20 (£m)	Cash (%)	Real (%)	Cash (%)	Real (%)	Cash (%)	Real (%)
General Resource Grant	6,808	6,885	6,718	1.1	-0.7	-2.4	-4.2	-1.3	-4.8
Non-domestic rate income	2,666	2,636	2,853	-1.1	-2.9	8.2	6.3	7.0	3.3
Core revenue funding	**9,474**	**9,521**	**9,571**	**0.5**	**-1.3**	**0.5**	**-1.2**	**1.0**	**-2.5**
Specific revenue grants	211	274	508	29.7	27.4	85.5	82.3	140.6	132.2
Total revenue funding	**9,685**	**9,795**	**10,078**	**1.1**	**-0.7**	**2.9**	**1.1**	**4.1**	**0.4**

Note: We have used the most current information available. This means we have used 2019/20 budgeted funding and compared this with 2017/18 and 2018/19 outturn funding. This does not include £355 million allocated in 2018/19 and 2019/20 from the Scottish Government's health budget to Integration Authorities. The additional funding of £34.5 million is included in the 2017/18 cash funding column above.

Source: Audit Scotland; Scottish Budget 2019/20; Local Government finance circulars 04/2018, 08/2018, 02/2019

27. On 28 March 2018, the Scottish Government paid £34.5 million of additional funding to councils. Although this was funded from Scottish Government underspends and paid in 2017/18, it was shown as 2018/19 funding in the local government settlement:

- By recognising the £34.5 million as 2018/19 funding the Scottish Government showed an increase in funding to local government of 1.7 per cent in cash terms and 0.2 per cent in real terms compared to 2017/18.[8]

- In the 2019/20 settlement, the 2018/19 total revenue funding figures no longer include the £34.5 million. The settlement makes no reference to this adjustment or that it is included in 2017/18 funding. Taking this adjustment into account, between 2017/18 and 2018/19, the Scottish Government's total revenue funding to councils increased by 1.1 per in cash terms but this was a 0.7 per cent decrease in real terms. Our figures now include the £34.5 million as 2017/18 income.

28. The presentation of the £34.5 million within the annual settlements, and failure to refer to the change or how it has been treated, has made it harder to compare annual changes in local government funding. It is important that funding allocations are transparent and consistently applied across years to allow public bodies to plan and manage their finances effectively and support parliamentary scrutiny.

National policy initiatives make up an increasing amount of council budgets

29. A growing proportion of Scottish Government total revenue funding to councils is protected to support Scottish Government priorities. Our analysis shows that revenue funding to support specific Scottish Government policies has increased from 6.6 per cent of total revenue funding (£643 million) in 2018/19, to 12.1 per cent (£1.2 billion) in 2019/20 (Exhibit 3, page 17). This is because:

- The Scottish Government funding that must be spent on specific policy initiatives (specific revenue grants), such as the Pupil Equity Fund, now makes up an increasing proportion of total revenue funding. In 2018/19, this represented 2.8 per cent of total revenue funding and in 2019/20 will increase to five per cent.

- Alongside the specific revenue funding set out in the settlement, several of the Scottish Government's policy initiatives have funding attached to them. Although these are not explicitly ring-fenced, if the council does not meet the objectives it may lose out on the funding. These have grown from 3.8 per cent of total revenue funding in 2018/19 to 7.1 per cent in 2019/20 and are predominantly for education and social care services.

If these funding obligations are excluded from councils' total revenue funding, the amount remaining was £9.2 billion in 2018/19 and £8.9 billion in 2019/20. This is a decrease of £449 million in real terms, five per cent of 2019/20 total revenue funding.

30. Councils face other obligations which limit where they can make savings, for example:

- Councils must make repayments on their debt. In 2018/19 they budgeted to spend £1.2 billion, ten per cent of their budgeted net revenue expenditure, on debt repayments.

- In December 2018, COSLA made a pay offer for a three-year settlement for 2018/19 to 2020/21. The offer included an increase of 3.5 per cent for 2018/19 (capped at £80,000) and a three per cent increase in each of the following years. Any settlement that is accepted will need to be funded from revenue funds.

- In February 2019, Glasgow City Council approved the settlement of its equal pay claim. It has agreed to make payments of around £548 million (44 per cent of its 2019/20 revenue funding from Scottish Government and council tax) in 2019/20. Our auditors will monitor this as part of the annual audit work.

- In 2019/20, councils can only reduce their allocations to Integration Authorities by 2.2 per cent compared to 2018/19.

31. Social care and education make up a large proportion of councils' budgets. In 2018/19 councils budgeted to spend £3.3 billion on social care and £5.2 billion on education. This includes £2.4 billion on primary and secondary teachers' salaries. Together, this represents 69 per cent of their net revenue expenditure. Although it is possible for councils to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging.
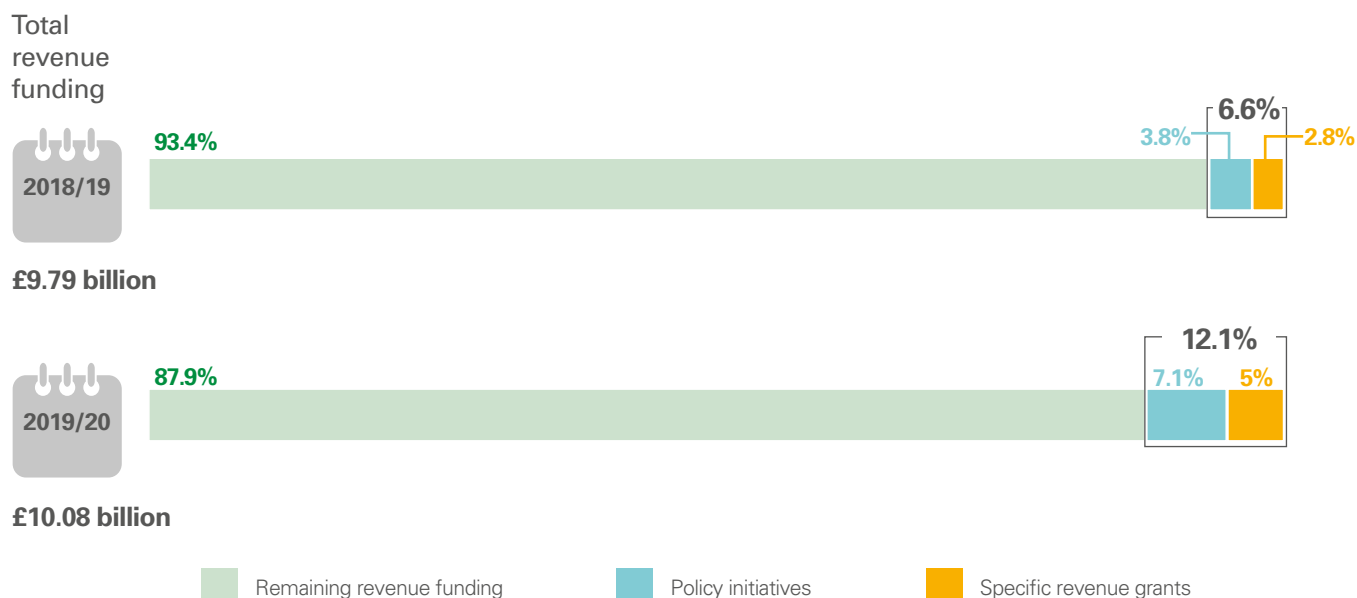
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Net revenue expenditure is financed through Scottish Government funding, council tax and the use of reserves.

Individual revenue allocation consists of Total revenue funding and assumed council tax contribution.

Exhibit 3
Spend on national priorities in 2018/19 and 2019/20
In 2019/20 councils will spend 12.1 per cent of their revenue funding meeting national priorities.

Total revenue funding

2018/19
93.4%   6.6%   3.8%   2.8%

£9.79 billion

2019/20
87.9%   12.1%   7.1%   5%

£10.08 billion

Remaining revenue funding   Policy initiatives   Specific revenue grants

Source: Audit Scotland, Local Government finance circular 2/2019, Scottish Budget 2019/20

32. As a result, as we have previously reported, councils have made larger reductions to services other than education and social work. These include economic development, waste management and planning services, which are still important for maintaining the health, safety and wellbeing of residents. Between 2013/14 and 2017/18 spending was reduced as follows:

- planning and development services (28 per cent)

- cultural and related services (14 per cent)

- roads and transport (seven per cent).

33. The Commission recognises that councils cannot be expected to deliver continuous performance improvement across all services in the current financial climate. Councils should set their priorities and invest in line with them. However, it is more difficult to do if increasing amounts of their budgets are protected. There is a risk that these budget reductions will have an impact on the sustainability of services as they are currently delivered. Councils need to continue to seek innovative ways to improve the efficiency of how they deliver all services and be clear about the anticipated impact on performance and service scope.

Some council service areas can expect further funding reductions
34. The Scottish Government's five-year strategy sets out its spending priorities to 2022/23; these are health, police, early learning and childcare, secondary school attainment, higher education and social security. Council services outside

education and early years are not identified as Scottish Government priorities and so will be disproportionately affected by any reductions to the Scottish budget. We calculated that other services outside the Scottish Government's priorities could face between one and 16 per cent real terms reduction to their budgets.[9]

Councils are managing reducing budgets despite local challenges

35. We have previously reported that councils will have their own social and demographic circumstances to manage alongside funding reductions. An ageing population increases demand for social care services, rurality can make it more difficult to deliver services cost-effectively, and deprivation and poverty have wide-ranging impacts which can affect council services. However, the majority of revenue funding is allocated according to the size of the council's population. Other factors are not always as clearly reflected in the funding allocations (Exhibit 4, page 19). For example:

- Eilean Siar and Argyll and Bute have seen some of the largest reductions in their funding allocations since 2013/14 due to a declining population but are also two of the most rural areas and have growing elderly populations.

- Some of the councils with high levels of deprivation, including Inverclyde, Glasgow and West Dunbartonshire, have also seen higher than average reductions to their core budgets.

36. Medium and long-term scenario planning will help councils understand what the likely implications are for them which will in turn help inform how best to provide services in the future.

Population change is affecting demand for services.

37. Demographic pressures, including an ageing population continue to increase the demands on council services. Over the period 2016 to 2041, ten councils expect an increase in both the over-65 population and the under-15 population. The Improvement Service estimates that, because of changing demographics, demand for services will increase by 2.6 per cent between 2018/19 and 2019/20. This represents an additional £248 million of spend for councils.[10]

38. All councils are projected to have an increase in the number of people over 65 by 2041. West Lothian council has a projected 45 per cent increase in the over-65 age group, the highest in Scotland. An ageing population represents a significant challenge for councils especially in delivering social care services:

- The Institute for Fiscal Studies estimates that over the next 15 years, social care funding in the UK will need to increase by 3.9 per cent in real terms each year to meet the needs of an ageing population and more younger adults living with disabilities.[11]

- The Scottish Government estimates an additional £683 million will be required by 2023/24 to meet additional social care demand.[12]

39. Ten councils are expected to see an increase in the proportion of people aged under 15 during the period 2016 to 2041, while 22 expect a decrease. For example, East Lothian Council expects its under 15-year-old population to increase three times faster than the Scottish average between 2016 and 2026. This increase means the council will need to fund:
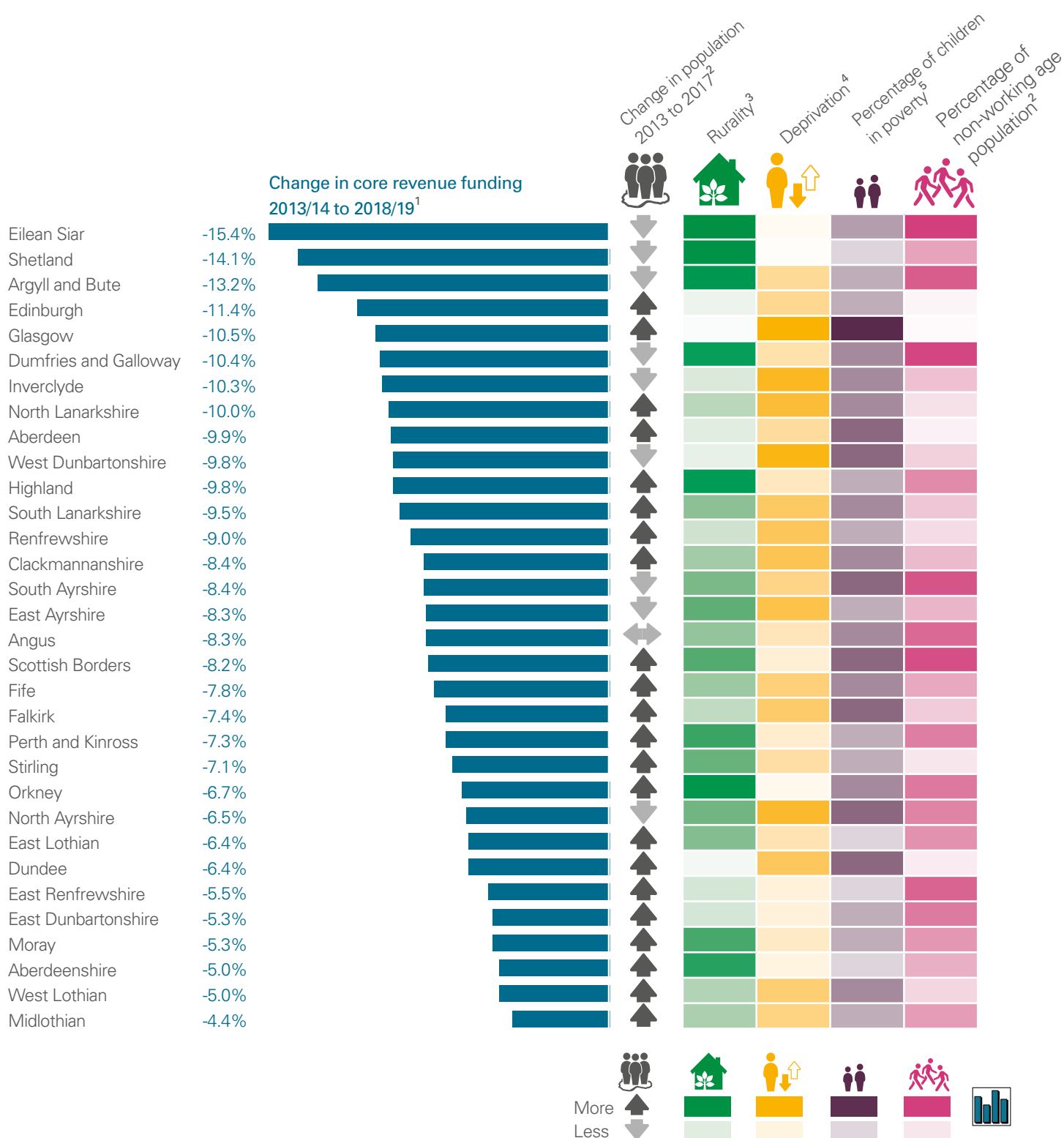
Do you have a clear understanding of the demographic circumstances within your council area?

Do you know how effectively your council uses this information to decide how to provide services in the future?

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Exhibit 4

Changes to council core revenue funding in real terms between 2013/14 and 2018/19, illustrated with socio-demographic factors that can impact on service demand and costs

Demographic change, rurality and deprivation will all have implications for council services. The majority of core revenue funding is allocated based on population factors so funding reductions largely follow population change.

Council	Change in core revenue funding 2013/14 to 2018/19[1]	Change in population 2013 to 2017[2]	Rurality[3]	Deprivation[4]	Percentage of children in poverty[5]	Percentage of non-working age population[2]
Eilean Siar	-15.4%					
Shetland	-14.1%					
Argyll and Bute	-13.2%					
Edinburgh	-11.4%					
Glasgow	-10.5%					
Dumfries and Galloway	-10.4%					
Inverclyde	-10.3%					
North Lanarkshire	-10.0%					
Aberdeen	-9.9%					
West Dunbartonshire	-9.8%					
Highland	-9.8%					
South Lanarkshire	-9.5%					
Renfrewshire	-9.0%					
Clackmannanshire	-8.4%					
South Ayrshire	-8.4%					
East Ayrshire	-8.3%					
Angus	-8.3%					
Scottish Borders	-8.2%					
Fife	-7.8%					
Falkirk	-7.4%					
Perth and Kinross	-7.3%					
Stirling	-7.1%					
Orkney	-6.7%					
North Ayrshire	-6.5%					
East Lothian	-6.4%					
Dundee	-6.4%					
East Renfrewshire	-5.5%					
East Dunbartonshire	-5.3%					
Moray	-5.3%					
Aberdeenshire	-5.0%					
West Lothian	-5.0%					
Midlothian	-4.4%					

More / Less

Note: The darker the colour the more significant an issue it may be to that council, Rurality can make it more difficult to deliver services cost effectively, an ageing population increases demand for services and deprivation and poverty can have wide ranging impact on residents and councils (Paragraph 41).

Sources: 1. Scottish Government financial circulars 2013, 2014 and 2019. 2. National Records Scotland mid-year population estimates 2013 and 2017. 3. Scottish Government Urban Rural Classification 2016. 4. Scottish Index of Multiple Deprivation 2016. 5. Children in families with limited resources across Scotland 2014-16, Scottish Government, 2017.

- the capital cost of building four new primary schools and a secondary school

- the costs of developing the roads and utilities to these developments

- the day-to-day costs of running and staffing the schools.

The number of people living in poverty has increased, putting additional pressure on council services

40. The Scottish Government reports that relative poverty rates are slowly increasing and that since the period 2012 to 2015, there has been a rise in income inequality. Between 2013 and 2016, the top ten per cent of the population in Scotland had 21 per cent more income than the bottom 40 per cent; in 2014 to 2017 this increased to 24 per cent more income.[13] The Joseph Rowntree Foundation also reported an increase in child poverty rates during this period.[14]

41. There are implications for councils from more residents living in poverty, as they are more likely to need support from their council or have difficulty paying their council tax or rent:

- As part of the Child Poverty Act, councils are expected to produce an annual joint report with the NHS on their activities to address child poverty at a local level. It is not clear what resources councils will choose to allocate to their child poverty duties and reporting arrangements, but it may be substantial for those councils with high or growing rates of child poverty.

- Libraries now help people apply for benefits using their computers but a survey by Citizen's Advice found that people from the most deprived areas were less likely to be able to use a computer than those from the least deprived areas. It also found that of people seeking benefits advice, 25 per cent would need help and 27 per cent would not be able to manage at all.[15]

- There is also evidence to suggest that individuals' levels of debt have increased, and this could affect councils in council tax collection or rent arrears. The Joseph Rowntree Foundation found that in the UK six per cent of adults in the most deprived areas had council tax debt compared to 0.1 per cent in the least deprived.[16]

- Council accounts show that rent arrears have increased by nine per cent between 2016/17 and 2017/18; as councils have different procedures for managing and writing off rent arrears the level varies by council. The National Audit Office (NAO) found that local authorities in England reported higher rent arrears following the introduction of Universal Credit.[17]

- Homelessness applications have increased by one per cent between 2016/17 and 2017/18. During this period 17 councils saw an increase in the number of applications. Of those assessed as homeless or threatened with homelessness, 47 per cent had at least one additional support need, such as mental health problems, compared to 34 per cent in 2012/13.[18]

Part 2

How councils are responding

42. In Part 1 we described the complex financial, policy and legislative challenges that councils face. Effectively led councils are clear about how these issues impact locally. They also recognise that the financial and demand pressures mean that planning and implementing changes to find efficiencies alone is no longer enough and the redesign of service delivery is needed. Part 2 focuses on some of the main considerations for councils and how they are responding to this need.

Transformational change requires strategic leadership, planning and good governance

43. Councils have worked hard to make efficiency savings. These have mostly focused on service review and improvement activity, property rationalisation, and improvements in back office functions such as human resources, payroll and finance systems. In many councils, these activities are unlikely to be sufficient to address the growing gap between demand and resources, and more fundamental changes are needed.

44. In making more fundamental changes councils have different approaches; many have a transformation programme, although it is not always called this, whereas some integrate service redesign work into mainstream council management and improvement activity. Transformation activity does not have to change everything at once; it can deliver change incrementally.

45. Making change through transformation to the services and functions of the council requires effective leadership and good governance arrangements. Transformation and change initiatives should contribute to the council's strategic and outcome priorities. It should also be a consideration in strategic planning. This includes decisions relating to arrangements such as:

- implementing digital approaches

- financial planning and funding approaches

- working in partnership

- community empowerment activity

- workforce planning and development.

These issues are all linked, and their interdependence needs to be understood by councillors and senior management.

Do you understand how your council's approach to transformational change will improve services and save money?

How will you monitor and scrutinise progress of transformational projects?

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

Do you know what the financial repercussions will be if your council's transformation activity fails to meet its savings targets?

46. To make good decisions about opportunities and options for change, councils need to ensure that they make effective use of good-quality information and data. This includes benchmarking with other councils and using performance information to identify and understand why performance varies across councils and where this offers opportunities to improve. Part 3 of this report sets out an overview of current performance across councils and some notable variances.

Good transformation is well scoped, addresses the needs of people who use services and should have proportionate governance structures.
47. The aim of transformational change is to improve outcomes for service users by making services to communities more efficient and effective. Transformation requires moving away from established ways of delivering services and this can bring considerable challenges. Successful projects dedicate time at the start to fully understand the issues that need to be addressed. To deliver transformative change, councils should:

- Adopt a holistic approach to service design. Transformation benefits from different departments working together to find the best solutions to improving services.

- Engage with service users and staff from the outset, to make the right decisions about where problems and opportunities lie, and what needs to change.

- Allow time for staff involved in transformation to properly scope and appraise options before committing to savings estimates.

To do this councils will have to consider how to incorporate some flexibility and freedom into their change and improvement arrangements, to allow some of the early thinking and design work to take place. This is difficult when budgets are reducing.

48. Good governance arrangements and effective management are essential in enabling the successful delivery of transformation activity. Councils report that they are adopting some key elements of good governance. Almost all councils have specific planning, decision-making and reporting arrangements in place for transformational or change activities. Over two-thirds show evidence of using options appraisals and around half have a dedicated team of staff to support change and transformation.

49. Good transformation should result in a service that better meets the needs of the people that use it, as well as being more efficient. There is scope for councils and other public bodies to share examples of successful transformation activity and learn from each other. Examples include:

- NHS Highland and partners have adapted homes in the 'FitHome' village in Dalmore to enable residents, who are elderly or have physical disabilities, to live safely and independently. The adaptations include sensor equipment that captures data as residents move around their homes and can be used to predict and prevent events such as falls. The first 14 residents moved into their new homes in Summer 2018.

- Glasgow City Council's family group decision making aims to allow children to remain within their wider family group rather than being taken into care.

Is your council's transformation activity supported by good governance arrangements and robust management?

Do you know if the governance arrangements factor in time needed to ensure projects are properly scoped?

Children and their families are involved in creating a plan to meet the child's needs. There are more than 1,300 children looked after by extended family or close friends, known as Kinship Care, in Glasgow. They are supported by 1,017 Kinship Carers with an annual budget of £8.1 million.

There are examples of digital approaches being used to drive improvement

50. Thirty-one councils are involved in the Digital Office (DO) for Scottish local government, a collaborative organisation created to improve the core digital skills held by council workers, digital leadership, and digital services within councils. All councils play an active role in delivering the projects that the DO runs by taking the lead on projects where their officers have expertise. This approach:

- pools in-demand skills and expertise

- shares best practice amongst councils

- fosters a strong culture of collaborative support.

51. Through the DO, councils are sharing their experience of using digital technology to improve service delivery. Some examples include:

- The E-sgoil programme in Eilean Siar uses technology to allow pupils to access teachers, classes or resources from any school within the council or elsewhere in Scotland. Previously a lack of teachers restricted the range of subjects the council could offer. The programme has been offered to other schools and is being used by some other councils. Comhairle nan Eilean Siar is now considering whether it could raise income by extending the programme's reach to other groups from outside the council area.

- City of Edinburgh Council has been working with a private company on its tram systems, using artificial intelligence to identify potentially hazardous situations and ensure that they are avoided.

- Glasgow City Council used data to change its approach to tracking and allocating school clothing grants in Glasgow. It was able to identify those eligible for a grant by analysing data it had already collected. This allowed them to identify 5,000 families who were entitled to funding but had not previously claimed.

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Digital technology:

Technologies used by councils to deliver services and change the way that residents and staff interact with the council.

There are specific challenges that councils need to recognise to successfully deliver digital transformation

52. People increasingly expect to be able to access services online, and digital provides many options for transformation within a council. However, digital approaches will often be only part of the solution. In many cases, digital can improve services and make them more efficient, but more complex or unusual tasks may require other approaches. Digital transformation also has specific features that councils need to consider:

- Not all service users will be able to access digital services. It is often the most vulnerable within society who have the greatest need for council services but who are least able to access them digitally. They include people living in poverty, the elderly, people living in remote rural locations,

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and people living with mental and physical disabilities. By enabling digital access to services for those who are able to use them, staff and funding can be redirected to provide other options, such as face to face or telephone contact, for those who struggle to engage through digital platforms or have more complex problems.

- Procurement of digital-enabled projects may be different to other things the council buys; so its existing arrangements may not be appropriate. Councils should understand that potential savings may not be immediately quantifiable, that investing for the future may be necessary, and that 'agile' management (where projects are broken down into small stages and adapted frequently), may be the best option. For this approach, councils need to invest in training staff and leaders.

- Digital projects can bring significant cultural change to councils. Those leading and managing change need to be sensitive to the potential for disruption in the working environment and for individuals in particular roles. Councils need to ensure that their workforce is included and informed at every stage of a digital change programme.

- Digital projects need to be led and staffed by officers with the right skills in the relevant areas. These skills can be difficult to find in the wider workforce and come at a high cost. The DO has been working with councils to develop these skills.

- The failure of digital projects can open a council up to the risk of losing data or of data being accessed and exploited by external groups. The internal mishandling of data could also leave councils vulnerable to being penalised for General Data Protection Regulation non-compliance.

53. Before embarking on digital transformation activity, councils should understand these challenges and the complexity of what they are trying to do. Our *Principles for a digital future* ⊕ briefing sets out five principles that should be considered when planning and delivering digital programmes. We will be carrying out an audit on digital progress in local government in 2020/21 which will consider councils' digital activity in greater detail.

Good progress has been made with medium-term financial planning

54. The Commission has previously commented on the importance of medium and long-term financial planning, particularly in the context of the increasing financial challenges and wider demands on services.

55. Funding settlements from the Scottish Government to councils continue to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term, given such a significant proportion of their income comes from Scottish Government funding.

56. In 2018/19, councils reported a funding gap of £0.3 billion (two per cent of expenditure), £0.1 billion less than in 2017/18. Councils planned to address this through making savings, using reserves and increasing fees and charges.

57. The need to find and deliver savings is expected to continue. We emphasise the increasing importance of medium and long-term planning to manage these

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

financial challenges and to make well-informed decisions which are aligned to council priorities. Medium-term financial planning has been adopted by almost all councils, but less than half have significant long-term plans. Of those councils with longer-term plans, only five consider the impact of population and demand change on their services. The Commission encourages all councils to continue to develop and refine their medium and long-term planning and the use of scenario planning to support both.

Councils are under pressure to find different ways to increase income

All councils increased council tax by the maximum allowable three per cent in 2018/19 for the first time since the council tax freeze was lifted

58. As revenue funding has fallen in real terms, council tax represents an increasingly large proportion of the total funding available to councils, from 16 per cent in 2013/14 to 18 per cent in 2018/19. In the 2017/18 budget, the Scottish Government announced the end of the nine-year council tax freeze, but capped the amount councils could increase it by to three per cent:

- In 2017/18, 24 councils increased their council tax, including 21 that increased rates by the maximum allowed.

- In 2018/19, all councils increased council tax by three per cent.

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

59. In 2017/18, an estimated additional £110 million was raised through council tax reforms, these included a change to higher rate council tax bands and an end to council tax relief on second homes.

Councils have looked for other ways to increase income

60. We reported in our *Local government in Scotland: Financial overview 2017/18* ⊕ that there is variation in how councils approach increases to charges. Some councils are making increases to all charges, some are making significant increases to certain charges such as commercial waste and some are introducing new charges, for example for garden waste and public toilets.

61. From information provided by auditors, we found that councils had increased 11 types of charges by more than inflation between 2016/17 and 2018/19. The highest increases were in relation to burials. The cost of a burial plot increased by an average of 20 per cent (22 councils responded) and the cost for burial services increased by 12 per cent (23 councils responded).

62. COSLA and some councils are seeking opportunities to raise local taxes.

- City of Edinburgh Council is the first council to propose a transient visitor levy or 'tourist tax' to raise funds to manage and promote tourism in their local area. In February 2019, the council approved plans for a £2 or two per cent per room per night charge which it expects will raise up to £14.6 million.[19] It now requires legislation from the Scottish Government to implement the tax. The Scottish Government committed to a consultation on the tourist tax in January 2019.

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

Do you know what options your council is considering to maximise income?

How is your council considering the impact that these changes might have on equalities?

If your council is considering generating commercial income, do you know how it plans to mitigate the risks?

- In the 2019/20 budget the Scottish Government agreed to support an amendment from the Scottish Green Party to the Transport (Scotland) Bill that would give powers to councils to introduce a workplace levy. This means employers would pay the council a tax for any car parking spaces they offered.

Councils are considering development of commercial services, but risks need to be well managed

63. As part of longer-term financial planning, councils are considering how they can develop approaches to generate commercial income, beyond local fees and charges for current services. If councils choose to do this they need to consider; whether they have the skills and staff numbers to deliver it, the impact it may have on the local economy, and how they will mitigate the risks of investing public money in the commercial market.

64. Given that there has been more development of commercial arrangements in England, it is useful to consider the learning from this. Councils in England have experienced very significant reductions in funding (funding to local government has fallen by 49 per cent between 2010/11 and 2017/18) and have used several commercial approaches to support their finances in response.[20] The NAO reported that between 2013/14 and 2016/17, there had been a 31 per cent increase in external interest payments and a 16 per cent increase in trading profits.[21] Some councils have borrowed money to invest in property from which they then earn an income or profit. The UK Government reports that:

- spending on trading services has increased from £323 million in 2014/15 to £2.9 billion in 2017/18

- land and buildings acquisitions increased by 43 per cent in the last year to £4 billion in 2017/18.[22]

65. The Chartered Institute of Public Finance and Accountancy (CIPFA) is concerned by the level of borrowing by councils and is producing guidance for those considering this route; it has cautioned councils against:

- becoming dependent on commercial income

- taking out too much debt relative to their total spending

- taking on debt to finance commercial investments, such as shopping malls or office blocks.[23]

Good partnership working is critical if councils are to deliver priorities and improved outcomes for communities

66. The Commission has consistently highlighted the increasing importance of good partnership working in the Scottish public sector. Working well with local partners in the public, private and third sectors is becoming increasingly important as councils try to deliver more for less. Given the significance and the potential efficiencies, both financial and non-financial, that collaborative working in the public sector can achieve, this will continue to be an area the Commission will have an interest in over future years.

Does your council consider sharing services in options appraisals and change programmes?

Do you know if there are processes in place in your council to facilitate collaborative working on a local, regional or national basis?

67. Shared services are one potential approach to partnership working. Through our audit work, we have seen only a limited number of examples of councils sharing services. These include:

- East and South Ayrshire work together to deliver roads-related services through the Ayrshire Roads Alliance

- East and West Dunbartonshire share an IT data centre

- Renfrewshire, East Renfrewshire, Inverclyde and West Dunbartonshire are part of a joint emergency planning service.

Although integration authorities have made some improvements they must overcome several significant barriers to speed up change and improve outcomes

68. The Public Bodies (Joint Working) (Scotland) Act 2014 (the Act) established 31 integration authorities (IAs) which are partnerships between NHS boards and councils. They are responsible for directing almost £9 billion for the delivery of adult health and social care, and in some council areas, for other services, such as children's services. Our report *Health and social care integration* ⊕ and our *Local government in Scotland: Financial overview* ⊕, both published in November 2018, found that although progress has been made there are significant challenges to overcome (Exhibit 5).

Do you know how your council is ensuring the good governance and financial sustainability of its Integration Authority?

Do you know what your council is doing to ensure that it works with partners to be more open and realistic about changes needed?

Exhibit 5
Challenges to health and social care integration in Scotland
There are significant changes required if integration is going to make a meaningful difference to the people of Scotland.
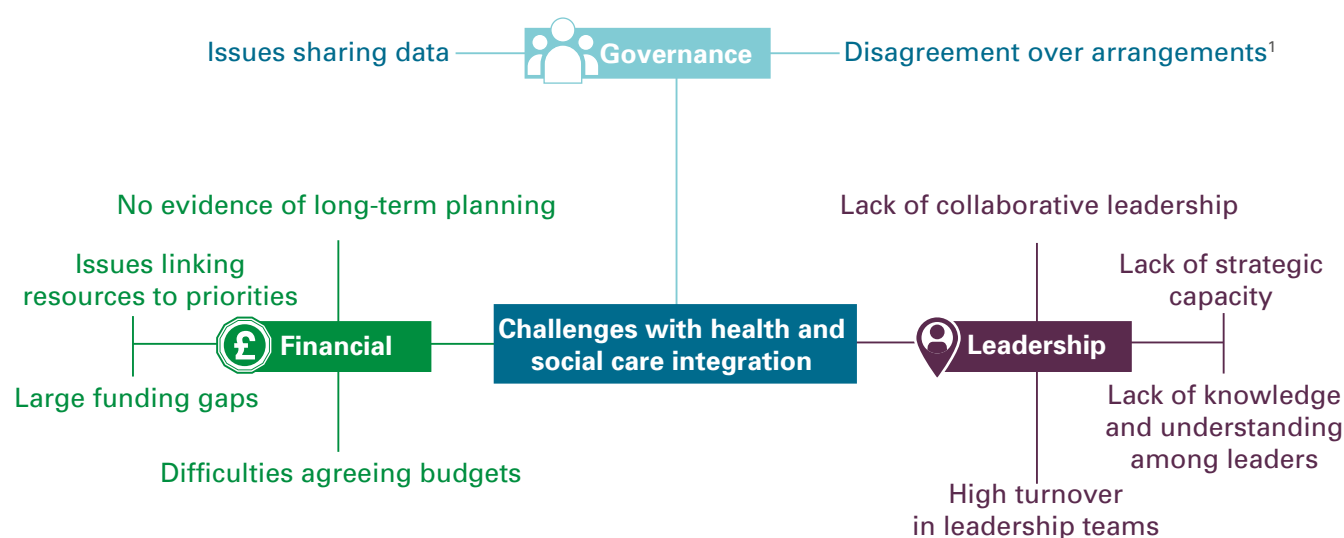
Note: 1. Disagreements are often due to differing views on responsibility, especially about who is responsible for service performance and quality of care and when accountability for a decision rests with individuals who are no longer responsible for taking them.

Source: *Health and social care: update on progress* ⊕, Audit Scotland, November 2018

69. Performance of IAs in terms of the outcomes experienced by patients is discussed further in Part 3 (paragraphs 114–118).

The Community Empowerment Act fundamentally changes the relationship between council and communities

70. Councils are committed to community empowerment and most are beginning to implement their arrangements at a local level. Effective use of community empowerment can contribute to change and transformation by generating ideas and by involving communities in the difficult decisions that need to be made about priorities and options.

71. Our work shows that some councils:

- have well-established arrangements in place to empower communities (Case study 1)

- are providing training to elected members and officers to enhance their knowledge of community empowerment

- are working to develop community capacity, including providing information and training to communities on how to deliver a service and support through the community asset transfer process.

Case study 1

East Ayrshire Council's 'Vibrant Communities' approach

The Vibrant Communities approach is to work 'with people' rather than 'for people'. It focuses on two areas:

- Early intervention and prevention – acting as soon as possible to tackle problems for children, families and vulnerable people.

- Sustainable communities – empowering and enabling communities to get more involved where they live.

Communities discuss their local needs and priorities and then agree actions to improve their local area. Since 2014, the council has supported 19 communities to develop and implement community action plans through their Vibrant Communities approach. Community workers support community representatives in developing and implementing their plans. Once the plans are established community representative groups monitor progress.

Vibrant Communities has a dedicated community asset transfer team to offer legal, planning and business advice, and advise on alternative funding streams for communities applying for an asset transfer.

Sources: *Best Value Assurance Report: East Ayrshire* ⬇, Accounts Commission, May 2018, East Ayrshire Council

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ⓘ Audit Scotland produced a briefing paper in April 2018 *What is integration* ⬇

❓

Does your council engage with communities on decisions about services, budget proposals and priorities?

Are you clear on what community empowerment involves what it means for your council?

What is your council doing to implement community empowerment arrangements at a local level?

Does the Local Outcome Improvement Plan focus on areas where the Community Planning Partnership can make the biggest impact?

Do you know what your council is doing to reach out to 'seldom heard' and disadvantaged groups?

72. While we have seen examples of good progress, some councils still need to do more to meet their obligations under the Act and ensure communities are empowered by building their capacity further.

73. The Act also places a duty on each Community Planning Partnership (CPP) to develop a local outcomes improvement plan (LOIP). LOIPs set out local outcomes that the CPP will prioritise for improvement. Audit Scotland, the Improvement Service and NHS Health Scotland conducted a review of LOIPs in 2018. We found that:

- the scale and scope of LOIPs varies across Scotland, however progress is being made against the expectations of the Act and associated guidance

- LOIPs need to be more focused on areas where the CPP can make the biggest impact

- there are genuine attempts to enhance community engagement and participation

- there is a lack of clarity around how CPPs are reaching those who are under-represented in council decisions, or the most disadvantaged communities.

Councils are engaging with communities but there is less evidence of successful engagement with people from deprived areas

74. Consultation with communities continues to take place mostly through citizens' panels, residents' surveys and council webpages. Our auditors reported that 26 councils involve communities in decisions about services, budget proposals and priorities and nine councils had either a dedicated team or staff member to support community engagement. Some examples of good practice include:

- Argyll and Bute Council carries out an annual consultation exercise on its budget for the coming financial year. It collates and analyses responses and publicly reports the impact of residents' feedback on decisions.

- East Lothian Council has established six local area partnerships to enable community engagement for the CPP. Each partnership is chaired by a member of the community and is made up of elected members, local bodies, interest groups and residents. Locality plans for each area partnership outline their priorities for improvement and help focus budgets around local priorities.

75. The Scottish Household Survey results suggest that councils are less successful in engaging with people from deprived areas. The percentage of all people surveyed who felt they could influence local decisions was 23 per cent in both 2016 and 2017, whereas for people living in deprived areas the figure was 21 per cent in 2016 and 19 per cent in 2017.

Although councils are responding to the requirements of the Act, they need to do more

76. Participatory budgeting is part of the Community Empowerment Act. It gives residents the opportunity to vote on how local money is spent and to have a say on issues important to them. Councils benefit from a better understanding of their residents' needs and communities feel more engaged and empowered. Dumfries and Galloway Council used its participatory budgeting exercise to focus on reducing inequality . Councils should also consider

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The Community Empowerment Act (Scotland) 2015 requires that councils ensure communities are actively involved in deciding how public services are planned and provided and seeks to empower community bodies through transferring ownership of land and buildings.

As part of the Act, local authorities have statutory oversight of community councils and are required by statute to consult community councils about planning applications and licencing matters.

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What is your council doing to ensure that one per cent of revenue budgets is allocated through participatory budgeting by 2020/21?

whether their approach to participatory budgeting is inclusive of a range of groups within their area, including disadvantaged and hard-to-reach groups, and the impact on improving outcomes.

Case study 2

Dumfries and Galloway Council's tackling poverty participatory budgeting exercise

Dumfries and Galloway Council allocated £240,000 from its Tackling Poverty fund towards a participatory budgeting exercise, 0.08 per cent of its total revenue funding. Sixty-three projects from across the region progressed to public voting events. Successful projects were focused on alleviating different aspects of poverty. Examples of successful projects included provision of:

- emergency power payments, sanitary products and essential toiletries (low income and financial poverty)

- school holiday breakfast and lunch clubs for low income families (food poverty)

- transport for access to services and activities (fuel poverty, rurality and isolation)

- ICT learning activities for those who require access to benefits and who are seeking employment (access to information and educational activities/opportunities).

The council evaluated the project and used feedback to identify how the process could be improved in the future, such as increasing the number of voting events and improving communications to build awareness and generate interest.

Sources: *Best Value Assurance Report: Dumfries and Galloway Council*, Accounts Commission, November 2018. *Participatory Budgeting Evaluation Report*, Dumfries and Galloway Council, 2018

77. We are aware of 13 councils that have held participatory budgeting exercises; however, they remain small in scale. COSLA is supporting councils' work towards the Scottish Government's target of allocating one per cent of revenue budgets to participatory budgeting by 2020/21. For example, Dundee City Council held a participatory budgeting exercise in 2017/18 where 11,000 people voted on which priority projects should be allocated a share of £1.2 million (0.3 per cent of the council's £343 million revenue funding). Communities, existing representative groups and elected members were involved in the selection of projects and the council held a community conference to shape ideas. Feedback on the exercise was positive and the council will use learning to shape future exercises.

78. The Accounts Commission has a continuing interest in community empowerment, and will consider the pace and level of progress in future Best Value work and performance audits.

Workforce reductions have changed how councils are structured and the skills available, but the quality of workforce planning is inconsistent

79. Councils spend a substantial part of their revenue budgets on their staff. They directly employ around 243,000 people, around 197,500 full-time equivalent (FTE) staff. This is 48 per cent of the public-sector workforce, meaning councils are the largest employer in the Scottish public sector. Reducing the workforce is one of the main ways councils have made savings. For example, in Dumfries and Galloway the council saved £60 million in the past five years partly through reducing its workforce by 11.3 per cent.[24] Councils need to do more to ensure they understand in detail the profile and capacity of the management and workforce they currently have and need in the future. This is fundamental for being able to effectively respond to the challenging context and deliver effective change.

80. The Scottish Government reports quarterly on total local government staff and every year on social workers and teacher numbers.

- Between September 2017 and September 2018, there has been a small decrease, 0.2 per cent, in FTE staff numbers within councils. Since 2013, staff numbers have fallen by almost 5,000, a decrease of two per cent.[25]

- In the past five years there has been a 0.1 per cent reduction in social workers and a 1.6 per cent increase in teachers compared to a two per cent reduction for total council workforce.

Therefore, teachers and social workers now make up an increasing proportion of council employees, 29 per cent in 2017 compared to 27 per cent in 2013.

The quality of workforce planning varies across councils
81. The Commission believes that integrated workforce planning is essential for robust medium and long-term planning and effective transformation. This should include an analysis of what the council will need in the future, where the gaps lie and how to address them, either through training, recruitment, restructuring current resources, shared arrangements with other organisations, or procuring specialist skills.

82. Workforce planning is an area where progress is mixed across councils. Glasgow City, as an example, has a coordinated approach to workforce planning. Each service has a workforce plan which forecasts its requirements. Quarterly updates are collated centrally to identify gaps and surpluses which are then used to develop budgeting and resourcing plans including redeployment and retraining opportunities. However, there are other councils where it is not clear what the workforce will look like in terms of numbers and skills in the medium or long term.

Councils need to plan to ensure they have the staff, skills and leaders to deliver change, but there is no national data on workforce by service
83. Effective leadership is fundamental to the successful implementation of change in a complex and changing policy landscape. Councils need to ensure they have the best possible political and management leadership. This means ensuring there is appropriate training and development to support both councillors and management. For senior management this also means building the best strategic team possible and ensuring there is enough capacity to lead change and wider responsibilities. The Commission considers that this means recruitment

What is your council doing to ensure that it has the right capacity, skills and leadership in its workforce?

What training does your council make available to officers and councillors to ensure they have the skills to deliver services in the future?

to chief executive posts should include open competition to secure the best possible pool of candidates. Unless there is a clear rationale, which should be articulated in public council papers, key senior management positions, such as director and head of service level posts, should also be advertised externally.

84. There is a lack of national data on workforce by service. This makes it difficult to be able to determine what is needed in terms of skills or training for staff across Scotland, how services have been affected by the overall reduction in workforce and to inform benchmarking and sharing good practice. Other available data indicates reductions in some services, for example:

- The Royal Institute of Town Planners report a 23 per cent reduction in the planning workforce in Scotland from 2009 to 2016.[26]

- The Society of Chief Officers of Environmental Health in Scotland report that the number of professionally and technically qualified environmental health staff has decreased by 12 per cent from 2016 to 2018.[27]

- The number of librarians has fallen by 22 per cent and the number of library staff by seven per cent between 2014 and 2018.[28]

85. Councils continue to report staff shortages in key service areas:

- Two-thirds of councils reported a shortfall in mental health officers, the additional hours needed per week to make up this shortfall is equivalent to 41 full-time officers.[29]

- Care Inspectorate reports for Eilean Siar and Renfrewshire observed the continued difficulties in recruitment and retention of social care workers and the impact this has on services.

86. The UK's withdrawal from the EU could exacerbate problems of staff shortages as it could result in a loss of non-UK EU nationals from the workforce or difficulty recruiting from Europe. The Scottish Government estimates that there are 9,830 non-UK EU nationals working in social care in Scotland, 5.6 per cent of the workforce.

87. Councils are competing with other organisations for the same skills, for example digital, project management, planning and engineering expertise. Difficulties with recruitment and retention are compounded by an ageing workforce within councils and with a smaller working age population to recruit from. Also, many of the reductions in the workforce are from those approaching retirement, meaning that their skills and experience are lost to the organisation. For example, in Dumfries and Galloway Council 44 per cent of staff are over 50 years old.

88. Councils need to ensure there is sufficient training for their staff to allow them to respond to the changing and more pressured environment. There is no national data on skills training programmes; however, in our BVAR reports we have highlighted how some councils have approached this:

- In West Dunbartonshire Council, staff have a skills passport which sets out mandatory learning for staff at various career milestones. This allows them to plan for their ongoing development and encourages continuous learning.

?

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

Does your council have an organisation-wide workforce plan? Does it contain information about the numbers, costs and skills of the actual and desired workforce?

- Dumfries and Galloway Council's 'Grow your Own' scheme retrains staff in areas where there are recruitment issues. As a result, it has been successful in filling teacher vacancies.

Councils should consider the impact of change on their staff

89. Savings programmes and staff reductions mean some uncertainty for council staff. Unless managed well, this could have an impact on the morale of the workforce and individual staff's wellbeing. Surveys carried out by Unison found that in 2018:

- 75 per cent of Environmental Health and 70 per cent of Trading Standards employees interviewed reported that morale in their organisation was low

- 90 per cent and 78 per cent respectively said that workload was higher than five years ago.[30]

90. Councils should be aware of the impact savings programmes are having on their workforce and put measures in place to address any issues. Many councils do this through staff surveys. Common findings from staff surveys indicated people not feeling valued for what they do, not being asked for their views on change and feeling that working for the council had worsened in recent years due to workload.

91. The average number of sickness days for non-teaching staff has increased from 10.9 days in 2016/17 to 11.4 days in 2017/18. There is significant variation among councils, from an average of 16.8 days in Clackmannanshire to 8.4 days in East Ayrshire. For teachers, the average number of sickness days has fallen slightly from 6.1 days in 2016/17 to 5.9 days in 2017/18, varying from 9.1 days in Clackmannanshire to 4.2 days in East Ayrshire.

92. We have calculated in previous reports that if councils reduced sickness absence they could improve their productivity. If councils with higher rates of sickness absence levels reduced these in line with the top eight performing councils, they would gain the equivalent of 619 non-teaching staff across Scotland, and 248 teaching staff.

Do you know how your council is ensuring changes to staff numbers and working practices do not have a negative impact on morale and wellbeing?

Part 3
Council performance and the impact on communities

Councils understand the challenges facing their communities, but resources need to be better linked to their vision and priorities

93. Our audit work shows that councils continue to clearly set out their strategic priorities and plans. Councils understand the local context of their communities and have a strategic focus on improving social inequality, particularly in areas of high deprivation.

94. Over half of councils clearly link their budget setting to their strategic priorities or plans. This should be evident in all councils. More also needs to be done to demonstrate how spending is linked to outcomes and performance. A positive example that contributes to clearer links is evident at North Ayrshire Council. Officers include information on what outcomes could be achieved for each level of investment when presenting strategic investment options. This allows councillors to consider whether the impact on the council's priorities would be significant enough to warrant the investment.

Councils are focused on performance management and improvement
95. Our Best Value assurance reports to date indicate councils have improved their approaches to managing performance and improvement. Good performance management should link to the council's strategic priorities and be able to demonstrate a link between spend and outcomes.

96. A good council is self-aware, understands its own performance and uses that to make improvements. Our auditors reported evidence of self-evaluation in 14 councils in their 2017/18 Annual Audit Reports. For example, North Lanarkshire Council reviewed its position against the Best Value characteristics and the recommendations in previous Best Value assurance reports to help develop its rolling programme of reviews. Many councils have structured self-evaluation programmes. These can include corporate level and service level assessment tools, for example in West Lothian Council all services complete a bespoke assessment model and attend an officer-led scrutiny panel once in a three-year cycle to provide challenge to the service and promote improvement.

Councils need to show they are delivering against their high-level outcomes
97. As part of setting its *2018 Statutory Performance Information Direction* ⬇, the Commission reviewed performance information available on council websites. It found that:

- Auditors in 20 councils concluded that performance information was satisfactory.

- 90 per cent of councils published an annual performance report and 80 per cent published service level performance information.

Does your council clearly link its budget setting to its strategic priorities and plans?

Are you assured that performance reporting by your council is accurate and accessible?

Can your council demonstrate progress in delivering its key outcome priorities?

- There are large amounts of performance information online, however websites could be easier to navigate, and the information was sometimes out of date. Councils may also want to consider whether having fewer, but better focused, performance indicators would allow them to demonstrate performance against their key priorities more clearly and effectively to the public.

- While 90 per cent of councils report performance against their priorities, few outlined progress against outcomes.

98. It is important that councils clearly report their performance to local citizens and the community. Good performance reporting includes clearly stating how performance and spend are linked to the council's priorities; local indicators which demonstrate quality of service; public satisfaction levels; and an overall assessment of the council's performance against outcomes.

Most national indicators have improved or been maintained but performance varies between councils.

Despite funding reductions, councils have maintained performance against several national indicators

99. The National Performance Framework measures progress across 81 indicators, although some of these are still in development and some do not have the data to allow trend analysis. We have selected 16 of the available indicators, these show that many outcomes have improved across Scotland in the last five years (Exhibit 6, page 36). However, there has been less progress with health outcomes.

100. Many of the NPF indicators are not available at a local level but the Improvement Service has developed a Community Planning Outcomes Profile (CPOP) tool which tracks performance against a set of identified measures at a CPP level. There is a helpful interactive tool on the Improvement Service website ⬔ which allows communities and councils to drill into the data and to compare performance between CPPs, councils and over time. Analysis of the CPOP data shows that the majority of outcome measures have improved over the last five years.

101. There are limitations with the availability of both the NPF and CPOP data. Better data would allow councils to understand differences in demand and performance, report how well they are delivering against their outcomes and enable more informed decisions.

Since 2010/11 performance against most Local Government Benchmarking Framework indicators has been maintained or improved

102. The Local Government Benchmarking Framework (LGBF) is produced by the Improvement Service in partnership with councils. Since 2010/11 it has produced comparative performance information for councils to help them improve. The LGBF contains over 70 indicators covering a broad range of service areas. In previous years and in our BVARs we report on a sample of eight measures to give an indication of council performance.[31] Over the past seven years performance for these indicators has improved slightly or remained stable (Exhibit 7, page 37). This year, the LGBF reports that across all indicators there is some evidence that performance improvement is slowing down for the first time since 2010/11.[32]

?

Does your council make use of LGBF data to consider where and how it might make improvements to service delivery?

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

Exhibit 6
Changes in performance measures for Scotland's outcomes between 2013 and 2017
Performance against many outcome measures has improved but there has been less progress with health outcomes.

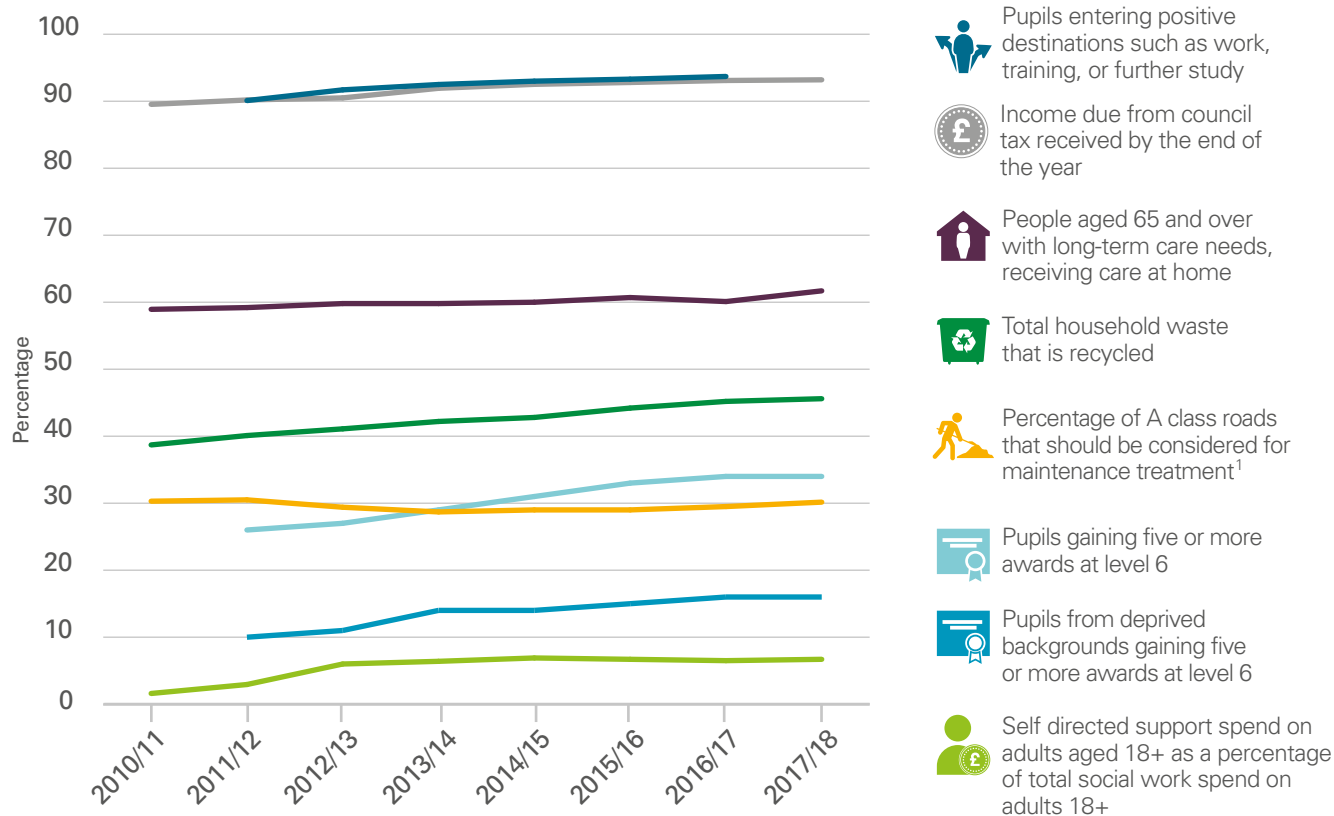| Category	Measure	Change
Children, young people and education	Percentage of settings providing funded early learning childcare achieving good or better across all themes	-0.5%
	Proportion of adults aged 16-64 with low or no qualifications (SCQF level 4 or below)	-1.8%
Satisfaction	Percentage of adults who rate their neighbourhood as a very good place to live	2%
	Percentage of respondents who are fairly or very satisfied with the quality of local services (local health services, local schools and public transport)	-8.2%
	Percentage of people who agree with the statement 'I can influence decisions affecting my local area'	0.7%
	Percentage of households who report being either 'very satisfied' or 'fairly satisfied' with their house or flat	2%
Culture and leisure	Percentage of adults who have participated in a cultural activity in the last 12 months	-0.2%
	Proportion of adults making one or more visits to the outdoors per week	6%
Environment	Percentage of energy consumption which is renewable energy	7.1%
	Household waste (million tonnes)	4.2%
Fair work and business	The total number of private sector enterprises in Scotland per 10,000 adults	8%
	Percentage of workers earning less than the living wage	0.1%
	The difference between male and female full-time earnings, expressed as a percentage of male full-time hourly earnings	-3.4%
Health	Average Mental Wellbeing Score[1]	-0.2%
	Percentage of adults with two or more health risk behaviours (current smoker, harmful drinking, low physical activity, obesity)	1%
	Proportion of adults usually travelling to work by public or active transport	-0.6%
	European Age Standardised mortality rates per 100,000 for people under 75 in Scotland	-2.8%

Note: 1. Warwick-Edinburgh Mental Wellbeing Score.

Source: National Performance Framework

Exhibit 7
Performance against selected indicators, 2010/11 to 2017/18
Performance has been maintained or improved.

Pupils entering positive destinations such as work, training, or further study

Income due from council tax received by the end of the year

People aged 65 and over with long-term care needs, receiving care at home

Total household waste that is recycled

Percentage of A class roads that should be considered for maintenance treatment[1]

Pupils gaining five or more awards at level 6

Pupils from deprived backgrounds gaining five or more awards at level 6

Self directed support spend on adults aged 18+ as a percentage of total social work spend on adults 18+

Note: 1. Roads maintenance is measured in two-year time periods therefore 2009-11 is reported in 2010-11.

Source: Local Government Benchmarking Framework, 2017/18

103. We have also analysed council spending against indicators to see the impact that funding reductions have had on performance at a national level. This shows that since 2010/11 most services have been maintained or improved despite reducing budgets (Exhibit 8, pages 38-39). However, in the past year the data shows that some services are beginning to spend more or have had a decline in performance, for example, the number of library visits has fallen by eight per cent.

Performance variation is expected as councils have different local priorities, but it can also provide opportunities for identifying efficiencies.
104. The Accounts Commission is clear that 'It is for councils to make choices in where they focus their improvement work, but they need to be able to show how they have arrived at such choices'.[33] As such performance against the indicators will vary depending on both local factors and policy decisions.

105. Councils should use the LGBF and other benchmarking tools to understand where councils with similar circumstances are performing better or spending less to provide the same service. Exhibit 9 (page 40) shows that there is a wide variation in both performance and unit costs between councils. There could be several reasons behind this, but it provides an opportunity to share learning and experiences to improve services.

Exhibit 8

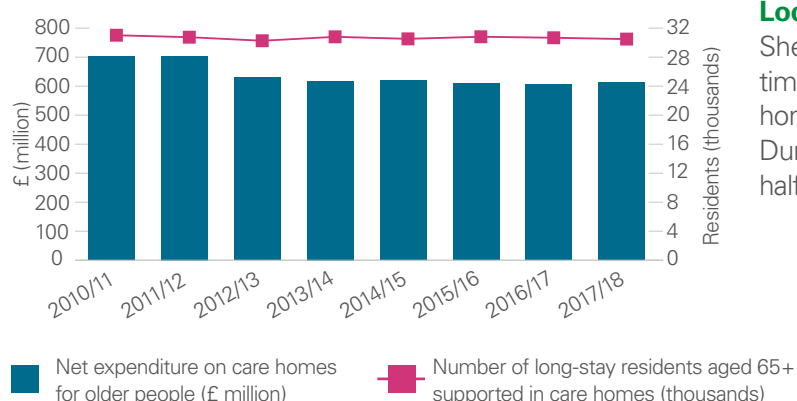## Performance and spend in key areas, 2010/11 to 2017/18

There has been a significant increase in expenditure on home care, while the number of hours provided has increased at a lower rate.

Legend:
■ Gross expenditure on home care (£ million)
■— Homecare hours per year (£ million)
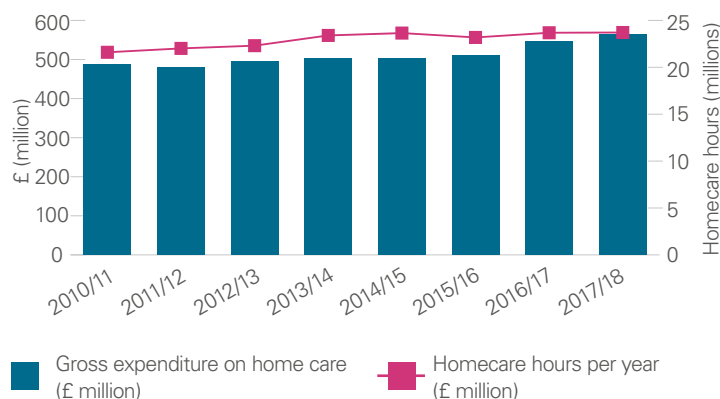
Local variations

Clackmannanshire, Perth and Kinross and Stirling councils have the lowest costs per hour of homecare. The island councils have higher cost per hour of homecare than other councils. Midlothian Council's costs are higher than other mainland councils.

Spending on residential care and the number of residents has stayed relatively constant in recent years.[1]

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

Local variations

Shetland Islands Council spends more than three times the Scottish average per week on their care home residents, £1,349 compared to £386; while Dumfries and Galloway Council spends just over half of the Scottish average (£195).

Spending on culture and leisure continues to fall but visitor numbers to sports facilities, museums, and libraries all decreased in 2017/18.

Legend:
■ Total expenditure on libraries, museums and leisure (£ million)
■ Number of visitors at sports facilities (millions)
■— Number of library visitors (millions)
■— Number of museum visitors (millions)
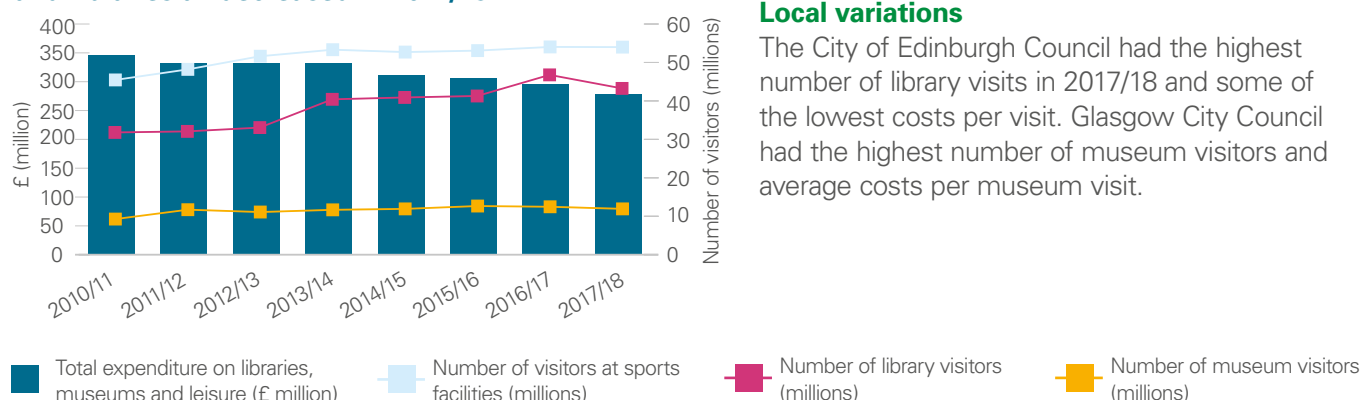
Local variations

The City of Edinburgh Council had the highest number of library visits in 2017/18 and some of the lowest costs per visit. Glasgow City Council had the highest number of museum visitors and average costs per museum visit.

Interactive data map available on our website

Cont.

Exhibit 8 (continued)
Performance and spend in key areas, 2010/11 to 2017/18
Spend on roads has reduced since 2010/11, although it has remained relatively stable in recent years. The percentage of roads classified as needing maintenance increased slightly between 2016/17 and 2017/18.[2]

- Cost of maintenance per kilometre of roads (£ thousand)
- Percentage of A class roads that should be considered for maintenance treatment
- Percentage of B class roads that should be considered for maintenance treatment

Local variations
Dundee City Council has the lowest percentage of roads in need of maintenance and is in the top 25 per cent of cost of roads per km. Argyll and Bute Council has the most roads in need of maintenance and is in the bottom 25 per cent for cost of roads per km.[3]

For the first time since 2010/11 expenditure on street cleaning increased, by six per cent, but the cleanliness score continues to fall slightly.

- Net cost of street cleaning per 1,000 population (£ thousand)
- Street cleanliness score

Local variations
In 2017/18, Glasgow City Council spent the most per 1,000 of population on street cleaning, more than double the Scottish average, but had one of the worst street cleanliness scores. Scottish Borders Council has one of the highest street cleanliness scores and spends roughly two-thirds the Scottish average.

Interactive data available on our website

Notes:
1. 2010/11 and 2011/12 expenditure includes support costs so is not directly comparable to later years.
2. The percentage of roads that should be considered for maintenance treatment indicator is measured over two-year periods, for example 2009-11 is plotted as 2010/11.
3. The cost of roads per km includes both revenue and capital expenditure.

Source: Audit Scotland; and Local Government Benchmarking Framework 2017/18, Improvement Service

Exhibit 9
Variation between councils 2017/18

The percentage of unemployed people helped into work by a council employment scheme varied from two per cent in Argyll and Bute to 30 per cent in Renfrewshire.

Note: There is no data for employability in Shetland in 2017/18.

The cost of council tax collection is significantly higher in the island councils.

Note: Scotland figures are the Scottish average.

Source: Local Government Benchmarking Framework 2017/18

Interactive data available on our website

Page 182
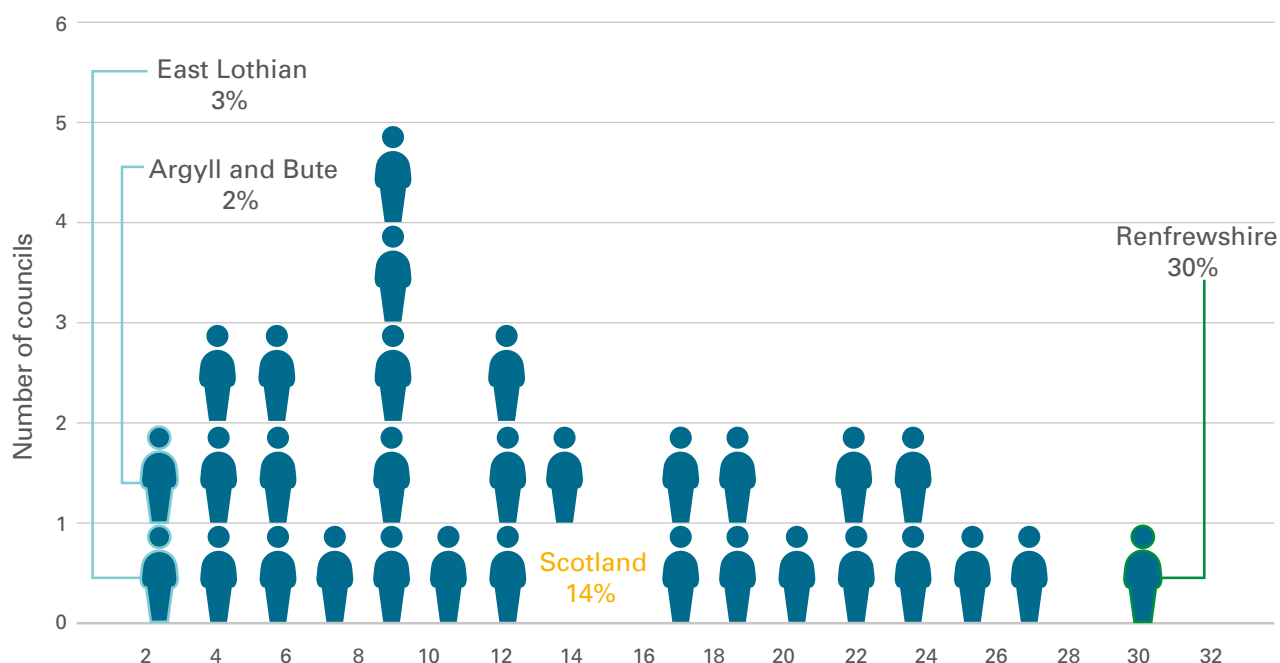
- The percentage of unemployed people helped into work through a council operated or funded employability programme ranged from two per cent in Argyll and Bute to 30 per cent in Renfrewshire. We calculated that if all councils could increase their number to the Scottish average of 14 per cent, an additional 3,500 people would have been helped into employment in 2017/18.

- The cost of council tax collection is significantly higher in the island councils; it costs £27 per property to collect council tax in Eilean Siar and £17 per property in Orkney Island compared to the Scottish average of £7. Clackmannanshire and Fife councils spend less than £3 per premise to collect council tax. We calculated that if the 16 mainland councils who spend more than the Scottish average reduced costs to that level they would save £1.7 million and if the Eilean Siar and Orkney reduced their costs to those of Shetland Islands, they would save £209,000 and £179,000 respectively.

Education performance has improved since 2011, but progress slowed in 2017/18 and the attainment gap between the most and least deprived pupils has widened in the last year

106. Education is the largest area of council spend, and the focus of considerable national policy attention. In 2017/18, councils spent £3.9 billion on schools, and a further £0.4 billion on pre-schools. This is a one per cent and three per cent respective real terms increase on the previous year. Spending on schools has reduced by two per cent since 2011/12, but has been increasing since 2015/16, when the Scottish Government introduced its Scottish Attainment Challenge.[34]

107. Nationally pupil attainment has been improving. Across Scotland, there has been a 16 per cent improvement in average tariff score since 2011/12. However, 2017/18 data shows that:

- For the first time there has been no change in the percentage of pupils gaining five or more awards at level 6 and the proportion of pupils gaining five or more awards at level 5 has increased at a slower rate than previous years.

- The gap between average tariff scores of the most deprived pupils and the least deprived pupils increased from 2016/17 to 2017/18. In 2017/18, pupils from the most deprived areas saw a 1.1 per cent reduction in their tariff scores while those in the least deprived saw a 0.9 per cent increase. This increased the gap between the most and least deprived by three per cent since 2016/17.[35]

108. Performance in exams is not the only way to measure attainment. The LGBF also reports on the percentage of 16 to 19 year-olds in work, training or learning which has increased year on year since first measured in 2015/16.

Some councils have done well to improve attainment

109. We reported last year that there is variation in education performance that cannot be explained by deprivation. This is still the case. This year we have considered how councils' performance has changed since 2011/12. All councils have improved their performance despite a reduction in spend. But some councils have improved considerably faster than others and the gap between the best and worst performing council has widened (Exhibit 10, page 42):

Average Tariff Score

Is an overall measure of secondary attainment, taking account of all qualifications a pupil earns from age 14 until leaving school.

Tariff scores strongly reflect the total number of subjects studied which may not reflect curriculum decisions taken by the council.

Exhibit 10
Improvement in average tariff score 2011/12 to 2017/18
All councils have seen an improvement to their overall tariff scores despite reducing budgets but the gap between best and worst performing has increased.
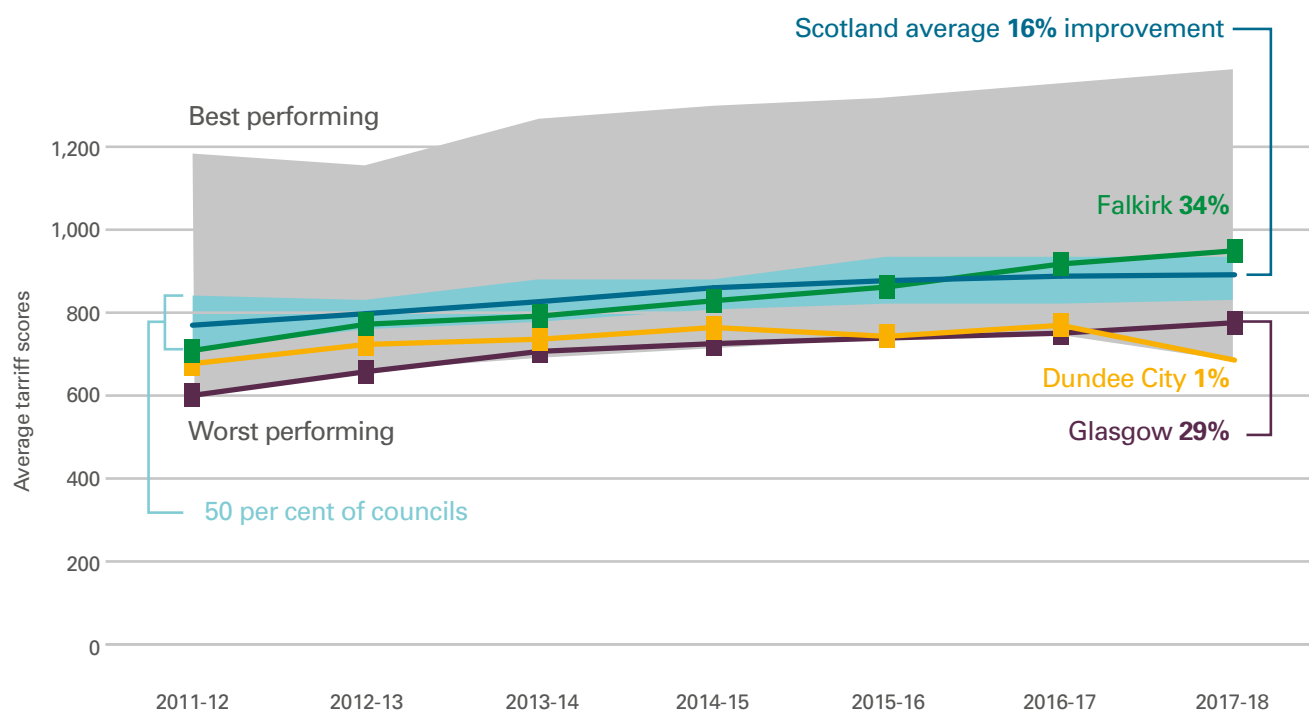
Note: As leaver information is not available when the LGBF publishes its data, the LGBF uses data based on the year pupils are expected to leave school rather than the actual year they left. This means there are some small differences between it and data published by the Scottish Government later in the year.

Source: Local Government Benchmarking Framework 2017/18

- Falkirk Council's attainment has improved by 34 per cent since 2011/12. It is now in the top quartile for attainment, whereas in 2011/12 it was in the bottom quartile.

- Glasgow City Council has seen a 29 per cent improvement in their tariff scores although it remains in the bottom quartile.

- Dundee City Council has seen only a one per cent improvement in its tariff scores since 2011/12. It had a ten per cent drop in tariff score in 2016/17 which affected the overall trend. It has been in the bottom quartile since 2011/12.

110. The reasons behind why Glasgow and Falkirk have seen big improvements in attainment and Dundee has not, cannot be explained simply by the amount spent on education nor levels of deprivation:

- Dundee City Council spends more than the Scottish average per secondary pupil while Falkirk and Glasgow spend less.

- Both Dundee and Glasgow City councils have reduced their spend per secondary pupil by five per cent since 2011/12, a bigger reduction than the

Scottish average of one per cent. Falkirk Council has reduced spend per pupil by one per cent.

- All three councils have high levels of children living in families with limited resources compared to the Scottish average of 20 per cent. Dundee City and Falkirk have similar levels, 26 per cent and 27 per cent respectively. Forty-one per cent of children in Glasgow live in families with limited resources.[36, 37]

- Dundee City Council reports that the drop in tariff scores in 2017/18 is due primarily to a higher than usual number of children leaving school at S4 in 2015/16.

111. This variation provides an opportunity for councils such as Glasgow and Falkirk to share what has helped them make these improvements. Our Best Value work, engagement with scrutiny partners and 2014 report on *School education* ⊕ suggest that the leadership and culture of the organisations have a part to play:

- We highlighted in our 2015 Best Value report on *Falkirk Council* ⊕ that it had good performance management arrangements and a strong improvement culture embedded in its education department.

- Our *Best Value Assurance Report: Glasgow City Council* ⊕ reported that targeted actions have helped improve attainment through the Glasgow Improvement Challenge. The Care Inspectorate and Education Scotland's 2017 inspection of young people's services in Glasgow found that 'strong leadership is driving an ambitious vision to improve life chances for all children and young people in Glasgow'.[38]

- During engagement with scrutiny partners for Dundee City Council, Education Scotland highlighted that the council will need to move from incremental to transformational change to improve attainment.[39] In its 2018 inspection of Dundee's Attainment Challenge progress, Education Scotland found that strong leadership and higher aspirations are beginning to improve the pace of change. It also highlighted strong use of data and collaboration with Dundee University to help understand the pupils' needs and improve attainment.[40]

112. In February 2019, Education Scotland rated Renfrewshire Council excellent in its inspection of the Scottish Attainment Challenge. It found that highly effective leadership and governance and evidence-based interventions had led to significant year-on-year improvements in closing the gap between attainment of the most and least deprived pupils.

113. We will be carrying out an audit on educational outcomes in 2019/20 which will consider the reasons for variation in attainment.

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

Social care services continue to struggle to meet demand
114. Adult social care remains one of the largest areas of spend for councils and the demand for services will continue to increase as the population ages. Older

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

people in need of support are either cared for in their home by visiting care workers or in a residential care home. This care is given by a range of different providers. In 2017:

- Most care home residents were cared for by the private sector, 80 per cent, while the NHS and councils cared for 11 per cent of residents and the third sector nine per cent.[41]

- The private sector also provided most homecare hours, 42 per cent, councils provided 41 per cent, the third sector six per cent and a mixture of providers 11 per cent.[42]

115. We continue to see signs that services are struggling to meet the demand for care. We reported in December 2018, that there has not yet been enough progress to address the scale of challenges with social work in Scotland and there are some outstanding areas where action is needed. In 2017/18, the number of hours of personal care at home is at the highest level since 2010/11. Between 2016/17 and 2017/18, councils have spent more on both home care and residential care, this has increased at a faster rate than the people who are cared for. This is in part due to those receiving care having increasing levels of need, as well as the payment of the living wage and overnight allowances to social care workers.

- Total spending on homecare has increased by 3.1 per cent despite only a 0.1 per cent increase in the number of hours of homecare.

- Net spending on residential care homes increased by 1.2 per cent despite a 0.6 per cent reduction in the number of residents.

116. Both satisfaction indicators in the LGBF data show a substantial drop in satisfaction with social care services. Eighty per cent of adults who receive care are satisfied with it and feel it improves or maintains their quality of life. This is down from 84 and 85 per cent respectively and is the lowest since it was first recorded in 2014/15.

117. We reported last year that local inspections raised concerns about the ability of the City of Edinburgh and Scottish Borders councils to meet the demand from older people and the quality of care provided. A progress review of the City of Edinburgh Council's services for older people found that limited progress had been made towards improving the outcomes for many older people. They and their carers were unable to get help even when their needs were critical, and often had to wait lengthy periods for the care they needed. In April 2018, there were 1,500 people in the community waiting for an assessment, waiting an average of 50 days.

118. The Care Inspectorate has also carried out follow-up inspections of Eilean Siar and Aberdeen City Councils and a full inspection of Renfrewshire Council's adult services. It found that progress has been made but observed issues around staff recruitment and retention in Eilean Siar and Renfrewshire and the capacity of care services in Aberdeen.

How is your council adjusting to meet changing demands for care services?

How is this reflected in the performance data?

Public satisfaction is falling

119. The Scottish Household Survey reported that in 2017 public satisfaction has fallen for another year:

- 52 per cent of adults were satisfied with three public services – local health, schools and transport. This is the lowest since first measured in 2007 (57 per cent) and a reduction of four per cent since 2016.

- Satisfaction amongst schools had dropped from 79 per cent in 2007 to 70 per cent in 2017.

- Satisfaction with service users was higher than the whole population, people who had children at local schools reported 87 per cent satisfaction.

120. Less than half of councils have published a residents' or citizens' survey between 2016 and 2018. Of these, five reported a reduction in satisfaction levels compared to previous years. In their surveys many councils asked satisfaction questions about specific services or aspects of service delivery. The most frequent service-specific surveys were in relation to social care, schools and education, housing, building standards and planning, children and families services and school meals. Overall, the picture varies significantly with both increases and decreases in satisfaction levels being reported for the same service across the country.

Some councils are not meeting their statutory duties in terms of homelessness.

121. The number of homeless applications increased for the first time in nine years in 2017/18, from 34,570 households in 2016/17 to 34,972 households in 2017/18. Councils have a statutory duty to provide temporary and settled accommodation to households assessed as homeless. However, some councils have been unable to meet this obligation.

- The Scottish Housing Regulator reported in March 2018 that Glasgow City Council had failed to offer temporary or emergency accommodation to 40 per cent of the 5,377 applications it had for assistance in 2016/17. It had also provided settled accommodation to just over half of the households it had a duty to provide to.[43]

- The Local Government and Communities Committee took evidence from the Legal Services Agency who reported up to ten cases a week where households had approached them for legal help with councils who had been unable to offer temporary accommodation.[44]

122. When providing accommodation, councils must ensure that households with children or a pregnant woman do not stay in unsuitable accommodation for more than seven days. In 2017/18, there were 400 cases where the household stayed longer than this time, 280 of these were in Edinburgh, 65 in West Lothian and 20 in East Dunbartonshire.

123. Councils use temporary accommodation when a permanent home is not immediately available. Temporary accommodation is more expensive for councils to provide, impacts on existing housing stock and is not the best place for people to stay long term. However, there has been an increase in the use of temporary accommodation in recent years. In 2017/18:

Do you know what your council is doing to understand how satisfaction with different services is changing?

Is your council meeting its statutory duty to provide temporary and settled accommodation to households assessed as homeless?

- there were 10,933 households in temporary accommodation, one per cent more than in 2016/17 and 6,615 children, nine per cent more than 2016/17

- the average time spent in temporary accommodation is 204 days for families and 161 for households without children

- over 13 per cent of households in temporary accommodation spent more than a year there. In Shetland, the average time spent in temporary accommodation was over a year.

124. Homelessness is a complex problem that is often the symptom of a range of different challenges. Shelter believes that the increase in homeless applications is due to the impact of welfare reform, a lack of affordable housing, an increase in people with complex needs who do not receive the support they need, and insufficient and inconsistent prevention work.[45] The Scottish Government has an objective to end homelessness, this will require a multi-agency approach. We will be reporting further on affordable housing in 2019/20 and will consider homelessness as part of the scope of this audit.

Endnotes

1   Local Government Finance Circulars are letters from the Scottish Government to councils. We use the letters which set out the annual funding settlement. All circulars can be found on the Scottish Government's website: https://www.gov.scot/publications/local-government-finance-circulars-index/.

2   Local Government Finance Statistics are annual statistics on council spend from returns from councils. We have not audited the information in them. They can be found on the Scottish Government's website: https://www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/PubScottishLGFStats.

3   Provisional outturn and budget estimates contain initial outturn and budget information provided by councils. We have not audited the information in them. They can be found on the Scottish Government's website: https://www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBEStats.

4   The LGBF is published by the Improvement Service and contains over 70 cost and performance indicators for local government. It can be found here: http://www.improvementservice.org.uk/benchmarking/explore-the-data.html.

5   National Performance Framework indicators are used to measure progress against the NPF. They can be found here https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance.

6   Scotland's Fiscal Outlook, Scottish Government, May 2018.

7   The 2018 National Performance Framework is set out at: https://nationalperformance.gov.scot/

8   *Local government in Scotland: Financial overview 2017/18* ⊕, Audit Scotland, November 2018.

9   *Scotland's new financial powers briefing paper* ⊕, Audit Scotland, October 2018.

10   Projected cost pressures for Scottish local government, Improvement Service, 2018.

11   *Securing the future of health and social care to the 2030s*, Institute of Fiscal Studies, May 2018.

12   *Health and Social care medium term financial framework*, Scottish Government, October 2018.

13   *Poverty and inequality in Scotland: 2014-2017*, Scottish Government, March 2018.

14   *Poverty in Scotland 2018*, Joseph Rowntree Foundation.

15   Citizens Advice, Disconnected, 2018.

16   UK Poverty 2018, Joseph Rowntree Foundation.

17   *Rolling out Universal Credit*, Comptroller and Auditor General, HC 1123, June 2018.

18   *Homelessness in Scotland 2017-18,* Scottish Government.

19   City of Edinburgh, Council papers, 7 February 2019.

20   *Financial sustainability of local authorities 2018*, Comptroller and Auditor General, HC 834, March 2018.

21   Ibid.

22   Local Authority Capital Expenditure and Receipts, England: 2017-18 Final Outturn, Ministry of Housing, Communities and Local Government.

23   Statement from Rob Whiteman and Richard Paver on borrowing to invest, CIPFA, October 2018.

24   *Workforce strategy and metrics update 2018*, Dumfries and Galloway Council, November 2018.

25 These figures do not include staff who are employed by arm's-length external organisations.

26 Royal Institute of Town Planners written submission to Local Government and Communities Committee, 2018.

27 Data provided by Society of Chief Officers of Environmental Health, 2019.

28 Public library statistics, CIPFA, 2014 and 2017/18.

29 *Social work in Scotland - Impact report* ⊕, Account Commission, December 2018.

30 *Tipping point*, Unison, November 2018 and *Trading safety*, Unison, May 2018. Both are reports on surveys carried out by UNISON of their members. For environmental health workers, members from 21 councils responded, for trading standards members from 29 councils. The overall number of respondents is not stated.

31 The full range of indicators includes unit cost and public satisfaction. These are available on the improvement services website: www.improvementservice.org.uk/benchmarking.

32 *National benchmarking overview report 2017-18*, LGBF, 2019.

33 *Accounts Commission Strategy and annual action plan 2018-23* ⊕, Accounts Commission, June 2018.

34 LGBF included educational attainment information for the first time in 2011/12.

35 As leaver information is not available when the LGBF publishes its data, the LGBF uses data based on the year pupils are expected to leave school rather than the actual year they left. This means there are some small differences between it and data published by the Scottish Government later in the year.

36 *Children in families with limited resources across Scotland 2014-2016*, The Scottish Government.

37 The Scottish Government, through its Attainment Challenge provides additional funding to the councils it defined as having the highest concentration of deprivation. Glasgow and Dundee are challenge authorities. The other authorities are Clackmannanshire, East Ayrshire, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire and West Dunbartonshire.

38 Joint inspection of services for children and young people in Glasgow, May 2017.

39 *Dundee City Council Local Scrutiny Plan 2018/19* ⊕, Audit Scotland, April 2018.

40 *How well is Dundee City Council improving learning, raising attainment and closing the poverty-related attainment gap?* Education Scotland, June 2018.

41 Care home census for adults in Scotland, 2018, NHS Scotland.

42 Social Care Services, Scotland, 2017, Scottish Government.

43 Scottish Housing Regulator, March 2018.

44 Local government and communities committee, Report on homelessness, February 2018.

45 Briefing for Scottish Government debate on ending homelessness together, Shelter, November 2018.

Local government in Scotland
Challenges and performance 2019

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Local government in Scotland:
Challenges and performance 2019

ACCOUNTS COMMISSION

Key messages

1 Councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. Councils are also central to delivering many high-level public sector objectives, such as the integration of health and care services and involving citizens more in decisions about public services.

2 These reforms require councils to collaborate with partners, with the third sector and with communities, to think differently about how they deliver and fund services. Thinking differently about services is important to meet the growing and changing needs of their communities in the coming years. New ways of working can lead to increasingly complicated lines of accountability.

3 Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile. All councils expect an increase in the proportion of people aged over 65 and almost a third of councils expect an increase in the proportion of children under 15.

4 Councils have made good progress in developing medium-term financial planning and continue to manage their funding gaps through savings and use of reserves. All councils increased council tax to the maximum three per cent in 2018/19 and many increased their fees and charges to raise income. Some councils are looking at other options to raise income.

5 Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, but national workforce data is insufficient to clearly understand how individual services areas are affected.

6 Despite reducing funding and increasing demands, across local government most performance indicators are improving or being maintained, although some service areas show more strain. There remains performance variation among councils that cannot be readily explained by differences in context or spend. Better use of data and benchmarking could lead to further improvement and efficiencies.

Recommendations

While councils have continued to find ways to manage funding gaps and have made good progress with medium-term financial planning, they face an increasingly complex, changing and uncertain time ahead. To continue to improve the outcomes for their communities within this context, councils will need to be open to transformational change and implement new ways of working. To make effective progress, councils should:

- assure themselves that they have adequate leadership and management capacity in place. This should include development arrangements that prepare and support councillors and senior managers to respond to the challenging and changing local and national demands

- undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands

- continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change

- improve data to:

  - help inform the difficult decisions councils have to make

  - support benchmarking, learning and sharing of experience and effective practice with others that will contribute to improving service quality, efficiency and outcomes for communities.

- ensure they have workforce planning that is clear about the workforce needed now and in the future, where the gaps are and what training or other action is needed to fill them. This should be supported by better workforce data.

- be able to demonstrate how spending decisions and priorities have impacted on service delivery and the outcomes of residents, as well as how they are delivering against the national performance framework.

Scrutiny tool checklist for councillors

This scrutiny tool captures a number of potential questions for councillors and relates to our report *Local government in Scotland: Challenges and performance 2019* ⊕. It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's position and to scrutinise performance.

	How well informed am I?	
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Factors affecting demand for services and council funding		
Have you considered how policy and legislative change will affect how your council operates?		
What scenario planning has your council put in place for events such as EU withdrawal and increasing budget uncertainty?		
Do you have a clear understanding of the demographic circumstances within your council area? Do you know how effectively your council uses this information to decide how to provide services in the future?		
Governance and accountability		
Do you know if your council's governance and accountability structures are fit for purpose, given increasingly complex ways of working?		
If you sit on a board, do you fully understand your responsibilities to that board and the council?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Transformational change		
Do you understand how your council's approach to transformational change will improve services, benefit users and save money?		
How will you monitor and scrutinise progress of transformational projects?		
What is your council's risk appetite for transformational change? Are risks properly monitored?		
Do you know what the financial repercussions will be if your council's transformation activity fails to meet its savings targets?		
Is your council's transformation activity supported by good governance arrangements and robust management?		
Do you know if the governance arrangements factor in time needed to ensure projects are properly scoped?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Financial planning		
Does your council have medium and long-term financial planning in place?		
Does your council link budgets to plans and outcomes and report on these?		
Generating income		
Do you know what options your council is considering to maximise income?		
How is your council considering the impact that these changes might have on equalities?		
If your council is considering generating commercial income, do you know how it plans to mitigate the risks?		
Partnership working		
Does your councils consider sharing services in options appraisals and change programmes?		
Do you know if there are processes in place in your council to facilitate collaborative working on a local, regional or national basis?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Integrated joint boards		
Do you know how your council is ensuring the good governance and financial sustainability of its Integration Authority?		
Do you know what your council is doing to ensure that it works with partners to be more open and realistic about changes needed?		
Community empowerment		
Does your council engage with communities in decisions about services, budget proposals and priorities?		
Are you clear what community empowerment involves and what it means for your council?		
What is your council doing to implement community empowerment arrangements at a local level?		
Does the Local Outcome Improvement Plan focus on areas where the Community Planning Partnership can make the biggest impact?		
Do you know what your council is doing to reach out to 'seldom heard' and disadvantaged groups?		
What is your council doing to ensure that one per cent of revenue budgets is allocated through participatory budgeting by 2020/21?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Workforce		
What is your council doing to ensure that it has the right capacity, skills and leadership in its workforce?		
What training does your council make available to officers and councillors to ensure that they have the skills to deliver services in the future?		
Does the training you are offered meet your needs? If not, do you know who to speak to?		
Does your council have an organisation-wide workforce plan? Does it contain information about the numbers, costs and skills of the actual and desired workforce?		
Do you know how your council is ensuring that changes to staff numbers and working practices do not have a negative impact on morale and wellbeing?		
Strategic priorities and performance reporting		
Does your council clearly link its budget setting to its strategic priorities and plans?		
Are you assured that performance reporting by your council is accurate and accessible?		
Can your council demonstrate progress in delivering its key outcome priorities?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Service performance		
Does your council make use of the Local Government Benchmarking Framework data to consider where and how it might make improvements to service delivery?		
Have you considered what lessons you can learn from other councils who are delivering services well?		
Do you know the impact of spending reductions on the services your council provides?		
How is your council adjusting to meet changing demands for care services? How is this reflected in the performance data?		
Do you know what your council is doing to ensure that it understands how satisfaction with different services is changing?		
Is your council meeting its statutory duty to provide temporary and settled accommodation to households assessed as homeless?		

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WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 12 June 2019

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**Subject: Accounts Commission Report: How councils work -
Safeguarding public money: are you getting it right?**

1.   Purpose

1.1   The report is to provide Members with information regarding a report recently published by the Accounts Commission as prepared by Audit Scotland.

2.   Recommendation

2.1   The Committee is invited to:
- Note the attached report along with the series of checklists contained therein; and
- Consider whether a future Elected Members' development session should take place in relation to this report.

3.   Background

3.1   The Accounts Commission aims to help councils improve their use of public money, alongside its role as the local government public spending watchdog. The *How councils work* (HCW) reports support councils' drive for continuous improvement. Topics are selected from recurring themes in Best Value assurance reports; performance audits; the work of councils' external auditors; and the annual overview of local government.

4.   Main Issues

4.1   The report is divided into three main sections:

- Internal controls help councils to manage risk
- Weak controls can have serious consequences
- Officers and councillors both have important roles

4.2   The "About this report" section of the report includes the following information:

- *"Scotland's councils face complex, challenging financial pressures. Rising demand for many of the diverse services councils provide must be met despite tightening budgets for numerous services, and significant uncertainty stemming from external factors including the UK's planned withdrawal from the EU."*

- *"In 2017/18, councils' net revenue expenditure totalled £12.4 billion. If councils could save one per cent by improving their financial management, risk management and internal controls, they could potentially free-up an extra £124 million for providing public services.";* and

- *"Scotland's 1,227 councillors have multi-faceted responsibilities and constantly make difficult decisions when prioritising and allocating their council's finite resources. With so much at stake, it is more important than ever that the impact of their decisions on communities and individuals is transparent and clearly understood. This requires an organisational culture that is open to candid discussions about risks and recognises the importance of scrutinising decisions".*

4.3   The report contains a number of key messages:

- *"An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services. Controls include procedures for paying the right sum of money to the right person at the right time; keeping confidential data secure; and minimising a council's exposure to fraud and corruption."*

- *"There are signs from councils' internal auditors and the work of councils' external auditors that standards of internal controls may be strained. Some recurring weaknesses are becoming apparent among councils and the consequences could be serious, including the loss of significant amounts of public money, impacts on services and reputational damage."*

- *"Ultimately, councillors are accountable for scrutinising a council's use of public money. Senior officers have the primary responsibility for ensuring internal controls and risk management operate effectively and that a council's internal auditing function provides a valuable and objective view.";* and

- *"Councillors should seek assurances from officers that a rigorous system of internal controls is in place. Scrutiny and audit committees have leading roles, but every committee and councillor has a scrutiny role too."*

4.4   The report aims to reinforce the importance of councils having effective internal controls. Although these may have a low profile, they are fundamental to maintaining a council's finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong. In places, anonymised, real-life case studies illustrate the importance of internal controls and the consequences if they fail. Checklists are featured to help councillors and officers assess their council's situation and, where necessary, to

identify and plan improvements. The report contains eight checklists on the following areas:

1. Internal controls and risk management;
2. Fraud and corruption;
3. Consequences of weak controls;
4. Audit committee;
5. Partnership working;
6. Councillors' continuing personal development;
7. Statutory officers and chief education officer; and
8. Internal auditing function.

5. Personnel Implications

5.1 There are no personnel implications.

6. Financial and Procurement Implications

6.1 There are no direct financial or procurement implications arising from this report.

7. Risk Analysis

7.1 This report from the Accounts Commission provides Elected Members and Officers with a useful tool to support their complex and evolving role. It aims to help them review their practice and to take any necessary actions to ensure that the Council's governance arrangements remain fit for purpose.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

10.1 The report is for noting and, therefore, does not directly affect any of the strategic priorities.

....
Stephen West
Strategic Lead - Resources
Date: 13 May 2019

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Person to Contact: Colin McDougall, Audit Manager
                           Telephone 01389 737436
                           E-mail – colin.mcdougall@west-dunbarton.gov.uk

Appendices: Appendix 1**:** Accounts Commission Report: How
                           councils work - Safeguarding public money: are you
                           getting it right?

Background Papers: None

Wards Affected: N/A

How councils work:
an improvement series for councillors and officers

Safeguarding public money: are you getting it right?

ACCOUNTS COMMISSION

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

Contents

Audit team

The core audit team consisted of Carol Calder and Douglas Black, with support from other colleagues, under the general direction of Antony Clark.

Links

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Key messages

Councils provide valuable public services but face a complex, uncertain environment that places evolving demands and expectations on them. Increasingly, councils deliver services through multi-faceted partnership working across organisational, functional and geographical boundaries – such as for the provision of health and social care services.

It is challenging for councils to prioritise how they use their finite resources. Councils' decreasing budgets contrast with rising demands on many of their services, including care of vulnerable elderly people. This means that effective risk management and strong internal controls are more important now than ever before.

1 An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services. Controls include procedures for paying the right sum of money to the right person at the right time; keeping confidential data secure; and minimising a council's exposure to fraud and corruption.

2 There are signs from councils' internal auditors and the work of councils' external auditors that standards of internal controls may be strained. Some recurring weaknesses are becoming apparent among councils and the consequences could be serious, including the loss of significant amounts of public money, impacts on services and reputational damage.

3 Ultimately, councillors are accountable for scrutinising a council's use of public money. Senior officers have the primary responsibility for ensuring internal controls and risk management operate effectively and that a council's internal auditing function provides a valuable and objective view.

4 Councillors should seek assurances from officers that a rigorous system of internal controls is in place. Scrutiny and audit committees have leading roles, but every committee and councillor has a scrutiny role too.

About this report
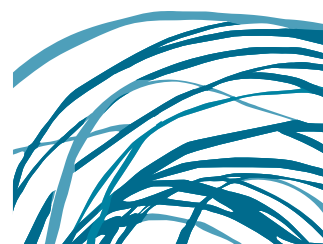
1. The Accounts Commission aims to help councils improve their use of public money, alongside its role as the local government public spending watchdog. Our *How councils work* (HCW) reports support councils' drive for continuous improvement. We select topics from recurring themes in our Best Value assurance reports; performance audits; the work of councils' external auditors; and our annual overview of local government.

2. Our previous HCW reports have examined:

- The roles, responsibilities and working relationships of councillors and council officers in achieving Best Value ⊕ (2010); and a follow-up ⊕ (2016).

- The relationships between councils and their arm's-length external organisations (ALEOs) ⊕ (2011).

- The value of good-quality cost information in making informed policy decisions and scrutinising performance ⊕ (2012).

- The importance of effective performance management systems ⊕ (2012).

- Good practice in managing councils' major capital investments ⊕ (2013).

- Charging for council services ⊕ (2013).

- Options appraisal ⊕ (2014).

3. Scotland's councils face complex, challenging financial pressures. Rising demand for many of the diverse services councils provide must be met despite tightening budgets for numerous services, and significant uncertainty stemming from external factors including the UK's planned withdrawal from the EU.

4. In 2017/18, councils' net revenue expenditure totalled £12.4 billion.[1] If councils could save one per cent by improving their financial management, risk management and internal controls, they could potentially free-up an extra £124 million for providing public services.

5. Scotland's 1,227 councillors have multi-faceted responsibilities and constantly make difficult decisions when prioritising and allocating their council's finite resources.[2] With so much at stake, it is more important than ever that the impact of their decisions on communities and individuals is transparent and clearly understood. This requires an organisational culture that is open to candid discussions about risks and recognises the importance of scrutinising decisions.[3]

6. This report aims to reinforce the importance of councils having effective internal controls. Although these may have a low profile, they are fundamental to maintaining a council's finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong. In places, anonymised, real-life case studies illustrate the importance of internal controls and the consequences if they fail. Checklists are featured to help councillors and officers assess their council's situation and, where necessary, to identify and plan improvements.

7. The Accounts Commission expects councillors to use this report to ensure that they:

- have a good understanding of the main risks facing their council and how well these risks are being managed

- are assured that appropriate internal controls are in place and, where weaknesses have been identified, effective action is being taken to address them

- are kept aware of the outcome of any significant risk occurring; the failure of internal controls; and what remedial actions are being taken.

Part 1

Internal controls help councils to manage risk
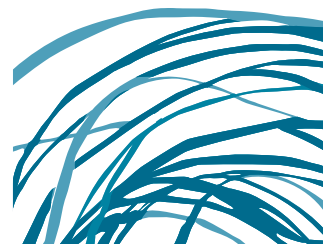
Councils can use internal controls to manage risks

A control is an action taken by management … to manage risk and increase the likelihood that established objectives and goals will be achieved.[4]

8. A council is responsible for having an effective system of internal controls to safeguard public funds and help secure value for money. A system of internal controls has five main components (Exhibit 1).

Exhibit 1
Internal control components
The five main components are interdependent.

Control environment
The overall attitude, awareness and actions of councillors and senior officers to control activities and their importance in the council. This includes the high-level structures, culture and values across the council to provide a basis for carrying out internal controls.

Risk assessment process
Risk assessments should be carried out regularly. By identifying and evaluating risks, the council can assess the need for control activities.

Information systems
Councils use these systems (manual and computerised) to record financial transactions and non-financial data; and maintain accountability for related assets, liabilities and equity.

Control activities
Policies and procedures that senior management apply to ensure that their decisions and instructions are implemented; and risks are mitigated (treated) to achieve their objectives.

Monitoring of activities
Ongoing assessment by management of the control system's performance. Communication helps to monitor progress against the council's objectives.

Source: Financial Reporting Council

9. Control activities help to ensure council policy is applied, and they can generate feedback on whether intended actions were implemented and achieved their desired objectives. They comprise policies that establish what should be done, and procedures to implement these policies. In addition to the component arrangements for handling risk, five control categories are identified in the International Standards on Auditing, regarding the sorts of areas where risks occur:

- Authorisation
  - Officers handle only those processes and transactions that fall within the scope of their role.

- Physical
  - The physical security of assets, including adequate safeguards such as secured access to premises and records.
  - The authorisation for access to computer programs and data files.
  - The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).

- Information processing
  - Allow data to be processed in a specific way.
  - Application controls, which apply to the processing of individual tasks. Examples include checking the arithmetical accuracy of records, and manual follow-up of computer-generated exception reports.
  - General ICT controls, which are policies and procedures relating to many applications, such as controls that restrict access to computer systems which could change financial information without leaving an audit trail.

- Performance reviews
  - Monitoring performance versus budgets, forecasts, and prior period performance; and reviews comparing different data sets.

- Segregation of duties
  - Assigning different people the responsibilities of authorising transactions, recording transactions, and maintaining custody of assets. This is intended to reduce opportunities for someone to both perpetrate and conceal errors or fraud.[5]

10. It is the responsibility of officers to develop, implement and maintain reliable controls. Accounting regulations require a council to review, at least annually, the effectiveness of its system of internal controls. The findings from such a review must be considered by the audit committee (or equivalent) before it approves the council's annual governance statement, which is included in its published annual accounts.[6] The governance statement is where a council reports publicly on the extent to which it complies with its own code of governance, which in turn should be consistent with good governance principles. It should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the council's code of governance

- reference to, and assessment of, the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment

- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework

- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues

- reference to how issues raised in the previous year's annual governance statement have been resolved

- a conclusion – a commitment to monitoring implementation as part of the next annual review.

11. A council's external auditor is required to express a separate opinion in their independent auditor's report on whether:

- the information given in the council's annual governance statement is consistent with its financial statements

- the annual governance statement has been prepared in accordance with the *Delivering good governance in local government: framework 2016*.[7]

Risk management helps to safeguard public money

Risk management is about identifying risks; assessing the impact they will have if they come to pass; the likelihood of that happening and making plans to mitigate, or 'treat', those risks.[8]

12. A council needs to understand its risks before it can manage them, and each council will have its own set of local circumstances, risks and challenges. Councils have some risks in common but their level and how they manifest themselves vary from place to place and over time. Risks can arise or change owing to factors such as: changes in the regulatory or operating environment; recruiting new staff and staff turnover; implementing revamped or new information systems; adopting new technologies; and organisational restructuring. Understanding and proactively acting on risks reduces the likelihood of a council being impacted by adverse events; suffering a policy or service failure; or omitting to benefit from opportunities.

13. The impact of risks can be categorised in various ways and here is one approach for illustration:

- Compliance – with laws, regulations and good practice.

- Finance – risks to the funding available for providing quality services; and to the council's ongoing financial sustainability.

- People – risks to employees' health, safety, wellbeing and morale; and to the organisational culture within services and the council overall.

- Reputation – risks to a council overall, its values, councillors and officers.

- Change – including risks with major construction projects and a council's organisational transformation plans.

- Impact – including the consequences of bad weather for services, and a council's responsibility to champion and demonstrate good practice concerning its social responsibilities.

14. A council is responsible for having an effective and appropriate risk-management function.[9] A good practice approach consistently integrates planning and risk management at corporate and service levels, and helps a council to:

- set and achieve its strategic objectives

- comply with its legal and policy obligations

- ensure the rigour of its decision-making

- prioritise the allocation and use of its finite resources

- deliver high-quality services.

15. A risk management cycle typically has seven steps (Exhibit 2). An underlying principle is to identify risks and their root causes at the earliest opportunity; assess risks' potential impact; introduce controls to mitigate (treat) those risks; and continually review the council's position.

Exhibit 2
Risk management aspects
There are seven key steps.

1		**Identify** the risks to the council
2		**Assess** the impact of the results
3		**Assess** the likelihood of the risks occurring
4		**Prioritise** all risks, assessing the principal risks
5		**Identify** how controls can be put in place to help mitigate risks
6		**Monitor** risks and the effectiveness of controls
7		**Report** regularly to senior officers and to councillors

Source: Audit Scotland

A council needs to use one or more risk registers
A risk register is a key document which, together with service performance data and financial information, equips senior officers and councillors with an assessment of a set of issues.[10]

16. A risk register supports the identification, assessment and monitoring of risk. It can inform the understanding of trends; drive action planning; and help in sharing good practice across the council. A large, complex organisation like a council is likely to need a strategic, corporate-level risk register; and a more operationally focused risk register for each service and major programme of change or development – such as improvements to the school estate or a major new ICT programme. A risk register can capture where key risks sit and:

- the ownership and responsibility for how each risk will be managed

- the regularity of reports to officers and councillors on the handling of risk

- the basis for periodically updating the council's approach to risk.

17. Once a risk is identified, its significance is assessed in terms of the likelihood of it occurring and, if it occurred, what the consequences would be. Typically, likelihood is categorised on a numerical scale such as one to five, with one being rare and five almost certain. Impact will also be assessed on a similar scale, with one being insignificant and five being severe. Likelihood and impact are multiplied to obtain a single overall risk score between one and 25.

18. Few risks can be avoided altogether but an effective, self-aware risk culture enables councillors and officers consciously to take the right risks in an informed, responsible way. A council that is consistently risk-averse may not be well-placed to benefit from new opportunities. How acceptable a risk is deemed to be will depend on the type of risk involved; may vary among council services; and be influenced by factors such as the sums of money involved, or the potential consequences should the risk materialise.

19. It is for each council to have a clear approach to managing risk and articulating its risk appetite in ways that balance risk and opportunity and reflect the specific and varied nature of risks across different service and policy areas. For example, a council's risk appetite could range between being risk-averse (where the avoidance of risk and uncertainty is a key organisational objective) and risk-hungry (where the council is eager to be innovative and to choose options offering potentially higher rewards, despite greater inherent risk).

20. A council must monitor and control risks. It is important to evaluate each risk's score before and after mitigating action to curb it. Based on a risk's score, there are four options. In picking one, factors to consider include costs, feasibility, probability, and potential impact.

- Terminate – avoid the risk altogether by deciding not to proceed with an activity. For example, if a project is very high-risk, it may be prudent to cancel the project altogether or handle it differently.

- Transfer – to another person or organisation that bears all or part of the risk. This could mean moving some work to a different type of organisation; working in partnership to share the risk; or taking out insurance.

- **Mitigate** – identify measures to reduce the risk. Risks should be monitored regularly to ensure mitigation measures remain effective.

- **Tolerate** – it is sometimes appropriate to accept and live with a risk, for instance if the cost of mitigating it exceeds the potential benefits.

Internal controls and risk management are increasingly important

21. The outlook is that reductions in funding for councils may increase financial pressures on them, especially in services that are unprotected by funding dedicated to their sole use – such as road maintenance, waste disposal and 'back-office' functions such as finance, personnel and ICT services.

22. Further savings will become progressively more important to councils' financial sustainability but could be increasingly difficult to achieve.[11] Sound internal controls are therefore essential for ensuring councils can extract the maximum possible value from their budgets within a tolerable level of risk. Risk is often unavoidable, but it always needs managed actively. The rewards in a well-managed situation can outweigh the risks for individuals, councils and for residents.

Councillor checklist 1

Internal controls and risk management

The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?
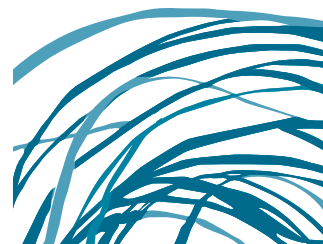
Internal controls

- Do internal controls link with key corporate and service-level risks?

- Do internal controls apply to both financial and non-financial risks?

- Has the council identified the weakest internal controls?

- Are officers improving weak internal controls and minimising the risks they pose?

- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?

- Does the audit committee take appropriate action?

- Does the council publicly review its system of internal controls annually?

Risk management

- Is risk management actively led, supported and promoted by councillors and senior officers?

- Does the council have an up-to-date, corporate-level, risk management strategy?

- Does the corporate risk management strategy address the council's risk appetite?

- Does the council have up-to-date corporate-level and service-related risk registers?

- Is risk management embedded in business practices at both corporate and service levels?

- Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?

- Are key risks and action to mitigate them monitored and reported on throughout the year?

- Do officers' reports to committees cover both financial and non-financial risks?

- Is there sufficient, timely training and ongoing support on controls and risk for you and relevant officers?

Part 2

Weak controls can have serious consequences

There are signs that standards of internal controls may be strained

23. An effective system of internal controls works to prevent foreseeable problems from happening in the first place. When things do go wrong, symptoms of significant weaknesses in controls can include:

- Major financial transactions are not appropriately scrutinised by councillors.

- Fraud is not prevented by the council's internal controls.

- A risk assessment process is absent, where it would ordinarily be expected.

- The council's risk management process does not identify where risk assessment is ineffective, such as a failure to identify a risk of material misstatement in the annual accounts.

- There is an ineffective response to identified significant risks (for example, an absence of controls over such a risk).

- Previously issued financial statements have had to be reissued to correct a material misstatement due to error or fraud.[12]

24. However, developing and implementing an internal control is not cost-free and implementing increasing numbers of controls may not be helpful or sustainable. Consequently, there are balanced judgements to be struck. The challenge is to consolidate only the most suitable controls into systems and operations.

External auditors report their concerns about controls

25. Through their audit reports and plans, councils' external auditors flag concerns about councils' internal controls as a result, for example, of the trend in reduction of finance staff. Recurring weaknesses are becoming apparent with certain types of controls, particularly those relating to:

- information processing controls, such as for key financial systems

- performance reviews, such as making effective use of computer-generated reports that usefully highlight patterns and exceptions

- segregation of duties, including ensuring that a council officer cannot perform both Human Resources (HR) and payroll functions, and so create fictitious employees; and ensuring an officer cannot both make a purchase from a supplier and arrange the payment for it.

26. Case studies in <u>Exhibit 3 (page 16)</u> illustrate a range of situations where:

- controls worked well

- controls were weak, but problems were averted

- weak controls enabled a problem to occur, but corrective action was taken.

The failure of internal controls can cause numerous problems

Public money can be lost

27. Even where a council's controls are theoretically robust, risks can arise if they are implemented weakly <u>(Case study 1)</u>. Controls need to be applied:

- consistently – by all relevant parts of the council and its various services

- responsively – in good time, such as when one part of the council relies on being supplied with information by another council function or service

- sustainably – without intermittent interruptions in their use.

Case study 1

Overpayments to current and former employees cost a council £21,000

Between April 2015 and February 2018, the council made over 800 salary overpayments totalling approximately £812,000 to a combination of actual and former employees. An eighth of former employees were still paid after leaving the council, usually due to a delay in a department notifying Payroll Services staff that someone had left. Six overpayments exceeded £10,000 and the highest was £15,500. At the time of the external audit, there were no documented procedures for preventing or recovering payroll overpayments. In March 2018, the council issued a Payroll Overpayment Process Guide, which outlined the steps to recover an overpayment of salaries/wages. In April 2018, in conjunction with HR, Payroll Services also issued procedural guidance to managers on avoiding salary overpayments. By March 2018, the council had:

- Recovered around £351,400 of overpayments, taking an average of 101 days, and written off £21,000.

- Recovered 58 per cent of overpayments from actual employees and 27 per cent from former employees.

Source: Audit Scotland

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Exhibit 3
Control activity case studies
There are five categories of control activities.

Control activity	Controls worked well
Authorisation controls	**Authorisation controls**
Officers handle only those processes and transactions that fall within the scope of their role. For example:	Journal entries are raised and approved by different officers, as appropriate. Each journal entry is supported with back-up detail that enables the authoriser to know the journal entry is correct.
• The purchasing manager evidences authorisation of a purchase requisition through their signature. • The head of HR reviews and signs off the payroll before payments are made to employees.	
Physical controls	**Physical controls**
Controls over access to files ensure that data is restricted to authorised users; and only changed if permitted. For example: • Buildings are secured by keycard locks. • Safes are locked routinely. • Fire and burglar alarms are maintained. • Access to computer servers is restricted.	An officer's access rights to the council's IT network are automatically removed at midnight on the day s/he leaves the council. The system is linked to leaving dates held in the HR and payroll systems. The same process automatically removes access to third parties who have been granted temporary access to the council network. Additionally, inactive computer accounts are automatically disabled after 30 days.
Information processing controls	**Information processing controls**
Allow specific data to be processed in a specific way. For example: • Application Controls typically apply to the processing of specific types of transactions, such as invoicing customers or paying suppliers. • IT General Controls help ensure the secure, continuing operation of information systems.	The council purposely tolerates low reported levels of Blue (disabled parking) Badge misuse because pursuing the return of a badge when its holder dies could be insensitive. Instead, the council's Blue Badge team receives updates on deceased customers through the UK-wide 'Tell Us Once' scheme. A person's badge is cancelled through the national Blue Badge system and the local Parking Unit is informed.
Performance reviews	**Performance reviews**
Allow management to review information to highlight any exceptions. For example: • Senior officers regularly use computer-generated reports that show exceptions to normal patterns. • There are regular reviews of debtors. • Actual spend is compared to the original budget.	A comprehensive compliance system produces weekly reports on processing activity and accuracy. Reports detail trends in processing errors detected through the quality procedures in place and they report on bank amendment reviews. Reports are also reviewed monthly by the director and the head of accountancy. This approach allows senior management to identify issues with individuals; spot trends; and target staff training.
Segregation of duties	**Segregation of duties**
Mitigates a risk that people could commit a fraud or error and conceal it. For example: • Access to payments and supplier accounts is controlled. • HR staff cannot also access the payroll function.	The council introduced a new computer system that integrated the management of HR, payroll, and financial management functions. The risk of fraud was minimised by consulting internal audit at the design stage, and ensuring that officers could not access multiple parts of the computer system, and so arrange to create and pay a fictitious employee.

Exhibit 3 (continued)

Controls were weak, but problems were averted	Weak controls enabled a problem to occur
Authorisation controls Documents setting out the council's financial management and governance arrangements referred to superseded structures and roles. Differences between obsolete written procedures and the processes actually being followed meant that controls were weakened, or not fully complied with. The council brought its Scheme of Delegation into line with its revised structure and strengthened its related controls.	**Authorisation controls** The council approved a new Scheme of Governance including refreshed Financial Regulations. These required purchase orders to contain a contract reference number. Orders for £50,000 or over should be approved by an officer at Head of Service level or above. In one year, 117 orders for £50,000 or over were raised through the council's procurement system. Of these, 73 per cent had neither head of service nor committee approval because of weak application of the control.
Physical controls There was no formal communication process to ensure access to IT systems was removed promptly when an employee left the council. This generated a risk of fraud or manipulation of systems by former employees. Arrangements are now in place that automatically remove access rights to the council IT network at midnight on the day someone leaves the council. This is linked to leaving dates held by HR and the payroll system.	**Physical controls** Mobile telephones worth £5,400 were stolen from a council store. The door entry system's code was widely known among employees; fire exits were left open; and the phones were not recorded on the council's asset tagging system on delivery. An internal audit review introduced improved controls, including periodic changes to door entry codes, closing fire doors, regular physical checks of stock, and applying the council's asset tagging system.
Information processing controls Information from a third party suggested an adviser of a consortium delivering a project had falsified claim evidence. This consisted of emails about client activities, which the adviser could edit. Evidence of eligibility of benefits and identification was tampered with. The investigation by the internal audit section prevented payment on the ineligible claims. The adviser resigned. Controls and evidence standards have been tightened, and consortium supervisors have been trained about tampered evidence.	**Information processing controls** Confidential tax forms containing personal data on around 900 actual or former employees were sent to the wrong people. The council apologised to affected people, and reported the breach to the Information Commissioner's Office. The internal audit section found procedures had been in place, but human error had occurred. Remedial actions comprised revised procedures with additional quality assurance.
Performance reviews An exercise to check payroll data with service managers was two years old. Dated and incomplete checks risked undetected payroll errors. Personnel conducted a full verification exercise, but services responded on only 79 per cent of staff. The council further improved its verification of payroll data. Overall, overpayments are now a small percentage of the paybill and are pursued to ensure repayment.	**Performance reviews** An officer diverted £6,000 of school fund income, triggering an internal audit investigation. The fraud was possible because reconciliations and spot checks on accounts and cash balances were not made. The employee denied theft but admitted failing to bank school fund income. A report was made to the Procurator Fiscal. Regular checks and bank reconciliations, signed off by the headteacher, have been introduced by the council to deter a recurrence.
Segregation of duties Five council officers had access to both the HR and payroll areas of the council's computer system, potentially enabling them to create – and pay – a fictitious new employee. The council is undertaking a comprehensive review and implementing a new 'people manager module' to change some HR staff's access permissions to computer systems.	**Segregation of duties** A £1.1 million fraud spanning over five years was detected when year-end procedures found that an invoice for £7,000 lacked supporting evidence. A payment had been made to an officer who could insert fake invoices and suppliers' details. Internal audit and Police Scotland found fundamental control weaknesses. The officer was jailed for over five years. All but £19,000 is being recovered, and controls have been improved to help avoid further anomalous payments.

Source: Audit Scotland

Public money can be lost through corruption or fraud

28. Fraud and corruption can be perpetrated in various ways that can include, for example, fraud or corruption by a council officer or a councillor; a resident attempting to exploit a service; or a fraudster acting alone or in a wider plot. Councils' internal auditing functions routinely share intelligence on actual or potential frauds, enabling them quickly to review the suitability of their own controls. Some councils have teams of officers dedicated to counter-fraud work, and others rely primarily on officers within the internal audit section alone.

29. The National Fraud Initiative (NFI) is a UK-wide, counter-fraud exercise that is conducted every second year and is coordinated in Scotland by Audit Scotland. It uses computerised tools to compare information on people held by different public bodies and on different financial systems. The NFI identifies potential inconsistencies, called 'matches', that suggest potential fraud or error. Examples include matching council tax records to the electoral register, to spot unreported changes affecting a resident's eligibility for a council tax discount.

30. The most recent NFI exercise, on 2016/17, identified £18.6 million of 'outcomes' in Scotland including around £11.9 million among councils (Exhibit 4, page 19).[13] An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples include housing benefits being stopped or reduced; council tax discounts being reduced or removed; and 'Blue Badges' for parking being stopped or flagged for future checks. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls. Once an overpayment has been identified, a council can consider how to recover the money involved. The NFI also has an important deterrent effect that cannot be measured.

31. Most public bodies take advantage of opportunities provided by the NFI, and Audit Scotland disseminates information on instances of fraud in its quarterly technical bulletins. The frauds they cover have all been facilitated by people exploiting weaknesses in internal controls. Councils could use the NFI and these bulletins to consider promptly whether the same weaknesses apply in their own systems and what the necessary remedial actions may be for them.

32. Councils should ensure they have sufficient capacity in place to prevent frauds; investigate suspicious matches or other problems; and correct errors. It is more cost-effective to invest staff time in deterring or preventing fraud using good internal controls than to take remedial action afterwards. Investigating a fraud can cost a great deal of staff time and prosecuting a fraudster can incur substantial legal costs with no guarantee that the money lost will be recovered. It is for each council to decide how to organise, resource and pursue its fraud work.

Exhibit 4
The results of the 2016/17 National Fraud Initiative in Scottish councils
The NFI identified £11.9 million of 'outcomes' among councils.
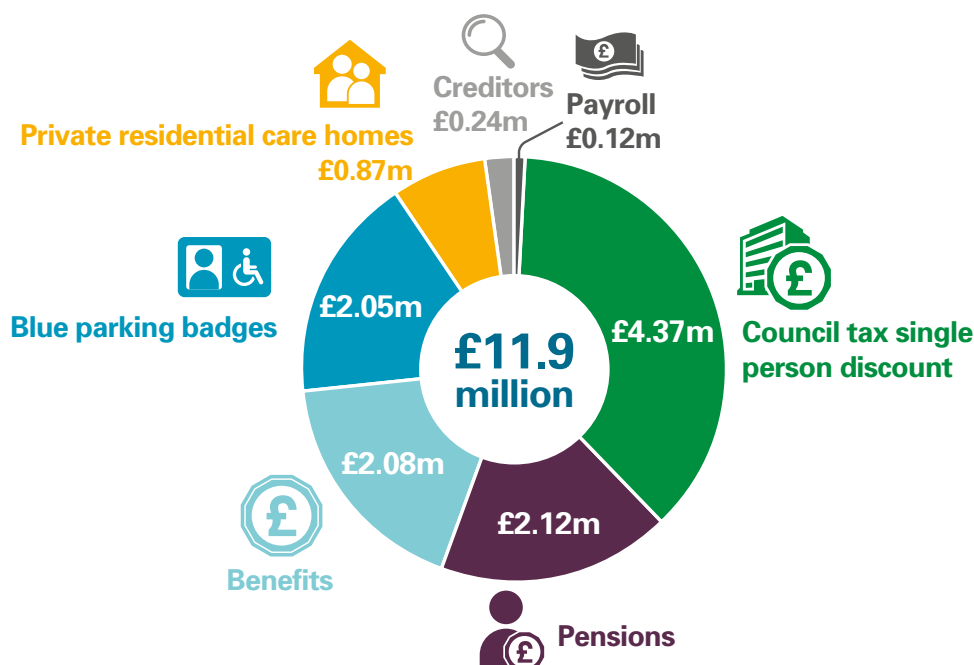
These four aspects jointly accounted for 90 per cent of the NFI savings identified in councils

Council tax
People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount.

Pensions
The NFI provides councils that administer pensions with an efficient and effective way of checking that they are paying the right pension to the right people; are not paying pensions to retirees who have died; and take account of people who retired but later returned to work.

Benefits
The NFI helps councils and the UK's Department for Work and Pensions to identify benefit frauds and errors – often caused by undeclared occupational pensions and undeclared public sector employment.

Blue parking badges
People with mobility problems can park for free in certain circumstances. Sometimes, a badge is used or renewed after the badge holder has died. Councils do not always try to recover a deceased person's badge to avoid distressing their family. But councils can ensure a badge is not renewed incorrectly.

These three aspects jointly accounted for ten per cent of the NFI savings identified in councils

Housing
This includes continuing to make payments to a care home for a resident after the person has died.

Creditors
The NFI helps to identify duplicate payments and ensure payments are made only to appropriate creditors.

Payroll
For example, legitimate employees may be in breach of their conditions of service or European Union working time limits; some employees could be working illegally in the UK; a council could inadvertently continue paying a former employee, or overpay a current employee.

Note: Some figures include late outcomes from the 2014/15 NFI work.
Source: Audit Scotland

Weak controls can have many other consequences

33. These can include an impact on:

- confidence in the council's integrity and reliability, including among residents, other public bodies and the council's business partners

- compliance with legislation and regulation, with the potential for costly and time-consuming legal action, such as on public liability matters

- the security of confidential financial, commercial and personal data

- the funding available for providing public services

- specific individuals – for example, if their confidential information is inadvertently published, or their personal safety is jeopardised

- additional external audit work.

Councils have duties to whistleblowers

Whistleblowing is about ensuring that if someone sees something wrong in their workplace, they are able to raise this within their organisation, to a regulator, or wider.

34. The Public Interest Disclosure Act protects employees and other workers who raise concerns about wrongdoing they believe is occurring. An employee must have a genuine and reasonable belief that the wrongdoing is taking place, and also that the disclosure is a matter in the public interest.[14] Where the statutory conditions are met, the employee should be protected from detrimental treatment. Every council should have a whistleblowing policy which complies with the legislation and the Whistleblowing Code of Practice.[15] A council that does not provide a safe whistleblowing route for its officers could discourage employees from raising legitimate concerns, and miss an opportunity to address a problem before it becomes a crisis.

Controls regarding cyber-security are increasingly important

35. Digital technology is becoming central to the way public services are delivered, with scope to improve and transform services and how users interact with public bodies. Citizens' expectations of public bodies' digital services are also rising. However, there is the potential for inadvertent data breaches, and also for malicious cyber-attacks to access and abuse sensitive information on a huge scale. Councils are required to meet high standards of information security and few serious issues have arisen among councils.[16, 17] Nonetheless, effective internal controls on access to information and its uses remain vital. If a council suffered a serious cyber-attack, the impact could be damaging, sustained, and include:

- interruptions to the provision of public services

- exposure of citizens' money and confidential data to theft and abuse

- financial damage to the council and its commercial partners

- costly remedial work to restore and re-secure computer systems.

Councillor checklist 2

Fraud and corruption

The following questions may help you to think about fraud and corruption in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?
- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councillor checklist 3

Consequences of weak controls

The following questions may help you to think about how your council deals with weak controls.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Controls have practical limitations

36. Since a council constantly evolves, its officers need a programmed approach that updates existing controls and creates new ones as and when required. Internal controls operate within practical constraints, such as when the cost of introducing and enforcing a control would probably outweigh the impact of something going wrong (Exhibit 5).

37. The more senior an officer is, the more authority and opportunity s/he is likely to have for inappropriately overriding well-intentioned controls without being detected. However, the annual audit reports on the 2016/17 external audits of councils found no evidence of inappropriate management override of controls.

Exhibit 5
Internal controls
Numerous factors can limit the system of internal controls.

Relevance/obsolescence
Control-related activities or processes can become irrelevant over time as technologies and business needs change. Changes in key personnel could also cause a control to become obsolete.

Cost
Beyond a certain point, the cost of installing or improving a control could outweigh the benefits likely to be gained from applying it.

Collusion
Two or more officers work together to circumvent existing controls for their own purposes. If officers collude to perpetrate a fraud, typically by overriding management controls, it can be difficult for management to detect it.

Human error
There is always a risk of people making genuine mistakes, including in the operation of control activities themselves. The risk can be exacerbated by factors such as a lack of adequate motivation or training, time pressure, an adverse working environment, or excessive workloads.

Unusual or infrequent transactions
Control activities may be less suited to unusual and/or infrequent types of transactions.

Management override
Many processes have a facility to permit a management override function, so there is a risk that this facility could be abused; for example, by inflating reported figures to boost an officer's reputation.

Source: Financial Reporting Council

Councils' external auditors evaluate their internal controls annually

In determining whether the auditor has identified one or more deficiencies in internal control, the auditor may discuss the relevant facts and circumstances of their findings with the appropriate level of council management. This discussion provides an opportunity to alert management on a timely basis to deficiencies they may not have been aware of.[18]

38. International auditing standards require a council's external auditors to report significant deficiencies in internal controls to its audit committee, regardless of whether the deficiencies have been resolved by council management. This is part of the external auditor's responsibility for assessing the suitability and effectiveness of a council's corporate governance and it includes reporting on whether a council:

- has arrangements to ensure systems of internal control work effectively

- can demonstrate the effectiveness of budgetary controls in communicating accurate and timely financial performance information

- has established appropriate and effective arrangements for preventing and detecting fraud and corruption.[19]

39. Councils have sound, reliable systems of internal control that work well most of the time but can have weaknesses that could be damaging. It is in a council's interest to invest in internal controls that help reduce the risk of problems materialising and safeguard the resources it can devote to public services.

Part 3

Officers and councillors both have important roles

Councillors are ultimately accountable for councils' use of public money

Councillors and council officers have distinct but complementary roles

40. The full council (comprising all elected councillors) is the governing body of the council and determines the council's policy direction. It is ultimately responsible for ensuring that suitable services are delivered by officers. Councillors are elected to determine policy, and the role of officers is to implement these through day-to-day management of services. Officers advise and serve the whole council, and councillors have a right to expect officers to provide them with advice which is expert, impartial and candid.

41. In practice, councillors' responsibilities include:

- oversight of risk and the system of internal controls

- ensuring public money is spent on the council's intended purposes

- protecting public money from misuse, including fraud and corruption

- ensuring public spending is clearly accounted for, and publicly reported on

- scrutinising the council's operation and performance.

Culture and behaviours are important

42. A national code of conduct applies to all councillors. The Ethical Standards in Public Life etc (Scotland) Act 2000 introduced a framework which required Scottish ministers to issue a code of conduct for councillors. The latest version was introduced in July 2018 by the Standards Commission for Scotland. It sets out a range of principles that councillors must follow, including leadership, honesty, objectivity, stewardship and accountability.[20]

43. It is important that:

- full council, cabinet, committee and board meetings are held regularly

- there is trust between councillors and senior officers

- councillors and officers recognise and respect their distinct roles

- a culture of openness to challenge helps councillors and officers to recognise the importance of scrutiny; be open to candid discussions about risks and related controls; and promote this culture across the council and the partnerships it is involved in.

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Scrutiny works best when officers provide councillors with timely, good-quality information

44. A council should be transparent about its decisions and the quality of the services it provides, so that the public and the council's partners can be confident it is making informed decisions; and safeguarding public money. This involves the council's leadership being open to scrutiny and accountable for their plans and performance. Every councillor – not just those who sit on the council's audit committee, scrutiny committee, or equivalent committees – has a valuable scrutiny role to play at corporate, local area and electoral ward levels.

45. Officers are responsible for providing committees with timely, good-quality reports that inform transparent decision-making by councillors. If a significant issue arises in a long gap between committee meetings, it may be helpful for officers to provide councillors with additional, intervening briefings on material developments. Similarly, councillors may need to be proactive in seeking out further information from officers to assure themselves that they have sufficient knowledge to hand before making a difficult decision.

46. Good councillor-officer working relationships are vitally important. It is mutually beneficial for councillors and officers, especially those in the corporate management team, to nurture constructive working relationships. Coalition and minority administrations are now more common and bring a different dimension to communication within councils. They may require a more nuanced approach that balances different political interests and involves compromises across party lines.[21]

The audit committee has an important role

47. This committee (or the equivalent committee that performs this role) provides the council with independent assurance on the adequacy of the council's governance arrangements; risk management framework; internal control system; and the integrity of financial and non-financial performance reporting.

48. An audit committee must have clear terms of reference that set out its members' independent role in scrutinising the council's decisions, performance and risks.[22] The Accounts Commission believes that effective, transparent scrutiny is best achieved when the chair of the committee is not a member of the administration. The chair should provide leadership and critical thinking, and work well with other committee members in scrutinising and challenging the council's work and performance. Committee members need the necessary skills and training to do their job, with ongoing support by officers and access to independent advice.

49. The core functions of an audit committee should include:

- Being satisfied that the council's annual governance statement properly reflects the risk environment and any actions required to improve it, and demonstrates how governance helps achieve the council's objectives.

- Considering the effectiveness of the council's risk management arrangements and its control environment.

- Considering the reports and recommendations of external audit and inspection agencies, along with their implications for governance, risk management or control.

- Reviewing the council's financial statements, the external auditor's opinions and reports to councillors.[23]

50. The audit committee's role in relation to internal audit is to:

- oversee its independence, objectivity, performance and professionalism

- support the effectiveness of its auditing processes

- promote its effective use within the council's assurance framework.[24]

Councillor checklist 4

Audit committee

The following questions may help you to think about the audit committee in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?

- Does the chair of the committee manage committee meetings effectively?

- Does the chair routinely liaise with the head of internal audit before committee meetings?

- Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?

- Does the committee approve internal audit's annual workplan and reports?

- Can internal audit report to senior officers and the audit committee without fear or favour?

- Do officers provide committee members with timely, well-written and useful reports?

- Do internal audit reports set out comprehensively and clearly what needs to improve, and how?

- Does the committee endorse and track improvements proposed by internal audit?

- Has the committee identified the top five risks to the council?

- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councillors should scrutinise risks from partnership working

51. Councils have extensive experience of working closely with diverse organisations. This includes delivering some services through the third and private sectors; and through arm's-length external organisations (ALEOs). It involves partnership working with other public sector bodies such as the NHS and community councils, which have a statutory basis in a council's partnership working too.

52. Changing models of service delivery are bringing more numerous and more complicated partnerships, collaborative ways of working and generating an increasingly complex governance and accountability landscape. On some issues, the centre of gravity in discussion and decision-making is moving away from councils themselves, yet councillors must remain sighted on their duties to their council and their council remains accountable to the local communities it serves.

53. It is therefore increasingly important that councillors and officers have an appropriate level of understanding of their roles and the necessary skills, and are alert to the potential for conflicts of interest. Councillors should expect officers to report to them on the activities, finances and performance of each partnership in achieving its intended outcomes.

Community Planning Partnership ⓘ

54. Community planning is the process by which councils and other public bodies work with local communities, businesses and voluntary groups to plan and deliver better services and improve the lives of residents. The process is led by 32 Community Planning Partnerships (CPPs), each covering a council's geographical area. Governance and accountability arrangements in CPPs are complex given the range of partners involved, all of whom are accountable to different bodies and are not formally accountable to the CPP board.[25] The Local Government in Scotland Act 2003 provided the initial statutory basis for community planning.[26] It aimed to:

- enable public bodies to work together to deal with complex, long-term challenges that a single organisation cannot deal with, for example inequalities in health, employability and levels of crime

- involve local communities more in decisions that affect people's lives.[27]

55. The Community Empowerment (Scotland) Act 2015 introduced new statutory duties for community planning alongside other changes intended to give local people more say in how public services are planned and run.[28] The Scottish Government's statutory guidance on community planning places local communities at the heart of public service delivery and clarifies expectations of CPPs.

56. The act compelled councils to work with their statutory community planning partners to produce a jointly owned Local Outcome Improvement Plan (LOIP). A CPP's board is required to ensure its LOIP focuses on achieving priority outcomes for residents. The act also required each CPP to produce individual Locality Plans for specific communities within the CPP's wider geographical area. These are to reflect the views of local communities; focus on addressing local needs; reduce inequalities; and improve outcomes for a locality's residents. An important function of the CPP's board is to share ownership of the LOIP and Locality Plan(s) and manage their implementation.

ⓘ

Community Planning Partnership (CPP)

A statutory forum for the council, NHS and other public and third sector bodies, such as charities and voluntary groups, to work with local communities to plan and deliver better services.

57. In making tough choices about spending their budgets, councils and their CPP partners should liaise with communities about the sustained impact of decreasing council spending on public services and any opportunities for improving services.[29] Slow progress or insufficient scrutiny of progress by councillors could risk CPP partners, including the council, falling short of their strategic ambitions and adversely affect the public.

58. Having sound controls within the council for community planning matters will reinforce transparent decision-making and support scrutiny of councils by the public. For its part, the council needs suitable internal controls for managing the risks that it may be exposed to. There are particular risk and control issues associated with community asset transfers, in which communities choose to take responsibility for specific land and buildings from the council. Well-intended residents may lack the council's expertise in financial management, property management and service delivery. The council therefore has a responsibility to conduct due diligence work on the community organisation that would assume responsibility for any transferred asset.

Health and social care integration (i)

59. The Public Bodies (Joint Working) (Scotland) Act 2014 aims to ensure that health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting. The reforms affect everyone who receives, delivers and plans health and care services in Scotland. The Act was intended to help shift resources away from the acute hospital system towards preventative and community-based services. However, there is still a lack of agreement about whether this is achievable in practice.

60. The act requires councils and NHS boards to collaborate in new partnerships, known as Integration Authorities (IAs). The size of IAs varies depending on council boundaries. NHS boards have between one and six IAs within their boundary.[30] Of the 31 IAs in Scotland, 30 are Integration Joint Boards (IJBs) and in Highland the NHS board and council each lead integrated services. Clackmannanshire and Stirling councils have created a single IA with NHS Forth Valley. A report produced by Audit Scotland in November 2018 found that:

- numerous IAs have had leadership changes in the past few years

- there is significant variation in the role and remuneration of IAs' chief officers (COs) and chief financial officers (CFOs)

- there is evidence of a lack of support services for IAs, in relation to HR, finance, legal advice, improvement, and strategic commissioning. This will limit the progress that they are able to make

- cultural differences between partner organisations are proving to be a barrier to achieving collaborative working.[31]

61. An IJB is a separate legal entity that is responsible for strategic planning and commissioning of health and social care services across a partnership's area. Membership of the IJB comprises a mix of voting and non-voting members. It includes elected members from the council; non-executive directors from the NHS; and representatives from service users, carers and the voluntary sector. The IJB must appoint a chief officer and finance officer (who may also be chief officer).

Integration authority (IA)

A partnership between a council and the NHS to ensure health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting.

Integration Joint Board (IJB)

A separate legal entity, responsible for strategic planning and commissioning of the wide range of health and social care services across the partnership's geographical area.

A short guide to the integration of health and social care services in Scotland ⊕ April 2018

Health and social care integration – update on progress ⊕ November 2018

62. A council and NHS board delegate budgets to the IJB, which decides how to use this funding to achieve its objectives. The IJB directs the NHS board and council to deliver public services. In 2017/18, IAs directed £8.9 billion of health and social care resources. IJBs directed £8.3 billion of this, money previously managed separately by councils and NHS boards. In total, 29 per cent (£2.4 billion) of IJB funding was allocated from councils and £5.9 billion (71 per cent) from the NHS.[32]

63. The scale and complexity of ongoing organisational change; significant financial and demographic pressures; and the level of resources involved make it imperative that councils, NHS boards and IAs have rigorous systems of risk management and internal control. It is important that risk management and assurance arrangements apply across IAs and their health and social care partners so that risks from delegated services are regularly monitored.

64. With partnership working increasing in scope and complexity, the corresponding nature of evolving controls may itself pose a risk to effective oversight and scrutiny by councillors and a council's senior officers. A councillor who sits on an IJB needs to be clear about the expectations of their role and alert to scope for conflicts of interest between their council and its partners.

Arm's-length external organisations ⓘ
65. These organisations (ALEOs) have been established by many councils to deliver services traditionally provided by a council itself, such as leisure centres and parks. Councillors have a leadership role in the options appraisal process that makes the case for establishing an ALEO at the outset. For example:

- Have officers provided councillors with all the information they need to make informed decisions about risks and benefits?

- Is the risk of failure so high that risks are better managed in-house?

- Are the likely benefits of options other than ALEOs outweighed by their implementation costs?

- Are there opportunities to share risks and benefits with partner bodies?[33]

> ⓘ
> **Arm's-length external organisation (ALEO)**
> A separate organisation that is established by a council to provide services on its behalf.
>
> *Councils' use of arm's-length organisations* ⊕ May 2018

66. ALEOs can bring financial and operational benefits, with more potential for innovation but also considerable risks. Once an ALEO is operating, councillors need to oversee its financial and service performance; financial sustainability; associated risks; and seek assurance from council officers that suitable controls are in place for managing these risks. Risks include a potential conflict of interest where a councillor sits on an ALEO's board, especially should it encounter financial difficulties.

67. Oversight, accountability and good management are essential. In managing their links with ALEOs, councils should continue to apply the statutory code of practice on Following the Public Pound and annually review the governance arrangements for its links with major ALEOs.[34] It is also councillors' responsibility to decide whether an ALEO remains the optimum way of providing a service or whether there are other valid options, such as bringing a service back in-house.

City region and growth deals ⓘ

68. These are agreements between the UK Government, Scottish Government, and councils' other regional partners. They are intended to help deliver long-term strategies that improve regional economies. Each deal is specific to its region and can include measures relating to issues such as housing, transport, infrastructure and culture. They provide regions with the opportunity to set their own priorities and decide where to target investment, through programmes agreed among a deal's partners. In return, the UK Government and Scottish Government contribute funding for Scotland's six City Region deals (Exhibit 6). Deals differ in their stage of development and funding arrangements.

69. Some councils participating in city region or growth deals may risk gaps between their income and spending in future years, which could threaten their financial sustainability if risks are not managed carefully. So it is important for councillors to:

- ensure their council has clear, effective governance arrangements that underpin partnership working with other organisations in the deal – whether they are in the public, private or third sectors

- ensure council officers are managing suitable internal controls that help to identify and manage risk

- scrutinise the impact of borrowing on their council's revenue expenditure commitments, such as the costs and durations of loan repayments.

> ⓘ
> **City region deal**
> An agreement between the UK Government, Scottish Government and one or more councils to invest in cities and their regions.

Exhibit 6
City region deals and growth deals
There are deals across Scotland.

Geography	Deal type	Participating Scottish councils
Aberdeen City	City region deal	Aberdeen City, Aberdeenshire
Argyll and Bute	Growth deal	Argyll and Bute
Ayrshire	Growth deal	East Ayrshire, North Ayrshire, South Ayrshire
Borderlands	Growth deal	Dumfries and Galloway, Scottish Borders
Edinburgh and South-East Scotland	City region deal	East Lothian, City of Edinburgh, Fife, Midlothian, Scottish Borders, West Lothian
Falkirk	Growth deal	Falkirk
Glasgow City	City region deal	East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Lanarkshire, Renfrewshire, South Lanarkshire, West Dunbartonshire
Inverness and Highland	City region deal	Highland
Islands	Growth deal	Eilean Siar (Western Isles), Orkney, Shetland
Moray	Growth deal	Moray
Stirling and Clackmannanshire	City region deal	Clackmannanshire, Stirling
Tay Cities	City region deal	Angus, Dundee City, Fife, Perth and Kinross

Note: Fife Council and Scottish Borders Council are each involved in two deals. Three English councils are also involved in the Borderlands growth deal: Carlisle City Council, Cumbria County Council and Northumberland County Council.
Source: Scottish Government, City region deals, Growth deals

Councillor checklist 5

Partnership working

The following questions may help you to think about partnership working in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Do the council's governance and internal controls mitigate partnerships' risks to the council?

- Does the council have risk registers concerning its various partnerships?

- What resources (such as staff, buildings and money) does the council contribute to partnerships?

- Does each partnership have a clear purpose and explicit, outcome-based objectives?

- Are governance arrangements for each partnership clear, documented and fit for purpose?

- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?

- Does the council have sound reasons for having a representative on a partnership's board?

- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?

- Is there good-quality, transparent and publicly accessible performance information?

- Are concerns about risks posed by partnerships escalated suitably within the council?

- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councils need to invest in councillors' personal development

70. One of the Accounts Commission's strategic audit priorities is that councillors and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.[35] The Scottish public has high expectations of councillors and officers and how well they should conduct themselves in undertaking their council duties. They should meet those expectations by ensuring that their conduct is consistently above reproach.[36] The Accounts Commission has published a number of reports that could be useful to councillors, including:

- *Roles and working relationships: are you getting it right?* , 2010; and *Follow-up messages for councils* in 2016.

- *Arm's-length external organisations (ALEOs): are you getting it right?* , 2011.

- *Social work in Scotland* , September 2016.

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71. Following a local government election, a good induction process is valuable for all councillors. Some councillors may need additional, tailored support on a specific topic or skill, such as their role on an audit committee or planning committee; their position as a board member of an IJB or ALEO; the type of finance involved; or the potential impact of a decision on a group of service clients.

72. Councillors need sustained, ongoing continuing professional development (CPD) that builds on their knowledge and experience; is tailored to their roles; and relates to the expertise they need for making transparent, defensible decisions about safeguarding public money. Long-serving councillors can also benefit from investing time and effort in their ongoing CPD, not least because technology, the council's operating environment, its financial situation and the risks it faces all evolve constantly. Councillors should be involved in developing their council's CPD programme so that it best meets their future needs.

Councillor checklist 6

Councillors' continuing personal development

The following questions may help you to think about the personal development opportunities in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- After the last election, was the general induction programme for councillors successful?

- Do officers give you good support on knowledge topics (such as internal controls)?

- Do officers give you good support on personal skills (such as chairing meetings)?

- Do you fully understand your roles and duties at council, cabinet, committee and ward levels?

- Have you made good use of the Improvement Service's support and publications?

- Do you have a personalised CPD programme?

- Do you actively participate in, and benefit from, the support made available to you?

- Do officers monitor and understand councillors' take-up of training and development?

- Where you do not engage fully in training and development, how could officers help more?

- Does CPD for councillors help you to be effective in your governance and scrutiny roles?

Officers are responsible for delivering council policy and managing services

73. Each council must have these four 'statutory officers', who all have specific duties and discharge their role as part of their wider responsibilities in the council:

- Head of paid service[37]

- Chief financial officer [38]

- Monitoring officer [39]

- Chief social work officer.[40]

74. These officers have an important, independent role in promoting and enforcing good governance; ensuring councils comply with legislation; overseeing the council's key controls; managing risk, and ensuring the delivery of council services. Statutory officers must have sufficient influence and experience to undertake their roles. Cohesive, effective corporate management depends on postholders in these roles having the necessary status and capacity within their council.

75. To ensure that councillors are clear on the purpose of these roles, a council's scheme(s) of delegation should set out what they involve and why they are important. The role of statutory officers should feature in induction schemes for all newly elected councillors. Councillors and committees should know when to seek assurance from these officers so that their council operates legally and responsibly.[41]

Head of paid service
76. This officer, usually called the chief executive, is responsible to councillors for the staffing and smooth running of the council and for ensuring the work of its various services is coordinated. S/he must ensure the other statutory officers have sufficient influence and scope to conduct their roles. For example, this could mean them being in, or attending, the corporate management team.

77. Councillors and the chief executive may need to balance the benefits of including all statutory officers as full members of the corporate management team against the potential merits of a slimmer, potentially cheaper, management structure – but one that may risk appearing to devalue the role of certain officers or complicate lines of communication among officers and councillors.

78. The chief executive has a complex, multi-faceted role that blends relatively clear accountability to councillors for the operational management of the workforce and service delivery with an important involvement in diverse partnership working over which s/he will have influence but perhaps limited direct authority. This situation provides some context to the council's need for a dynamic, evolving approach to risk management and the linked controls which are necessary.

Chief financial officer

79. The chief financial officer (CFO) has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role.[42]

80. The CFO (often called the Section 95 or s95 officer) underpins sound corporate management and ideally sits on the corporate management team. To deliver on their responsibilities, the CFO must manage a finance function that is sufficiently resourced and professionally qualified (Exhibit 7).

Exhibit 7
The role of the chief financial officer
The postholder is responsible for the proper administration of the council's finances.

In a public service organisation
the chief financial officer:

is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.	must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy.	must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded always and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities
the chief financial officer:

must lead and direct a finance function that is resourced to be fit for purpose.	must be professionally qualified and suitably experienced.

Source: Chartered Institute of Public Finance and Accountancy

81. The Local Authority Accounts (Scotland) Regulations 2014 impose responsibilities on the CFO about accounting records and supporting information; control systems; and annual accounts – which, in Scotland, include the financial statements and annual governance statement.[43] Also, the CFO needs to assure themselves and councillors that decisions made by the council will be affordable. In practice, many of the CFO's day-to-day responsibilities are delegated or outsourced but the CFO should retain oversight and overall control, and have sufficient access to the corporate management team.

82. The CFO helps to safeguard public money by:

- Applying strong controls in all areas of financial management, risk management and asset control.

- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.

- Ensuring that the council has effective arrangements for internal auditing of the control environment and systems of internal control, as required by professional standards in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.[44]

- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.

- Applying discipline in financial management, including appropriate segregation of duties.

- Implementing suitable measures to prevent and detect fraud and corruption.

- Ensuring that any partnership arrangements are underpinned by clear and well-documented internal controls.[45]

Monitoring officer

83. In essence, the monitoring officer (MO) ensures that the council operates properly. Their work includes reporting on the legality of matters; on potential maladministration; and the conduct of councillors and officers. The MO should contribute to the promotion and maintenance of high standards of conduct by providing advice and support to councillors on the interpretation and application of the Councillors' Code of Conduct.[46] Councillors and senior officers should send clear signals to the workforce about how people should behave and interact.

84. The Accounts Commission has found through its Best Value work that in some cases the MO role can be undermined because of a lack of trust and respect between councillors and officers.[47] It may be difficult for the MO to challenge the behaviours of senior officers or councillors. The MO might need to judge carefully both how to act and when, since intercepting potential problems quickly can help prevent, deter or resolve unhelpful behaviour before they become more serious.[48]

Chief social work officer

85. This officer (CSWO) must be a qualified social worker; registered with the Scottish Social Services Council; and of sufficient seniority and experience in both the strategic and operational management of social work services.[49] Often, a CSWO is also responsible for the delivery of services such as adult social care, children's services or criminal justice social work. The CSWO provides officers and councillors with professional advice on social work and social care services, and discharges specific duties on the council's behalf.[50, 51, 52]

86. The CSWO's role has diversified significantly in recent years, and is becoming more difficult to fulfil within integrated partnership arrangements. A council's partnership with the NHS is typically through an Integration Joint Board which oversees the delivery of integrated health and social care services, and carries risks that include financial matters and risks to the health and wellbeing of service clients. In health and social care, an important control can be oversight of permission to access information on vulnerable people, and in which circumstances. Such risks require corresponding internal controls within the council. Councillors need to ensure that the CSWO has the status, capacity and access (to other statutory officers and councillors) to enable them to fulfil their statutory responsibilities to the council effectively.

Chief education officer

87. There is currently no legal requirement for councils to have a post named the chief education officer because the relevant legislation has not been implemented.[53] Nonetheless, many councils have an officer who is their lead officer for their education service, called the director of education or similar, either as part of the corporate management team or perhaps at a lower level where large departments span multiple services.

88. With education typically accounting for a large share of a council's expenditure, it is important for the head of the education service to not only have a strong professional knowledge of education but also a solid understanding of financial management; to liaise closely with the corporate finance function; and have oversight of the large share of the service's budget that is delegated to individual schools.

89. In addition, some Scottish Government funding streams are outwith the core local government finance settlement and are allocated to councils for specific purposes. For example, the Scottish Government's budget for 2019/20 includes £62.0 million of Attainment Scotland Fund to provide councils and schools with additional means to provide targeted literacy, numeracy, and health and wellbeing support for children and young people in greatest need.[54]

90. The chief education officer has responsibility for the education service having rigorous internal controls. These could include processes for ensuring that changes in staffing are passed quickly and accurately to the corporate payroll function, and that schools operate within the education service's scheme of devolved school management. Should controls at school or service-level go awry and result in money being defrauded or misspent, there is the potential for substantial consequences for numerous schoolchildren; shortfalls in compliance with national requirements; and reduced funds available for spending by other council services.

Officers who manage a service need to understand its inherent risks

91. Officers require a thorough understanding of how a service is provided; what its costs are; who the service users and other stakeholders are; and exercise ownership of the internal controls that regulate business management of the service and its associated risks.

92. Depending on their role and position in the council, officers may need a suitable level of understanding of finance, risks and controls. Council services need a joined-up approach both vertically – so that an individual service and overall corporate management share the same perspective on risk – and horizontally – so that different services across the council follow the same overall approach to risk.

93. However, there are indications from the independent external audit of councils that incremental budget cuts over successive years, combined with recruitment challenges, may have eroded the capacity of councils' back-office functions – including aspects such as financial management and risk management. This could make financial management riskier and underline the importance of sound controls being in place to contain and manage these risks.

Councillor checklist 7

Statutory officers and chief education officer

The following questions may help you think about the statutory officers and chief education officer.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Are the roles of these officers clearly set out in the council's governance documents?
- Do these officers sit on the corporate management team, or have ready access to it?
- Are these officers sufficiently resourced to discharge their roles and responsibilities?
- Do these officers have the influence needed for ensuring the council operates effectively?
- Do councillors and committees understand how and when to consult these officers?
- Do these officers give helpful, timely, impartial support to councillors and other officers?
- Do these officers have a constructive relationship with the senior management team?
- Do you have confidence in your council's key officers?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Internal auditing helps evaluate and improve how well things work

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps a council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.[55]

94. Audit and scrutiny are both important, but their distinction can be unclear. Generally, scrutiny asks whether the council is doing the right thing, and it questions policy proposals and the performance and quality of services. Audit examines the regularity of governance and financial management, including how well the council has applied its resources to achieve its objectives.

95. Accounting regulations compel councils to operate a professional and objective internal auditing service.[56] The service brings a valuable, independent scrutiny activity. Its remit can extend beyond the council to scrutiny of the council's involvement in partnerships and alternative service delivery models, such as ALEOs. The CFO must secure and support internal auditing arrangements and ensure that the council's audit committee (or the committee with this role) receives the advice and information necessary for both functions to operate effectively.[57] There are four main types of internal auditing work (Exhibit 8, page 39).

96. Key features are that internal auditing:

- operates independently of the day-to-day running of the council

- provides a service to all levels of the council

- objectively assesses operations' effectiveness, efficiency and value for money

- forms an integral part of the framework of business controls.

97. It is important for the officer who leads the internal auditing function to have unrestricted, 'open door' access to the chief executive. This enables internal auditing staff to bring problems directly to the attention of the council's most senior officer, if necessary. In addition, the arrangement equips the chief executive with objective, independent information on the operation of the council and an early warning system regarding potentially serious issues. However, it is not necessary for the chief executive to be the line manager of the head of internal auditing.

98. Internal and external audit have different but complementary roles. A council's external auditor is appointed by the Accounts Commission and is wholly independent of the council. By contrast, a council appoints its own internal auditing function, which may be provided by:

- An in-house function serving one council – which is still the norm.

- An in-house function serving two or more councils – Aberdeen City and Aberdeenshire; Clackmannanshire and Falkirk; Midlothian and Scottish Borders.

- Co-sourcing – where an in-house team is supplemented by a private firm.

- A private firm appointed by the council – no Scottish councils at present.

- In addition to these arrangements, Glasgow City Council provides services to several organisations.

Exhibit 8
Types of internal auditing work
The work helps to safeguard public money, as illustrated by this sample of scenarios.

Type	Explanation	Scenario
Systems	This is the review and evaluation of the manual and computer systems by which an organisation regulates and controls its activities. The internal audit section would evaluate the design of controls to conclude on their effectiveness and efficiency; and test their application to ensure users have been following procedures as intended.	Internal audit reported to the audit committee before, during and after a major new computer system was introduced to integrate previously disjointed systems. This approach gave assurance on the new computer system's controls from an early stage.
Contracts	This can involve a review of any area of activity regarding a high-value and potentially high-risk contract, such as for care-at-home services or the construction of a new building.	Internal audit reported to the audit committee on the council's compliance with legislation; national guidance; council policy and internal controls regarding the procurement of a new nursery school.
Investigations	Internal audit can be called on to investigate internal or external fraud, operational losses, breaches of security, or where customers have raised serious concerns with senior management. Other investigation work includes due diligence assessments.	Internal audit supplemented its annual summary report on fraud to the audit committee with a report that focused on a serious case of corruption. Internal audit recommended the upgrading of preventative controls in future.
Regularity or compliance	Inspection is the continuous, periodic examination of procedures and transactions to ensure they comply with an established set of instructions. This type of internal auditing does not necessarily consider the appropriateness of procedures, simply that they are followed.	Internal audit reported to the audit committee on the system for paying grants to local community bodies, including the extent to which claimants and officers followed proper procedures and claimants submitted valid or falsified evidence. Internal audit identified scope for strengthening controls in future.

Source: Audit Scotland, Financial Reporting Council

99. Internal auditing is an important link in a council's system of internal control. The purpose, authority and responsibility of internal auditing may be defined in its Audit Charter.[58] It must provide an annual opinion on the state of the council's arrangements in relation to governance, risk management and internal control. It may also carry out advisory and consulting work, where the aim is to support management in improving systems and controls.

100. Internal auditors in the public sector follow the Public Sector Internal Audit Standards (PSIAS), which have been mandatory since 2013. The scope and volume of internal auditing activity in a council is a matter for its management and those responsible for its governance.[59] However, the PSIAS require that the head of internal auditing communicates its plans and resource requirements, including significant interim changes, to senior management for review and approval. A council must assess the efficiency and effectiveness of its internal auditing service, and the findings should be considered by the audit committee as part of its annual review of internal controls.

101. The head of internal auditing must communicate the impact of resource limitations. Where s/he believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of 'the board' – which, in a council, is normally the audit committee or its equivalent (Exhibit 9).

Exhibit 9
Recommended audit committee practice for effective internal audit oversight.

The audit committee has a range of responsibilities
✓ Take responsibility for the provision of internal audit, including how it is provided.
✓ Assess and approve the internal audit charter (terms of reference) and review it regularly.
✓ Ensure a close working relationship with the head of internal audit.
✓ Assess the resourcing of the internal audit function.
✓ Monitor the quality of internal audit work, whether in-house or externally sourced.
✓ Evaluate, approve and regularly review the risk-based annual internal audit plan.
✓ Oversee the relationship between internal audit and centralised, corporate risk monitoring.
✓ Ensure the collective assurance roles of internal audit, other internal assurance providers and external audit, are coordinated and optimised.
✓ Assess internal audit findings and the breadth and depth of internal audit reports.
✓ Monitor management's implementation of internal audit's recommendations.

Source: CIPFA and others

102. The internal auditing function can find itself operating in a challenging organisational environment. It is vital for it to be independent of activities it examines, so that it can give impartial, unbiased judgements to councillors. However, there are benefits from internal auditing advising on building in suitable systems and controls at a project's outset. There are risks that internal auditing:

- lacks the staffing capacity it needs – in the context of councils becoming more complex and especially in small or remote councils, where staff recruitment and retention may be more challenging

- lacks a credible voice in the council – perhaps through the head of internal auditing not being able to express concerns directly to the chief executive or audit committee, or in an organisational culture reluctant to hear bad news

- lacks impact when it escalates its concerns – such as when high priority recommendations are not being implemented wholly and promptly.

103. External and internal auditors liaise on their respective audit roles. The external auditor considers the extent to which s/he can rely on the work of internal audit. This cooperation aims to promote good working relationships, and to minimise unnecessary duplication of effort.

Councillor checklist 8

Internal auditing function

The following questions may help you to think about internal auditing in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
- Is IA free of operational responsibilities that could risk compromising its independence?
- Is IA's work aligned with the council's strategies, objectives and risks?
- Does IA give senior officers and councillors clear, timely, objective, risk-based assurance?
- Does the head of IA have unrestricted access to the chief executive?
- Does the head of IA give committees the information they need to make informed decisions?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Endnotes
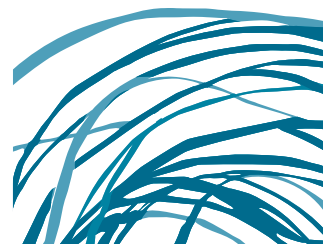
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Appendix

Summary of checklists for councillors
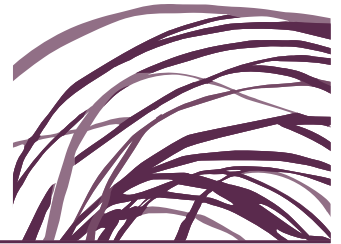
The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

Checklist 1. Internal controls and risk management

- Do internal controls link with key corporate and service-level risks?
- Do internal controls apply to both financial and non-financial risks?
- Has the council identified the weakest internal controls?
- Are officers improving weak internal controls and minimising the risks they pose?
- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?
- Does the audit committee take appropriate action?
- Does the council publicly review its system of internal controls annually?
- Is risk management actively led, supported and promoted by councillors and senior officers?
- Does the council have an up-to-date, corporate-level, risk management strategy?
- Does the corporate risk management strategy address the council's risk appetite?
- Does the council have up-to-date corporate-level and service-related risk registers?
- Is risk management embedded in business practices at both corporate and service levels?
- Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?
- Are key risks and action to mitigate them monitored and reported on throughout the year?
- Do officers' reports to committees cover both financial and non-financial risks?
- Is there sufficient, timely training and ongoing support for you and relevant officers?

Checklist 2. Fraud and corruption

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?
- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 3. Consequences of weak controls

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 4. Audit committee

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?
- Does the chair of the committee manage committee meetings effectively?
- Does the chair routinely liaise with the head of internal audit before committee meetings?
- Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?
- Does the committee approve internal audit's annual workplan and reports?
- Can internal audit report to senior officers and the audit committee without fear or favour?
- Do officers provide committee members with timely, well-written and useful reports?
- Do internal audit reports set out comprehensively and clearly what needs to improve, and how?
- Does the committee endorse and track improvements proposed by internal auditing?
- Has the committee identified the top five risks to the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 5. Partnership working

- Do the council's governance and internal controls mitigate partnerships' risks to the council?
- Does the council have risk registers concerning its various partnerships?
- What resources (such as staff, buildings and money) does the council contribute to partnerships?
- Does each partnership have a clear purpose and explicit, outcome-based objectives?
- Are governance arrangements for each partnership clear, documented and fit for purpose?
- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?
- Does the council have sound reasons for having a representative on a partnership's board?
- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?
- Is there good-quality, transparent and publicly accessible performance information?
- Are concerns about risks posed by partnerships escalated suitably within the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 6. Councillors' continuing personal development

- After the last election, was the general induction programme for councillors successful?
- Do officers give you good support on knowledge topics (such as internal controls)?
- Do officers give you good support on personal skills (such as chairing meetings)?
- Do you fully understand your roles and duties at council, cabinet, committee and ward levels?
- Have you made good use of the Improvement Service's support and publications?
- Do you have a personalised CPD programme?
- Do you actively participate in, and benefit from, the support made available to you?
- Do officers monitor and understand councillors' take-up of training and development?
- Where you do not engage fully in training and development, how could officers help more?
- Does CPD for councillors help you to be effective in your governance and scrutiny roles?

Checklist 7. Statutory officers and chief education officer

- Are the roles of these officers clearly set out in the council's governance documents?
- Do these officers sit on the corporate management team, or have ready access to it?
- Are these officers sufficiently resourced to discharge their roles and responsibilities?
- Do these officers have the influence needed for ensuring the council operates effectively?
- Do councillors and committees understand how and when to consult these officers?
- Do these officers give helpful, timely, impartial support to councillors and other officers?
- Do these officers have a constructive relationship with the senior management team?
- Do you have confidence in your council's key officers?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 8. Internal auditing function

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
- Is IA free of operational responsibilities that could risk compromising its independence?
- Is IA's work aligned with the council's strategies, objectives and risks?
- Does IA give senior officers and councillors clear, timely, objective, risk-based assurance?
- Does the head of IA have unrestricted access to the chief executive?
- Does the head of IA give committees the information they need to make informed decisions?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

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