Agenda

Audit Committee

Date: Wednesday, 20 March 2019

Time: 14:00

Venue: Civic Space
Council Offices, 16 Church Street, Dumbarton

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: 7 March 2019

AUDIT COMMITTEE

WEDNESDAY, 20 MARCH 2019

AGENDA

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 **5 - 10**

Submit for approval as a correct record, the Minutes of Meeting of the Audit Committee held on 12 December 2018.

4 OPEN FORUM

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

5 TREASURY MANAGEMENT MID YEAR REPORT 2018/19 **11 - 26**

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

6 CREATION OF NON-DOMESTIC RATES MEMBER/OFFICER WORKING GROUP **27 – 30**

Submit report 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).

7 CAPITAL POST PROJECT REVIEWS **To follow**

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

8 INTERNAL AUDIT PLAN 2019/20 31 - 44

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

9 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.

10 AUDIT SCOTLAND ANNUAL AUDIT PLAN 2018/19 To follow

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

11 PUBLIC INTEREST DISCLOSURES AND OTHER INTERNAL AUDIT INVESTIGATIONS - 1 JULY TO 31 DECEMBER 2018 45 - 48

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

12 ACCOUNTS COMMISSION REPORT: *LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2017/18* 49 - 95

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

AUDIT COMMITTEE

At a Meeting of the Audit Committee held in the Civic Space, Council Offices, 16 Church Street, Dumbarton on Wednesday, 12 December 2018 at 10.00 a.m.

Present: Councillors Jim Brown, Karen Conaghan, John Mooney and Martin Rooney, and Lay Member Mr Chris Johnstone.

Attending: 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; Jim McAloon, Strategic Lead – Regeneration; Colin McDougall, Audit and Risk Manager; Stephen Daly, Customer Service Manager; Jennifer Ogilvie, Finance Business Partner; Michelle Lynn, Asset Co-ordinator and Craig Stewart, Committee Officer.

Also Attending: 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, Jonathan McColl and Brian Walker and Lay Member Ms Eilidh McKerry. Apologies were also intimated from Joyce White, Chief Executive.

Councillor John Mooney in the Chair

CHAIR'S REMARKS

Councillor Mooney, Chair, welcomed everyone to the December meeting of the Audit Committee and introduced Chris Johnstone who was joining the Committee for the first time as its new Lay Member.

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 26 September 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 ANNUAL REPORT 2017/18

A report was submitted by the Strategic Lead – Resources providing an update on treasury management during 2017/18.

After discussion and having heard the Finance Business Partner in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1) to note that this report had been submitted to the meeting of Council held on 27 September 2018; and

(2) otherwise to note the information provided within the Annual Report, as appended to the report.

AUDITED ANNUAL ACCOUNTS 2017/18

A report was submitted by the Strategic Lead – Resources presenting the audited Financial Statements for 2017/18 for both the Council and the Charities administered by the Council; and highlighting matters of interest, as delegated by Council on 27 September 2018.

After discussion and having heard the Strategic Lead - Resources and the Senior Audit Manager, Audit Scotland, in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note the contents of the report;

(2) to note that the audited Annual Accounts 2017/18 of both the Council and the Charities were presented to, and approved by, Council on 27 September 2018; and

(3) to note the findings of the audits as detailed in Audit Scotland's reports dated 27 September 2018.

AUDIT ACTION PLANS

A report was submitted 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.

After discussion and having heard the Strategic Director - Transformation & Public Service Reform and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note the terms of the discussion that had taken place in respect of this matter; and

(2) otherwise to note the contents of the report.

INTERNAL AUDIT PLAN 2018/19 – HALF YEAR PROGRESS REPORT

A report was submitted by the Strategic Lead – Resources advising on progress at the half year against the Audit Plan 2018/19.

After discussion and having heard the Audit and Risk Manager in further explanation and in answer to Members' questions, the Committee agreed:-

(1) that it would be helpful for Members if this report could be reformatted, in future, to include more of the detail that was contained in the Appendices to the report; and

(2) otherwise to note the contents of the report.

AUDIT COMMITTEE SELF-ASSESSMENT AND REPORTING ON AUDIT ASSIGNMENTS

A report was submitted by the Strategic Lead – Resources advising on the results of a self-assessment exercise carried out recently by the Chair of the Audit Committee and the Audit and Risk Manager.

After discussion and having heard the Strategic Director - Transformation & Public Service Reform, Audit and Risk Manager and the Senior Audit Manager, Audit Scotland, in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note the self-assessment, appended to the report, which showed that the Council's Audit Committee largely complied with Cipfa good practice and thereby could assess its performance as generally meeting the Cipfa requirements;

(2) to approve the actions identified and request that these are now progressed;

(3) to note that progress on the completion of the agreed actions would be reported annually to the Audit Committee;

(4) to note the knowledge and skills framework for potential areas for development within the Elected Member development programme;

(5) having reviewed the options in relation to the content of information provided to the Committee agreed to continue with the current approach which was:

(a) for planned audit assignments, provide action plan with a contextual summary, with the addition of further information on the key findings, and highlight the risks being mitigated; and

(b) for investigation work, provide summary information, with the addition of further information on the key findings, along with action plan; and

(6) that, subject to monitoring/review, a self-assessment of the Audit Committee would be brought in on an annual reporting basis, commencing in September next year.

SCOTTISH PUBLIC SERVICES OMBUDSMAN COMPLAINTS REPORT 2017/18

A report was submitted by the Strategic Lead – Communications, Culture & Communities presenting the Scottish Public Services Ombudsman (SPSO) report on complaints handling by West Dunbartonshire Council for the year 1 April 2017 – 31 March 2018.

After discussion and having heard the Citizen & Digital Services Manager in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1) to note the information contained within the report;

(2) to note a commitment to improve response times for complaints to ensure compliance with the Scottish Public Services Ombudsman (SPSO) timelines;

(3) to encourage an improvement culture that welcomed complaints in any form so that the Council could capture all expressions of dissatisfaction and use this information to drive future improvements;

(4) to note that each service used the data provided to identify and progress improvement activity; and

(5) to note that time was allocated at regular management teams for complaints analysis to allow Performance & Strategy Business Partners to support and capture improvement and learning activity for progress reporting.

COMPLIMENTS OF THE SEASON

Councillor Mooney, Chair, wished everyone a Merry Christmas and a Happy New Year.

The meeting closed at 11.03 a.m.

West Dunbartonshire Council

Report by the Strategic Lead - Resources

Audit Committee: 20 March 2019

Subject: Treasury Management Mid Year Report 2018/2019

1. Purpose

1.1 Following approval at Council on 19 December 2018 the purpose of this report is to provide Members with the opportunity to further scrutinise the treasury management performance during the first half of 2018/19.

2. Recommendations

2.1 Members are requested to consider the report and note that on 19 December 2018 Council:

(a) Noted the treasury management stewardship information within the appended report;

(b) Approved the 2018/19 revised estimates of treasury and prudential indicators as advised within the appended report (Tables A, B, C, D, E, F, H, M and O);

(c) Approved the updated list of permitted investments detailed within paragraph 4.5.4 of the appended report;

(d) Approved the policy on the Statutory Repayment of loans fund advances detailed within paragraph 2.5 of the appended report and note the ongoing review highlighted in paragraph 4.6 of this report; and

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

3. Background

3.1 In accordance with the Treasury Policy governing the Council's treasury management activities during 2018/19, the Strategic Lead - Resources is required to provide a mid year Report to Members regarding the Treasury function.

3.2 The mid year report covers the period 1 April 2018 to 31 October 2018 and details the current position (where appropriate) and revises the 2018/19 estimates where required.

3.3 The Audit Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies and the report will be reported to a future meeting of that Committee for further scrutiny.

4. Main Issues

Treasury Management Stewardship Report

4.1 A copy of the report is attached as Appendix 1.

4.2 The report provides details of key changes to the Council's capital activity (the prudential indicators), the economic outlook, the actual and proposed treasury management activity (borrowing and investment) and the risk approach to treasury management (the treasury management indicators).

4.3 The revised estimate for capital expenditure during 2018/19 (Table A) has reduced by £18.760m from the original estimate due to ongoing forecast outturn figures for both the General Services capital plan and the HRA capital plan which are regularly reported to Members.

4.4 The external debt figures included within Table C includes both short term and long term debt due to a strategy of using short term borrowing to fund long term capital investment enabling the Council to take advantage of lower interest rates.

4.5 Changes to money market regulations are noted in paragraph 4.5.4 of the appended report. At the time of reporting to December Council the conversion date for State Street Global Advisors had not yet been confirmed. Since December Council the conversion date has been confirmed to be 21st March 2019.

4.6 Currently a review of options for the management of the Loans Fund and loans charges is underway which has the potential to reduce costs charged on these. It is expected that this review will be completed in time for setting the 2019/20 budget.

5. Option Appraisal

5.1 No option appraisal was required for this report.

6. People Implications

6.1 There are no personnel issues.

7. Financial and Procurement Implications

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

8. Risk Analysis

8.1 Although the appended report provides a mid year position in relation to treasury management there are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1. These risks are noted below; however the Council has robust monitoring processes in place and provides regular reports to Council and ensures further scrutiny by elected Members at the Audit Committee:

(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 Council has robust controls included within its treasury management and investment strategies that 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 The views of Legal Services have been requested on this report and have advised there are neither any issues nor concerns.

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.

12.2 Treasury management contributes to the Financial Strategy via the interdependency that exists between pro-active treasury management and the formulation of long term financial plans.

Stephen West
Strategic Lead – Resources
Date: 28 January 2019

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Appendix: Appendix 1: Mid Year Monitoring Report 2018/19
Treasury Management and Prudential Indicators
1 April 2018 to 31 October 2018

Background Papers:
1. Loans register and portfolio;
2. Debt rescheduling schedules; and
3. Prudential Indicators 2018/19 to 2025/26 and Treasury Management Strategy 2018/19 to 2025/26 (Council 5 March 2018)

Wards Affected: No wards directly affected.

Mid Year Monitoring Report 2018/19
Treasury Management and Prudential Indicators: 1 April 2018 to 31 October 2018

1. Introduction

1.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government in Scotland Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made as yet during 2018/19).

- Statutory Instrument (SSI) 29 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services; and the treasury activity with regard to the CIPFA Code of Practice for Treasury Management in Local Authorities.

- Statutory Instrument (SSI) 123 2016, set out statutory arrangements for local authority borrowing and lending and the requirement to maintain a loans fund and replace the statutory arrangements set out in Schedule 3 of the Local Government (Scotland) Act 1975 (Schedule 3).

1.2 The regulatory framework of treasury management requires that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously. This report meets that requirement and also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators. The treasury strategy and prudential indicators were previously reported to Council on 5 March 2018. The current position is shown (where appropriate) and revisions to the 2018/19 estimate are provided where required.

1.3 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy 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; and

- the implications for future financial sustainability

The Capital Strategy of the Council will be reported to Council on 27 March 2019.

1.4 This report sets out:

- Key changes to the Council's capital activity (the prudential indicators);
- Policy on the statutory repayment of loans fund advances;
- An economic update for the first part of the 2018/19 financial year;
- The actual and proposed treasury management activity (borrowing and investment);
- The risk approach to treasury management (the treasury management indicators); and
- Policy on ethical investments

2. Key Prudential Indicators

2.1 This part of the report is structured to update:

- The Council's capital expenditure plans and how these plans are being financed;
- The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow;
- Compliance with the limits in place for borrowing activity; and
- Policy on the statutory repayment of loans fund advances

2.2 **Capital Expenditure** – Table A shows the current position and revised estimates for capital expenditure for 2018/19 only.

Table A:

£000	2018/19 Original Estimate	Current Position	2018/19 Projected Outturn
General Services	73,082	15,022	59,835
HRA	32,326	10,135	26,814
Capital Expenditure	**105,408**	**25,157**	**86,648**
Financed by:			
Capital receipts	10,905	18	10,094
Capital grants	28,504	9,498	30,689
Revenue	7,783	0	7,704
Net financing need for the year	**58,216**	**15,642**	**38,162**

2.2.1 The reduction in the both the level of anticipated capital expenditure and the net financing need for the year is due to ongoing forecast outturn figures for both the General Services and Housing Revenue Account capital plans. These anticipated spends and resourcing required are regularly reported to Members through budgetary control reports.

2.3 **Impact of changes in Capital Expenditure Plans** – Table B shows the CFR, which is the underlying external need to borrow for a capital purpose while Table C shows the expected debt position over the period.

Table B:

£000	**2018/19 Original Estimate**	**2018/19 Projected Outturn**
Opening CFR	**485,889**	**514,349**
New Borrowing – CFR	48,084	27,818
LTL repayment in year	(1,946)	(2,713)
Closing CFR	**532,026**	**539,454**
Movement in CFR (from Previous year)	46,138	25,105

Net financing need for the year (Table A)	58,216	38,162
Loan repayments in year	(10,132)	(10,345)
New Borrowing – CFR	**48,084**	**27,818**

Table C:

£000	**2018/19 Original Estimate**	**Current Position**	**2018/19 Projected Outturn**
External Debt			
Estimated/Actual Debt at 1 April 2018	403,295	425,291	425,291
Maturing Debt	(166,650)	(152,196)	(185,560)
Movement in Borrowing			
New Borrowing - Maturing Debt	166,650	143,650	185,560
Borrowing adjustment in relation to over borrowing at year end	0	0	(16,856)
New Borrowing – CFR (Table B)	48,084	0	27,818
Debt at 31 March (1)	**451,379**	**416,745**	**436,253**
Long Term Liabilities (LTL) at 1 April	82,160	105,914	105,914
LTL repayment in year (Table B)	(1,946)	(1,598)	(2,713)
LTL at 31 March (2)	**80,214**	**104,316**	**103,201**

Actual Debt at 31 March (1) + (2)	**531,593**	**521,061**	**539,454**
CFR from Table B	**532,026**	**n/a**	**539,454**
Under/(Over) Borrowing	**(433)**	**n/a**	**0**

2.3.1 The external debt figures included within Table C now includes both short term and long term debt. This change has been made due to a strategy of using short term borrowing to fund long term capital investment enabling the Council to take advantage of lower interest rates. The reduction in the estimated external debt for 2018/19 is due to a reduction in the net capital financing need for the year.

2.3.2 The CFR is calculated on a year end position based on the Council's balance sheet and therefore the current position is not shown. The CFR has reduced from the original estimate due to the forecast level of capital expenditure in 2018/19 being less than budgeted. The Strategic Lead - Resources can report that the Council is on target to meet the 2018/19 revised estimates for both indicators.

2.3.3 Table C highlights that the borrowing of the Council is forecast to be equal to the CFR at 31 March 2019.

2.4 **Compliance with the limits in place for borrowing activity** – A key control over the treasury activity is a prudential indicator to ensure that over the medium term, gross borrowing will only be for a capital purpose.

Gross borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years.

The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. As discussed in section 2.3, above the current position is not shown since the CFR is calculated on a year end position. The revised indicator is detailed in Table D and is illustrated by comparing the estimated gross debt as at 31 March 2019 with the CFR as at 31 March 2021. The Strategic Lead - Resources reports that no difficulties are envisaged for the current year in complying with this prudential indicator.

Table D:

£000	**2018/19 Original Estimate**	**2018/19 Projected Outturn**
CFR at 31 March 2018		
2017/18 Estimate/Actual (From Table B above)	**485,889**	**514,349**
Estimated movement in CFR		
2018/19 (From Table B above)	46,138	25,105
2019/20	46,941	77,412
2020/21	48,314	50,587
Anticipated CFR at 31 March 2021	**627,282**	**667,454**
Gross Debt at 31 March 2019 (From Table C above)	**531,593**	**539,454**

2.4.1 The Operational Boundary is detailed in Table E below 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.

Table E:

£000	**2018/19 Original Estimate**	**Current Position**	**2018/19 Projected Outturn**
External Debt	584,752	573,167	593,399

2.4.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which is detailed in Table F and represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table F:

£000	2018/19 Original Estimate	Current Position	2018/19 Projected Outturn
External Debt	637,911	625,273	647,344

2.5 **Statutory repayment of loans fund advances** – 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.

2.5.1 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); and

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

2.5.2 The policy for loans fund advances will be:

- 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 apply the **Statutory Method** (option 1), with all loans fund advances being repaid by the annuity method.

- 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.

    - **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;

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

3. Economic Outlook

3.1 The first half of 2018/19 has seen UK economic growth post a modest (but sufficiently robust) performance to unanimously vote to increase the Bank Rate on 2 August 2018 from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. Inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, the central view of the Council's treasury advisors is that that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy leading to an increasing expectation of a weak pound and concerns around inflation picking up.

2.5 The Council's treasury advisor, Link Asset Services, has provided the following interest rate forecast.

Table G:

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

4. Treasury Management Activity

4.1 This part of the report is structured to update:

- The Council's expected borrowing need and details of under/(over) borrowing;
- Debt rescheduling and new borrowing;
- Debt charges; and
- Investments

4.2 **The Expected Borrowing Need** – This was set out in Table C (above) and demonstrates that at 31 October 2018 Council is currently under-borrowed to reduce risks in investments held and the cost of carry on investments (investments yield up to 0.60%, long term borrowing rates for periods greater than 25 years are approximately 2.78%). This introduces an element of interest rate risk, as longer term borrowing rates may rise; however, this position is being carefully monitored.

4.3 **Debt rescheduling and new borrowing** – The Council has not undertaken any debt rescheduling during the first half of 2018/19. In the year to date naturally maturing debt of £152.196m has been repaid which has been mainly funded by loans from other local authorities.

4.4 **Debt Charges** – The revised estimate for debt charges for both the General Fund and the HRA is shown in Table H.

Table H:

£000	**2018/19 Original Estimate**	**Current Position**	**2018/19 Revised Estimate**
Borrowing	22,203	12,698	22,390
Other Long Term Liabilities	10,478	6,060	10,311
Total	**30,449**	**17,412**	**30,469**

4.5 **Investments** – The objectives of the Council's investment strategy are to ensure the re-payment of the principal and interest of its investments on time with the level of investment return being a secondary objective. Following on from the economic background above, the current investment climate has one over-riding risk consideration which is the risk of default.

4.5.1 The Council held £11.965m of cash investments at 31 October 2018, and the constituent parts of the investment position are detailed in Table I:

Table I:

£000	**Country**	**< 1 Year**	**1 – 2 Years**	**2 – 3 Years**
Banks	UK	965	Nil	Nil
Money Market Fund		11,000	Nil	Nil
Total		11,965	Nil	Nil

4.5.2 Table J details the revised budget position for investment income. The original estimate has increased by £0.061m.

Table J:

£000	**2018/19 Original Estimate**	**Current Position**	**2018/19 Revised Estimate**
Investment Income	57	69	118

4.5.3 A regulatory development to address risk is the consideration and approval of benchmarks relating to investment security, liquidity and the level of return. Benchmarks are currently widely used to assess the level of return and investment performance, however the application of security and liquidity benchmarks are more subjective in nature.

- **Security** - The Council's maximum security risk benchmark for the current portfolio in relation to investment periods of up to one year (when compared to historic default tables) was set at 0.09% and the Strategic Lead - Resources can report that there have been no defaults of principal sums invested in the year to date.

- **Liquidity** – The Strategic Lead - Resources can report that liquidity arrangements were adequate during the year to date and that the liquidity facilities and benchmarks set by the Council as noted below were maintained:

    - Bank overdraft - £1.000m; and
    - Liquid short term deposits of at least £5.000m available on an overnight basis.

- **Return on Investments** – The Strategic Lead - Resources can report that investment return to date average 0.60%. Table K illustrates how this average return compares with the local benchmarks approved in March 2018.

Table K:

Benchmark	Benchmark Return	Average Return
7 day LIBID rate	0.59%	0.60%
1 month LIBID rate	0.60%	0.60%
Council's Instant Access Account	0.75%	0.60%

4.5.4 Changes to Money Market Regulations came into force on 21 July 2018.

The Regulation provides investors with an option for investing their short-term cash in two types of Money Market Funds ("MMFs"):

- **Short-term MMFs** - Funds that maintain the existing conservative investment restrictions currently provided under the European Securities and Market Authorities (ESMA) with a maximum Weighted Average Maturity (WAM) of 60 days and maximum Weighted Average Life (WAL) of 120 days; and

- **Standard MMFs** – Funds that reflect the existing ESMA Money Market Fund definition with a maximum WAM of 6 months and maximum WAL of one year.

In addition, there are three structural options:

- **Public Debt Constant Net Asset Value** ("CNAV") MMFs - must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant dealing NAV. This Fund is already in existence and there is no change proposed to the current structure;

- **Low Volatility Net Asset Value** ("LVNAV") MMFs - permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the Fund does not deviate from the dealing NAV by more than 20 basis points (bps); and

- **Variable Net Asset Value** ("VNAV") MMFs – Funds which price their assets using market pricing and therefore offer a fluctuating dealing NAV.

The Council currently invests in the following 4 money market funds which have indicated that they will convert from Constant Net Asset Value funds to Low Volatility Net Asset Value in January 2019. Conversion dates are shown in table L below.

Table L:

Money Market Fund	Current Classification	New Classification	Conversion Date
Blackrock	CNAV	LVNAV	14 January 2019
State Street Global Advisors	CNAV	LVNAV	January - TBC
Aberdeen Asset Management	CNAV	LVNAV	11 January 2019
Federated Investors	CNAV	LVNAV	11 January 2019

The changes to the money market regulations and the impact on those currently used by the Council require an update to the approved list of permitted investment as detailed below.

- **Cash Type Instruments**

  - Deposits with the Debt Management Account Facility (UK Government);
  - Deposits with other local authorities or public bodies;
  - Money Market Funds (both CNAV and LVNAV);
  - 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).

5 Key Treasury Management Indicators

5.1 This part of the report is structured to update:

- Actual and estimates of the ratio of financing costs to net revenue stream;
- Upper limits on interest rate exposure:
- The maturity structure of borrowing; and
- Total principal sums invested.

5.2 **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator (as shown below in Table M) identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

Both the General Fund and the HRA estimate have increased mainly due to higher borrowing costs as a result of the increase in the base rate that occurred in August 2018

Table M:

	2018/19 Original Estimate	2018/19 Revised Estimate
General Fund	8.71%	9.75%
HRA	26.01%	27.81%

5.3 **Upper Limits On Fixed and Variable Rate Exposure** – These indicators identify a maximum limit for fixed and variable interest rates based upon the debt position and were set at 100% and 50% respectively for 2018/19. The Strategic Lead – Resources reports that the Council operates within these limits.

5.4 **Maturity Structures Of Borrowing** – These maximum limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) which are due to naturally mature in any given period as detailed in Table N and show that the Council operates within limits set.

Table N:

Maturity Structure of Fixed Interest Rate Borrowing	2018/19 Original LImits	Current Position
Under 12 months	50%	30.58%
12 months to 2 years	50%	14.81%
2 years to 5 years	50%	6.24%
5 years to 10 years	50%	3.56%
10 years to 20 years	50%	5.97%
20 years to 30 years	50%	4.59%
30 years to 40 years	50%	7.85%
40 years to 50 years	100%	12.34%
50 years to 60 years	100%	7.48%
60 years to 70 years	100%	0%

5.5 **Total Principal Funds Invested** – These limits are set to reduce the need to temporarily borrow to cover any unexpected expenditure, and show limits to be placed on investments with final maturities beyond each year-end. The Council currently invests sums for periods greater than 365 days in Clydebank Property Company and hub West Scotland as detailed in Table O.

Table O:

	2018/19 Original Estimate	Current Position	2018/19 Revised Estimate
Principal sums invested > 365 days (maximum limit £7m)	£0.501m	£0.497m	£0.497m

6 Ethical Investments

6.1 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.

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

6.2.1 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 priorties. 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)

6.2.2 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.

6.2.3 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.

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 20 March 2019

Subject: Creation of Non-Domestic Rates Member/Officer Working Group

1. Purpose

1.1 The purpose of this report is to seek Members' approval to create a Member/Officer working group to consider issues affecting the Council in relation to Non-Domestic Rates (NDR).

2. Recommendations

2.1 It is recommended that Members:

- Agree to the creation of a Member/Officer Working Group to consider issues affecting the Council in relation to Non-Domestic Rates;
- Agree Elected Member membership of the Working Group, the Chair of the Group and the frequency of Group meetings; and
- Agree the remit of the Group as detailed within this report.

3. Background

3.1 Members of the Audit Committee and Corporate Services Committee have been interested in issues around the collection of NDR and as a result the Council has taken a pro-active approach to discussing issues with the relevant Scottish Government Minister and agreed an approach to name non-paying businesses.

3.2 At the Audit Committee in December 2018 there was discussion during the agenda item on "Audit Action Plans" and general consensus that a cross party working group could be set up in the new year on non-domestic rates, in view of imminent changes in legislation and more power being given to Councils. This would also have the benefit of evidencing this Best Value Assurance Review action on cross-party working.

4. Main Issues

4.1 At the Audit Committee in December there was general agreement that such a working group would be a worthwhile approach to considering NDR issues and the option of a cross-party group was raised. If members wish to agree to the creation of a Working Group which comprises of a number of Elected Members from the Audit Committee then Committee would agree the membership and at that point whether the Group can be cross-party. On this basis it is suggested that Elected Member representation on the Working

Group would comprise of 4 Members. It is suggested that the Group meet quarterly and the Chair of the Group be agreed by Committee.

4.2 Relevant officer membership at the Group would be provided and is likely to comprise of the following:

- Strategic Lead – Resources;
- Legal representation;
- Estates representation; and
- Senior NDR Practitioner.

4.3 The suggested remit of the Working Group would be to consider:

- Issues which prevent payment of NDR and the approach to pursuit of non-payers including monitoring of the effect of implementation of the publicising of non-payers;

- New powers to the Council on application of reliefs and to vary rates arising from the Scottish Government legislation arising from the Barclay Review, e.g. pressures on shopping centres consider rents/rates/incentives for new businesses;

- Potential approaches to make further representation to the Scottish Government around issues identified, e.g. "phoenix companies";

- Any other NDR specific issues that are identified.

4.4 It is anticipated that the Group would identify issues and solutions and report progress back to the Audit Committee at future meetings. Any suggested policy changes would require to be referred onto Corporate Services Committee for consideration.

5. People Implications

5.1 There are no personnel issues with this report, other than officers involved would require to attend this Group in addition to current duties.

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 Group spends time considering NDR collection issues and does not generate any new approaches, etc. The effectiveness of the Group can be assessed by Audit Committee.

8. Equalities Impact Assessment (EIA)

8.1 There are equalities issues.

9. Consultation

9.1 This report has been subject to consultation with the Chair of the Audit Committee. In addition, Legal Services and Regeneration Services have been consulted and have raised no concerns in the creation and role of the Group as proposed in this report.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

....
Stephen West
Strategic Lead - Resources
Date: 5 March 2019

Person to Contact: Stephen West, Strategic Lead - Resources
Telephone 01389 737191
E-mail – stephen.west@west-dunbarton.gov.uk

Appendices: None

Background Papers: None

Wards Affected: All Wards

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 20 March 2019

Subject: Internal Audit Plan 2019/20

1. Purpose

1.1 The purpose of this report is to advise members of the planned programme of work for the Internal Audit Section for the year 2019/20.

2. Recommendations

2.1 It is recommended that the Committee approve the Audit Plan for 2019/20.

3. Background

3.1 The Audit Plan was compiled using a risk based approach through a review of the Audit Universe which includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

4. Main Issues

4.1 The audit planning process has taken into account the following factors:

- A risk based audit needs assessment identifying all potential audit areas;
- Consultations with senior management;
- The plans of External Audit and other inspection agencies;
- The Council's strategic priorities and risks;
- Delivery Plan objectives;
- Current issues and changes in computer systems; and
- Resources available.

4.2 Internal Audit monitors delivery of the plan continuously during the year using a number of performance indicators. Progress is reported to members twice a year.

4.3 The Annual Report on Internal Audit will compare the work actually undertaken against the work planned and summarise performance against targets. It will also provide an opinion on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control. Audit work done underpins the Statement of Internal Financial Control / Annual Governance Statement which will be published with the Abstract of Accounts.

4.4 The Audit Plan also refers to the activity of the Corporate Fraud Team.

4.5 The draft Audit Plan is included at Appendix 1. There are sufficient resources to deliver the planned programme of audit assignments detailed in Appendix 1 and that there are no significant threats to the independence of the internal audit activity, such as inappropriate scope or resource limitations.

4.6 It is recognised that elements of the attached plan will be included within the Integrated Joint Board (IJB) Audit Plan for 2019/20.

5. Personnel 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 The Plan has been constructed taking cognisance of the risks associated with major systems. Consultation with Senior Managers was carried out to ensure that risks associated with delivering the Council’s objectives have been considered.

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 all five of the Council’s Strategic Priorities.

Stephen West
Strategic Lead - Resources
Date: 4 March 2019

Person to contact	Stephen West, Head of Finance and Resources, Council Offices, Garshake Road, Dumbarton, G82 3PU Telephone (01389) 737191 Email – Stephen.west@west-dunbarton.gov.uk
Appendix 1:	Draft Internal Audit Plan 2019/20
Background Papers:	None
Wards Affected:	All wards

Appendix 1

WEST DUNBARTONSHIRE COUNCIL

INTERNAL AUDIT PLAN
2019-20

INDEX OF CONTENTS

1 Introduction

1.1 Definition 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.'

Public Sector Internal Audit Standards

The Standards (applying the Institute of Internal Auditors International Standards to the UK Public Sector) have been agreed to be adopted from the 1st April 2013 by the relevant public sector Internal Audit Standard setters. Elements of the Standards are based on the Chartered Institute of Internal Auditors International Professional Practices Framework. Standard setters are; HM Treasury; Scottish Government; Department of Finance and Personnel Northern Ireland; Welsh Government; Department of Health; and the Chartered Institute of Public Finance and Accountancy.

In accordance with the Standards an Audit Charter is in place which defines the internal audit activity's purpose, authority and responsibility.

1.2 Authority

All Local Authorities in Scotland are subject to Section 95 of the Local Government Act (Scotland) 1973, and should make provision for Internal Audit, in accordance with the Public Sector Internal Audit Standards issued 2013, as updated in 2017, (The Standards).

1.3 Audit Planning

Internal Audit complies with the requirements of The Standards, per Section 2010 (Planning):

'The chief audit executive (WDC – Audit and Risk Manager) *must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'*

2 The Audit Planning Process

2.1 Risk Assessment

A risk-based audit needs assessment has been carried out by Internal Audit staff in which a review of the "audit universe" has been carried out. The audit universe includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

This assessment of needs identifies all operations, resources, services and responsibilities, and prioritises key systems being operated, and key services provided. Senior management have been consulted on priority areas for review, while cognisance has been taken of the plans of External Audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance. The audit needs assessment is based upon a matrix taking account of scores for each potential audit area in respect of:-

- Control risk
- Materiality
- Sensitivity
- Management concerns

The matrix gives an overall "score" for each area that is used to prioritise the audit reviews.

The risk process recognises the materiality of core financial systems by applying a weighting based on transaction value. In addition, the process ensures that major systems will be covered over a rolling programme by applying a weighting factor based on the date of the previous audit.

This process ensures that Internal Audit independence is maintained in the formation of the plan.

2.2 Systems Based Auditing

The systems based audit approach developed by the Chartered Institute of Public and Finance and Accountancy (CIPFA) will continue to form the basis for testing controls within each system, in line with good practice.

2.3 Strategic Risks

The Strategic Risk Register records the Council's own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the Audit Plan.

2.4 Strategic Plan 2017/22

As well as considering risk when formulating the plan, considerable attention has been paid to the strategic priorities and supporting outcomes contained in the Council's Strategic Plan 2017/22 in order to ensure there is a spread of audit coverage across these key areas.

2.5 Other Issues

Other factors which influence the plan are discussions with Senior Management, consideration of current issues arising, major computer systems being introduced, and recommendations from recently completed audits.

2.6 Irregularity

Allowance has been made for matters arising requiring investigation, and ad-hoc work, based upon levels experienced in the past.

3 Resourcing the Plan

Internal Audit

The Internal Audit Section has a core establishment of 4.6 FTE including five professionally qualified members of staff. . Available Audit Days have been calculated as 835 days, following the deduction of Administration, Management and Planning, Training / Staff Development and Leave. Within this overall resource, 135 operational days has been included for the Audit and Risk Manager's time to reflect the contribution he makes to the activities of the Internal Audit Section. The Audit and Risk Manager is professionally qualified to fulfil an audit role.

Through an assessment of the mix of knowledge, skills and experience of the Audit Team, it is considered that the available resources are sufficient to achieve the work outlined in the plan.

The Council's External Auditors work in conjunction with Internal Audit so that resources are optimised in providing overall assurance on the financial statements and the adequacy of the internal control environment. Towards the end of 2019/20, External Audit will advise on which areas of Internal Audit work it will place reliance upon for the year as outlined in their annual Audit Plan document.

As described in Paragraph 2.1 above, a risk based audit needs assessment was carried out. The available staffing resources, in terms of Available Audit Days are matched to this in 2019/20 in order to determine the areas of work to be included in the Audit Plan.

Planned Internal Audit Activity

The allocation of time to each audit category is shown in the table below.

Category	2019/20	
	Planned Days	% of Operational Time
Risk Based Audit	375	44.8
Computer Audit	50	6.0
Development	30	3.6
Investigations	160	19.2
Regularity / CRSA	30	3.6
Governance and Assurance	30	3.6
Follow up	17	2.0
Year-end procedures	5	0.6
Performance Indicators	20	2.4
Advise and Guidance / Grant Claims	35	4.2
Review	30	3.6
Health and Social Care Partnership	20	2.4
Other Bodies	33	4.0
Operational Time	**835**	**100%**
Administration	24	-
Management and Planning	42	-
Training / Staff Development	25	-
Leave	249	-
Non-Operational Time	**340**	**-**
Overall Total	**1175**	**-**

Corporate Fraud

The Corporate Fraud Team has an establishment of 3.8 FTE. Through an assessment of the mix of knowledge, skills and experience of the Corporate Fraud Team, it is considered that the available resources are sufficient to achieve the work outlined in the plan. The Corporate Fraud Team Leader reports to the Audit and Risk Manager.

The Corporate Fraud Team have been given a target to make savings of £225,000 during 2019/20.

It is important that the pro-active work of the Corporate Fraud Team is structured to ensure the information obtained in any data match is current and that there are sufficient resources to deal with the output of the matches.

A large part of the work of the team will remain reactive as they respond to referrals made from members of the public, internal departments, outside agencies and the Joint Working Pilot and cognisance has to be taken of this commitment when planning proactive work.

4. Monitoring the Plan

Internal Audit reports performance to the Audit Committee on a quarterly basis:-

- Action Plans issued during the quarter
- Progress on implementation of audit recommendations

Internal Audit recommendations are shown in Pentana, the Council's risk and performance management system. This enables both service management and Internal Audit to monitor and report on the implementation of recommendations more efficiently.

In addition Elected Members will be advised of progress against the overall Audit Plan 2019/20 through a six month update report and an Annual Report for the full year.

5. Annual Report

Section 2450 of the Standards states that:

'The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to form 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.

This work underpins the Statement of Internal Financial Control / Annual Governance Statement, which will be published with the Abstract of Accounts, and subject to the scrutiny of External Audit.

6. Quality Assurance and Improvement Programme

Sections 1310 to1312 of the Standards refer to the need for a quality assurance and improvement plan to be developed to include both internal and external assessments.

Internal assessments must include ongoing monitoring of Internal Audit performance and periodic assessments by other persons within the organisation with sufficient knowledge of the work of Internal Audit. It is proposed that Finance Section Accountants will fulfil this role.

External assessments must be conducted at least every five years by a qualified independent assessor. The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's Internal Audit Section has participated in this framework and an external validation of its own self-assessment took place during 2015/16 for which all actions have now been implemented. The next scheduled external assessment is due to be carried out within the next two years.

7. Delivering the Plan

The plan has been developed in line with the approved Internal Audit Charter and will be delivered in accordance with:

- The Standards;
- Relevant codes of ethics standards and guidelines issued by the professional institutes;
- Relevant corporate governance documents, standards, policies and procedures; and
- The Internal Audit Section's own Audit Manual and other internal standards, which will be adhered to by its entire staff including any contracted external specialists where appropriate.

8. Schedule of Risk Based Audits

Audit	Indicative Days	Outline Scope
Cash and Bank (including cash receipting)	25	• Policies and procedures • Cash receipting • Cheque control • Segregation of duties • Security and banking • Income reconciliations • Bank reconciliations
Taxi Licencing	25	• Policies and procedures • Driver checks • Operator checks • Insurance checks • Vehicle checks • Setting of taxi fares
Housing Rents Calculation and Collection	25	• Policies and procedures • Segregation of duties • Rent level reviews • Accuracy of rent charged • Rent collection arrangements • Rent arrears follow up • Write off approvals
Pupil Equity Fund	25	• Framework for pupil equity fund • Governance arrangements • Monitoring of spending • Attainment improvement
Third Party Providers	25	• Selection process • Due diligence • Contract management • Contingency plans
Procurement	25	• Review of compliance levels across the Council • Follow up on implementation of agreed actions following previous audits on procurement
CM2000 functionality	25	• Available functionality compared to actual usage • Compliance levels • Management information

		• Development plans
Members Expenses & Allowances	25	• Policies and procedures • Claims • Payments • Security of Data
Debt Recovery	25	• Policies and procedures • Processes for effective debt recovery • Write off arrangements • Performance indictors
Housing Voids	25	• Policies and procedures • Additional rent generated • Performance indicators

Social Care – Attendance Management	25	• Ascertain compliance with established policy in terms of:
		  ○ reporting and recording of absence
		  ○ employee contact by management during absences
		  ○ return to work meetings
		  ○ triggers reached
		  ○ occupational health referrals
		  ○ attendance review meetings and resulting management actions
		• HR resources to support

Social Work – Case Management	25	• Polices and procedure • Risk assessments • Case reviews • Workload issues • Use of performance management information • Triggers to close cases
Valuation Joint Board – Review of Risk Register	25	• Risk management strategy • Identification of risks • Alignment of risks to strategic objectives • Application of identified internal controls • Review process • Reporting process
Leisure Trust- Review of Risk Register	25	• Risk management strategy • Identification of risks • Alignment of risks to strategic objectives • Application of identified internal controls • Review process • Reporting process
Total	**350**	
Completion of 2018/19 risk based audits	25	
Overall Total	**375**	

9. Schedule of Computer Audits

Audit	Indicative Days	Outline Scope
Cyber Security	25	• Cyber response plan • Risk recognition • Intrusion prevention and detection arrangements • Firewall monitoring • Incident monitoring • Cyber Essentials and Cyber Essentials plus
Access controls on selected corporate systems	25	• Review of user lists • Roles and permissions • Segregation of duties • Administrator roles • Password rules (complexity and expiry interval) • Controls over third party user access • Audit trail
Total	**50**	

10. Schedule of Development Work

Audit	Indicative Days	Outline Scope
Audit Programmes	10	Development of audit programmes
PSIAS	10	Annual self-assessment and internal review process
TeamMate Development	10	Upgrades, audit programme uploads and layout modifications as appropriate
Total	**30**	

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 20 March 2019

Subject: Public Interest Disclosures and other Internal Audit Investigations 1 July to 31 December 2018

1. Purpose

1.1 The purpose of this report is to advise Committee of the outcome of investigations into allegations and disclosures in line with public interest disclosure and business irregularities policies received by Internal Audit between 1 July to 31 December 2018.

2. Recommendations

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

3. Background

3.1 A disclosure in the public interest is where a concern is raised by a Council employee about a danger or illegality that has a public interest aspect to it. A confidential reporting facility is managed by Internal Audit as part of the WDC Public Interest Disclosure Policy. Internal Audit maintains a central record of all concerns raised under the Public Interest Disclosure Policy. All such disclosures are investigated by Internal Audit, including liaising with Services and HR as appropriate

3.2 Members of the public can also contact Internal Audit to raise issues of concern and such matters are investigated as appropriate, although they are not regarded as public interest disclosures in terms of legislation.

4. Main Issues

Public Interest Disclosure Cases

4.1 Two cases recorded as outstanding in the previous report, submitted to committee on 26 September 2018, have been progressed as detailed below:

Ref	Date Received	Detail	Outcome
1.	14.11.17	Concerns raised about fire alarms in Council premises.	Reported to Audit Committee in December 2018.
2.	17.5.18	Allegation of theft by Council employee.	Investigated – unfounded.

4.2 Three disclosures were received during the period July 2018 to December 2018 as follows:

Ref	Date Received	Detail	Outcome
1.	12.9.18	Allegation that employee is working in a non-Council job whilst off sick from Council post.	The employee was working in another job whilst off sick from their WDC role but there were specific reasons for this of which management were aware. The employee subsequently returned to work.
2.	12.11.18	Allegation of sexual harassment by an employee.	Investigation by management and HR still in progress.
3.	27.10.18	Allegation of inappropriate working practices in a service area.	Investigation still in progress.

4.3 Activity relating to public interest disclosure for recent reporting periods is as follows:

Period	No. of Cases
1st July 2015 to 31st December 2015	8
1st January 2016 to 30th June 2016	4
1st July 2016 to 31st December 2016	6
1st January 2017 to 30th June 2017	1
1st July 2017 to 31st December 2017	7
1st January 2018 to 30th June 2018	2
1st July 2018 to 31st December 2018	3

Other investigations

4.4 Three cases recorded as outstanding in the previous report, submitted to committee on 26 September 2018, have been progressed as detailed below:

Ref	Date Received	Detail	Outcome
1.	8.3.18	Concerns re payment of professional subscriptions.	An investigation by management established that some professional subscriptions had been paid by WDC which should be borne by individual employees. These are being recovered via payroll.

2.	27.6.18	Allegation of theft of dinner money at school.	Investigated – unfounded. Education are being asked to review the process for recording the late payment of dinner money.
3.	28.6.18	Allegation of misuse of school funds.	Investigated – unfounded.

4.5 A total of four cases were received by Internal Audit during the period July 2018 to December 2018 as follows:

Ref	Date Received	Detail	Outcome
1.	10.8.18	Concerns re malpractice by a WDC employee prior to their employment.	Investigated – no concerns in relation to WDC.
2.	29.8.18	Owner of WDC sold property concerned about need for repair work.	Investigated – unfounded.
3.	18.9.18	Terminated employee continued to be paid.	On investigation it was established that the former employee was overpaid. Steps are being taken to recover this amount.
4.	28.11.18	Ordering / Invoicing error in Building Services.	Investigation still in progress.

5. People Implications

5.1 There are no personnel implications with this report.

6. Financial and Procurement Implications

6.1 There are neither financial nor procurement implications with this report.

7. Risk Analysis

7.1 There are risks to the Council in financial, legal, operational and reputational terms of not providing a service to enable a disclosure in the public interest and to ensure that all public interest disclosure and other concerns raised with Internal Audit are properly investigated.

8. Equalities Impact Assessment (EIA)

8.1 There is no requirement to undertake an equality impact screening.

9. Consultation

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

10. Strategic Assessment

10.1 The Public Interest Disclosure Policy and Business Irregularity Procedures contribute to the Council's strategic priorities by ensuring that early warnings of malpractice may mitigate the extent of financial losses to the Council, contribute to better asset management by utilising employees to manage risks to the organisation's reputation and support fit for purpose services through the continuation and promotion of robust employment practice.

....

Stephen West
Strategic Lead - Resources
Date: 4 March 2019

Person to Contact:	Colin McDougall, Audit and Risk Manager, Telephone (01389-737436). Email: colin.mcdougall@west-dunbarton.gov.uk
Appendices:	None
Background Papers:	Public Interest Disclosure Policy agreed by the Corporate Services Committee on 13 August 2014; Business Irregularity Procedures
Wards Affected:	All

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 20 March 2019

Subject: Accounts Commission Report: *Local government in Scotland Financial overview 2017/18*

1. Purpose

1.1 This report provides Members with information regarding a report recently published by the Accounts Commission as prepared by Audit Scotland.

2. Recommendation

2.1 It is recommended that Members consider:

- The attached report, along with the scrutiny tool for councillors contained at Appendix 2: and
- Whether a future Elected Members' development session should take place in relation to this report.

3. Background

3.1 This report from the Accounts Commission is one of a series of such reports over the last few years and tells the strategic financial story for local government in Scotland in 2017/18. The report reflects a similar situation to last year as councils face an increasingly complex range of challenges and continuing pressure on finances. Challenges include increasing demand across many of the wide range of services councils deliver to local communities. Demand has to be met against tightening budgets in many service areas along with uncertainty stemming from external factors such as EU withdrawal.

4. Main Issues

4.1 This report provides a high-level independent analysis of the financial performance of councils during 2017/18 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published at the end of the financial year, in March 2019.

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

4.3 The key messages of the report are:

- Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced in 2017/18, in cash terms by 0.6 per cent (£0.06 billion) and in real terms, by 2.3 per cent (£0.22 billion). Council tax increases and increased fees and charges were used by councils to increase overall budgets by £0.3 billion (cash terms);

- In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Councils are under pressure to find different ways to fund and deliver services. In 2017/18, 24 councils increased council tax, whereas in 2018/19, all councils increased council tax;

- Overall increases in spending in Education and Social Work were offset by reductions in other services;

- Eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year. Total usable reserves fell by £18 million, a relatively small amount;

- Funding to the Integration Joint Boards (IJBs) increased in 2017/18 by three per cent in cash terms (1.4 per cent in real terms), including additional funding from the NHS. The majority of IJBs have underlying financial sustainability issues, with 20 incurring deficits or dependent on additional ('deficit') funding from their partners;

- The financial outlook is for reductions in Scottish Government revenue funding to councils. This will mean continued and increasing financial pressures on council services, especially those that are not protected; and

- The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks.

4.4 Throughout, the report identifies examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. As noted at paragraph 4 on page 8 of the report, the Accounts Commission encourages councillors to use an appropriate level of scepticism in scrutiny and ensure they receive sufficient information to answer their questions fully. The questions are also available in Supplement 1: Scrutiny tool for councillors (see Appendix 2 to this report, and on the Audit Scotland website).

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 useful information of a financial nature.

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 Proper budgetary control and sound financial practice are cornerstones of good governance and support Elected Members and Officers to pursue the five strategic priorities of the Council's Strategic Plan. This report informs the financial governance of the Council.

....
Stephen West
Strategic Lead - Resources
Date: 18 February 2019

Person to Contact: Stephen West, Strategic Lead - Resources
Council Offices, Garshake Road, Dumbarton
Telephone (01389) 737191
E-mail: stephen.west@west-dunbarton.gov.uk

Appendices: Appendix 1: Accounts Commission Report: *Local government in Scotland Financial overview 2017/18*
Appendix 2: Scrutiny tool for councillors

Background Papers: None

Wards Affected: N/A

Local government in Scotland

Financial overview 2017/18

ACCOUNTS COMMISSION

Prepared by Audit Scotland
November 2018

The Accounts Commission

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

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

Our work includes:

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

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

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

Contents

Links

PDF download

Web link

Information box

Exhibit data

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

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

Audit team

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

Key facts

£8.3 billion
IJBs' spending in 2017/18

6.9 per cent
Real terms reduction in Scottish Government revenue funding since 2013/14

£17.4 billion
Council income 2017/18

£12.2 billion
Council net spending on day-to-day services in 2017/18

£2.7 billion
Council capital spending in 2017/18

£1.9 billion
Councils' usable reserves (excluding Orkney and Shetland) at 31 March 2018

£6.6 billion
Councils' share of the Local Government Pension Scheme deficit at 31 March 2018

£15.1 billion
Councils' net debt (excluding Orkney and Shetland) at 31 March 2018

£2.4 billion
Council budgets delegated to IJBs in 2017/18

Chair's introduction

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

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

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

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

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

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

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

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

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

Graham Sharp
Chair of Accounts Commission

Summary

Key messages

1 Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced in 2017/18, in cash terms by 0.6 per cent (£0.06 billion) and in real terms, by 2.3 per cent (£0.22 billion). Council tax increases and increased fees and charges were used by councils to increase overall budgets by £0.3 billion (cash terms).

2 In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Councils are under pressure to find different ways to fund and deliver services. In 2017/18, 24 councils increased council tax, whereas in 2018/19, all councils increased council tax.

3 Overall increases in spending in Education and Social Work were offset by reductions in other services.

4 Eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year. Total usable reserves fell by £18 million, a relatively small amount.

5 Funding to the Integration Joint Boards (IJBs) increased in 2017/18 by three per cent in cash terms (1.4 per cent in real terms), including additional funding from the NHS. The majority of IJBs have underlying financial sustainability issues, with 20 incurring deficits or dependent on additional ('deficit') funding from their partners.

6 The financial outlook is for reductions in Scottish Government revenue funding to councils. This will mean continued and increasing financial pressures on council services, especially those that are not protected.

7 The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks.

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

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during 2017/18 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published at the end of the financial year, in March 2019.

2. Our primary sources of information for the financial overview are councils' 2017/18 audited accounts, including management commentaries and the 2017/18 external annual audit reports for each council. We have supplemented this with data submitted by councils to the Scottish Government through local finance returns (LFRs) and Provisional Outturn and Budget Estimates (POBE). LFRs present spending information on a different basis from the spending information that councils record in their annual accounts. We do not audit data contained in the LFRs.

3. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2017/18 prices (and 2018/19 prices where 2018/19 comparisons are made), adjusted for inflation so that they are comparable. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

4. Throughout the report, we identify examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. The Accounts Commission encourages councillors to use an appropriate level of scepticism in scrutiny and ensure they receive sufficient information to answer their questions fully. The example questions are also available on our website in *Supplement 1: Scrutiny tool for councillors*.

5. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders. We will also publish a separate supplement on the Local Government Pensions Scheme (LGPS) in December 2018.

6. Orkney and Shetland have been excluded from some exhibits that show usable reserves and debt. This is because their values would make it difficult to see the relative positions of other councils. Most councils hold usable reserves of between seven and 36 per cent of their annual revenue, whereas Shetland's reserves were 260 per cent of its annual revenue and Orkney's 329 per cent of its annual revenue. These large reserves relate to oil, gas and harbour-related activities. Both Orkney and Shetland also have significant investments rather than borrowing, unlike other councils.

Part 1

Councils' budgets and spending in 2017/18

Key messages

1 Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced by 2.3 per cent (£0.2 billion) in real terms in 2017/18, but council tax, grants to services and fees and charges increased, and overall budgets grew by £0.3 billion in cash terms.

2 Between 2013/14 and 2017/18, funding from the Scottish Government to local government decreased at a faster rate, 6.92 per cent, than the Scottish Government revenue budget at 1.65 per cent.

3 Distribution of funding from the Scottish Government is based mainly on population but could be more transparent to ensure clarity about how funding distribution reflects factors that drive demand and costs in councils.

4 In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Their outturn at the year-end was better than budgeted.

5 Overall increases in spending in Education and Social Work were offset by reductions in other services

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

Council funding

The main source of councils' funding is the Scottish Government

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

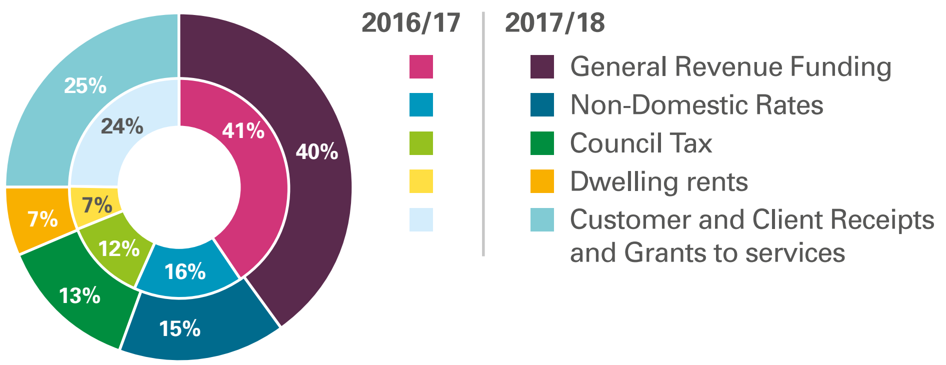
Although Scottish Government funding reduced, increases in council tax and charges increased the total amount available to councils to meet expenditure

8. Total income and funding of £17.4 billion is an increase from £17.1 billion in 2016/17. Reductions in Scottish Government funding of £57 million have been more than countered by increases in charges and grants to services, dwelling rents and council tax totalling £328 million. In total, this means that total income and funding is £271 million more in 2017/18 than 2016/17. Across Scotland in 2017/18, 13 per cent of income, £2.3 billion, was generated through council tax and 25 per cent, £4.3 billion, through fees, charges and grants credited to services.

Exhibit 1

Sources of council revenue income, 2017/18

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



Source: Finance Circulars and Audited Financial Statements

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

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

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

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

Total revenue funding:

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

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

Exhibit 2

Changes in Scottish Government funding in 2017/18

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

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

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

Source: Finance Circulars 1/2017 and 4/2018

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

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

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

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

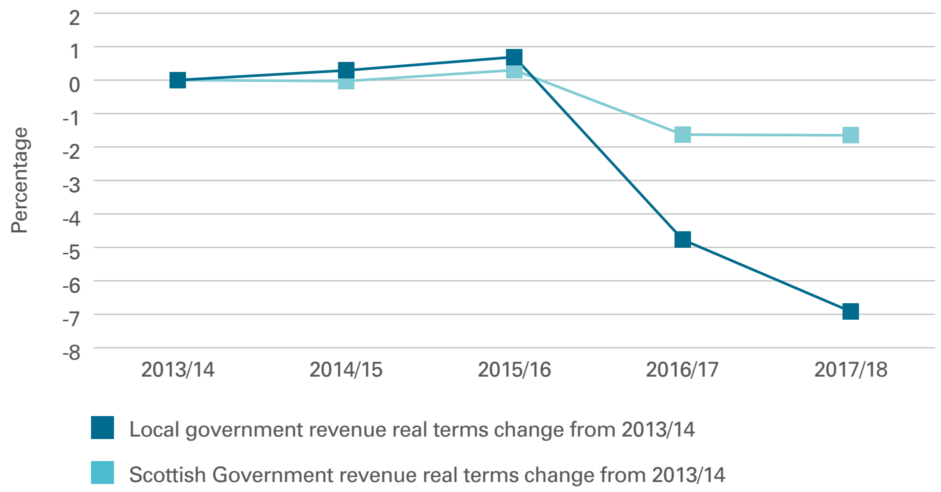
13. As we reported last year, the Scottish Government and COSLA's mechanism for distributing funding to councils is the main determinant of a councils' overall funding. Grant-aided Expenditure, or GAE, is a needs-based methodology, used to allocate the Scottish Government's pre-determined spending review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

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

Exhibit 3

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

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



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

Source: Audit Scotland; and SPICe

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

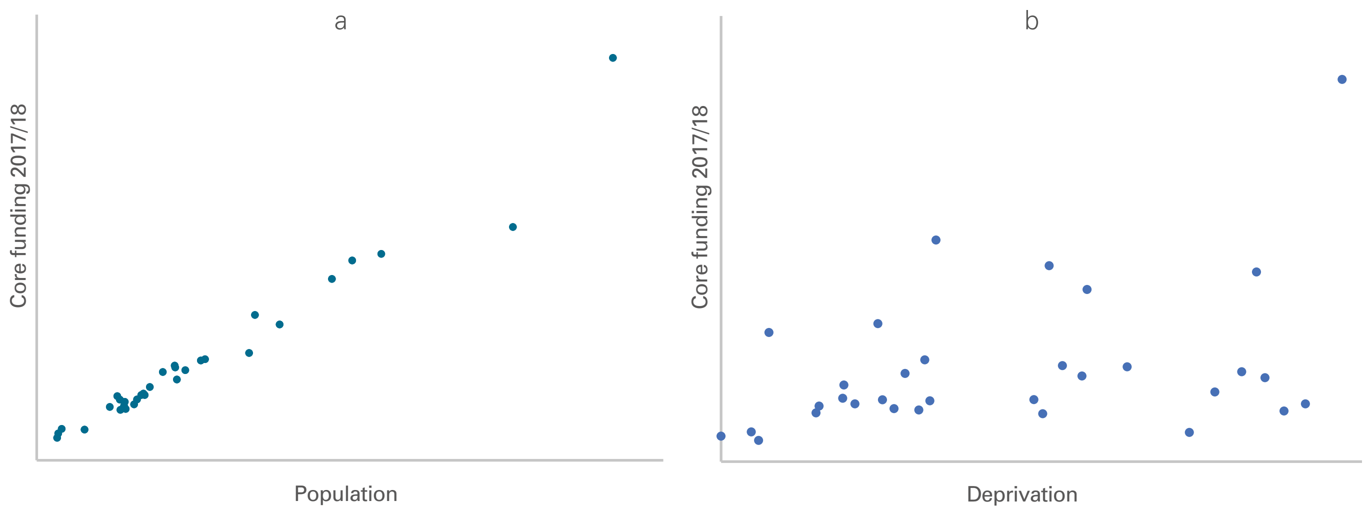
16. The majority of GAE is allocated according to population-based factors. Other factors are far less significant influences on total funding. For example, those which might be considered to link to deprivation, for example 'the number of current income deprived', are linked to a much smaller proportion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

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

Exhibit 4

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

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



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

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

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

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

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

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

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

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

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

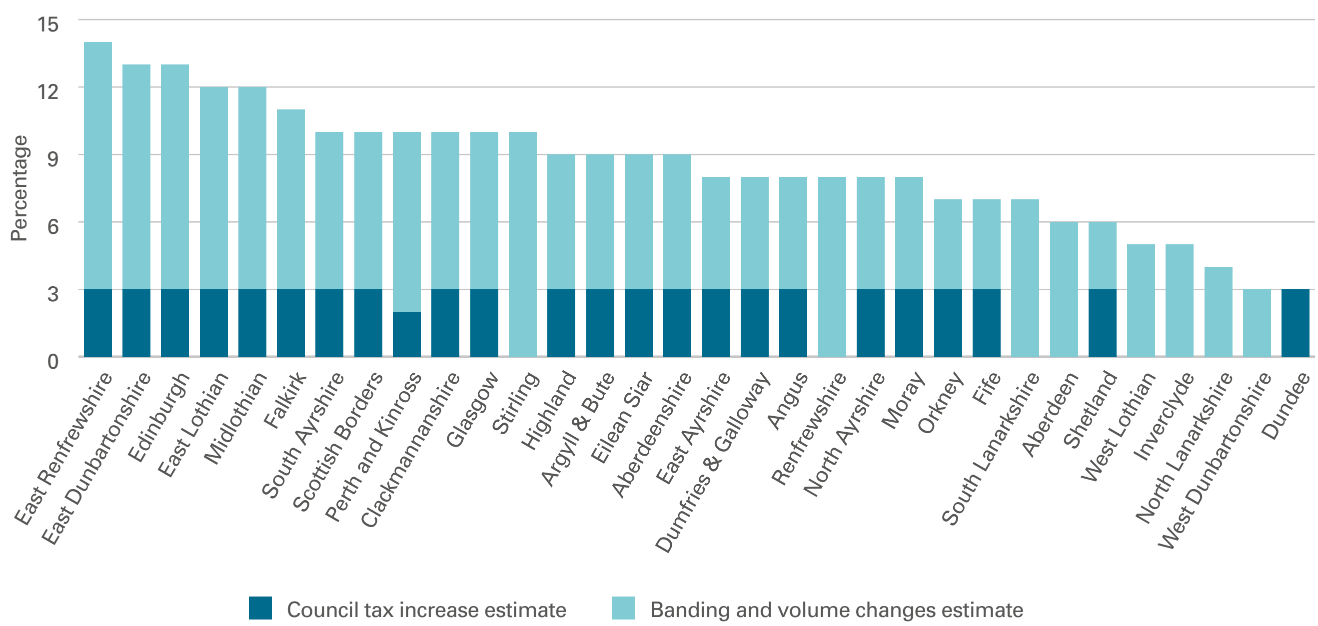
A significant element of income comes from fees, charges, house rent and grants taken directly to services

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

Exhibit 5

Increase in council tax income by council, 2017/18

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



Source: Audited financial statements 2017/18

There is significant variation between councils in charges for services

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

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

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

Does your council have a charging policy?

Is it in line with corporate plans and objectives?

When was this last reviewed?

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

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

Councils' budgets 2017/18

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

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

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

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

- Apprenticeship levy – this is a new levy on bodies of 0.5 per cent of pay bills above £3 million. The Highland Council identified this as a pressure of £1.2 million (0.2 per cent of its budget), East Ayrshire as £0.8 million (0.2 per cent of its budget) and Dundee City Council £1.0 million (0.3 per cent of its budget). Budgets tended not to assume receipt of funding or grants from the Scottish Government or Scottish Apprenticeship Advisory Board in respect of the levy.

- Demand costs – increasing demand for services was noted as a cost pressure. This was most distinct in adult care services. Renfrewshire Council identified this as £1.2 million (0.3 per cent of its budget). East Ayrshire Council agreed to fund demand pressures in adult social care of £2.0 million (0.6 per cent of its budget).

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

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

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

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

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

- planned use of £0.1 billion of unearmarked reserves.

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

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

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

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

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

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

Does your council have a savings plan?

What are the options to close future funding gaps?

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

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

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

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

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

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

What are the potential risks?

Part 2

Councils' financial position

Key messages

1 Eighteen councils drew on their usable reserves in 2017/18, overall by a relatively small amount.

2 Some councils have relatively higher levels of debt for their size.

3 Local policies vary on whether cash and investments are held to support reserves. This could increase the need for further future borrowing.

4 Capital expenditure in 2017/18 decreased by five per cent in real terms. Housing and education were the main areas of investment. Despite this the number of social houses provided by councils continues to fall.

5 Some councils have had significant increases in their debt positions.

6 There were delays with the valuation of pensions liabilities in councils across Scotland in 2017/18, but the net pension liability has reduced substantially in 2017/18.

7 Management commentaries in councils' accounts should do more to explain financial outturn against budget.

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

Councils' financial position

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

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

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

?

What is the council's reserve policy?

What have reserves been used for in recent years?

Supporting services and bridging the funding gap or transforming services?

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

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

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

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

Do you know what these can be spent on?

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

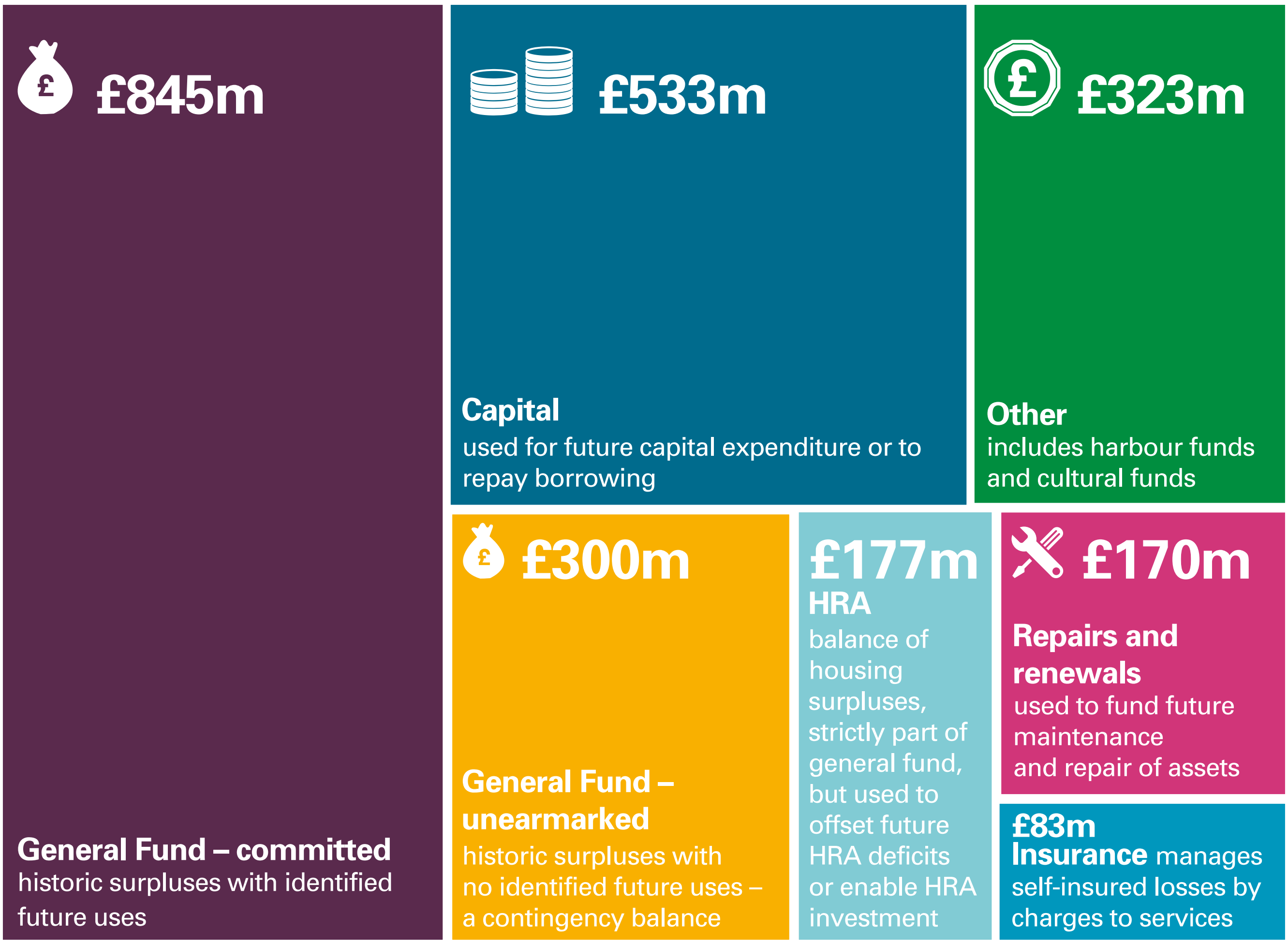
Are the reserves sufficient for those purposes?

Could the reserves be better used for something else?

Exhibit 6

The relative size and nature of council's usable reserves

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



Source: Audited financial statements 2017/18

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

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

Some councils have relatively higher debt than others

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

Gross debt/net debt:

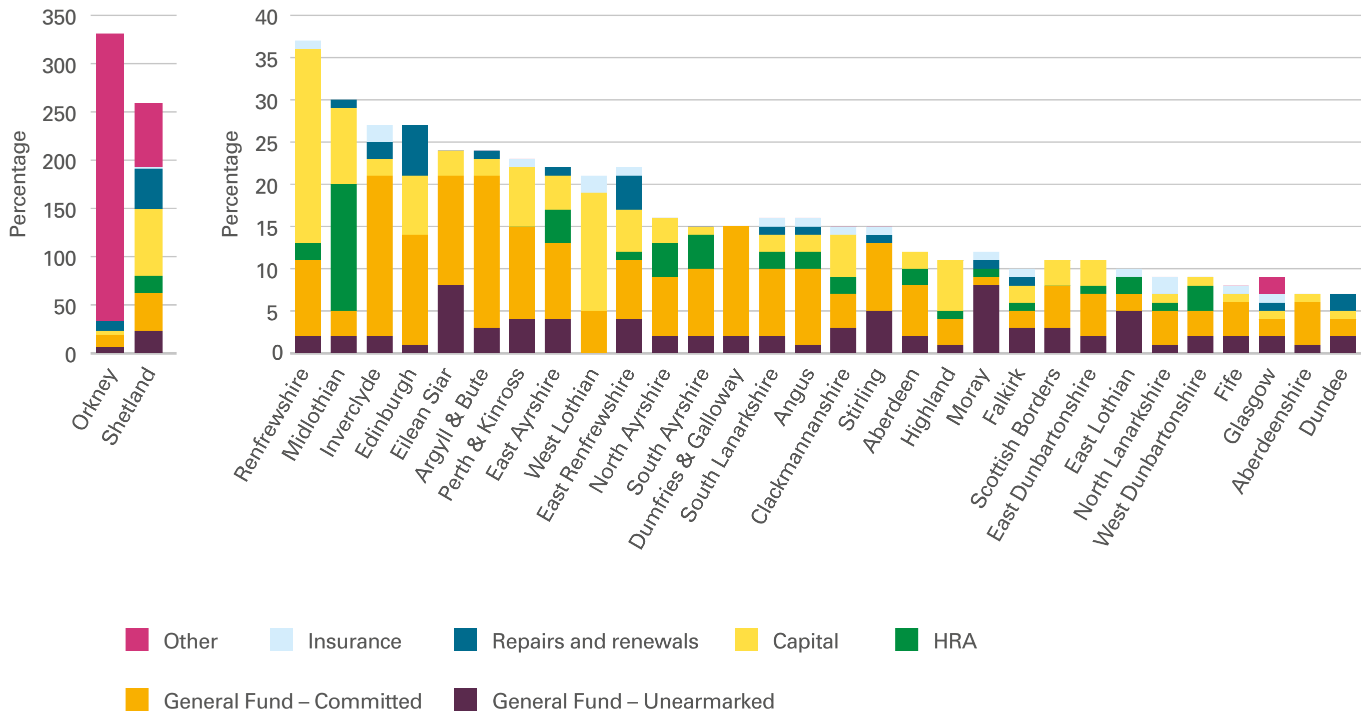
Gross debt is the total outstanding borrowing and the liabilities associated with PFI/PPP/NPDO and HuB schemes.[1] This includes both long and short-term balances.

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

Exhibit 7

Usable reserves as a percentage of council annual revenue

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

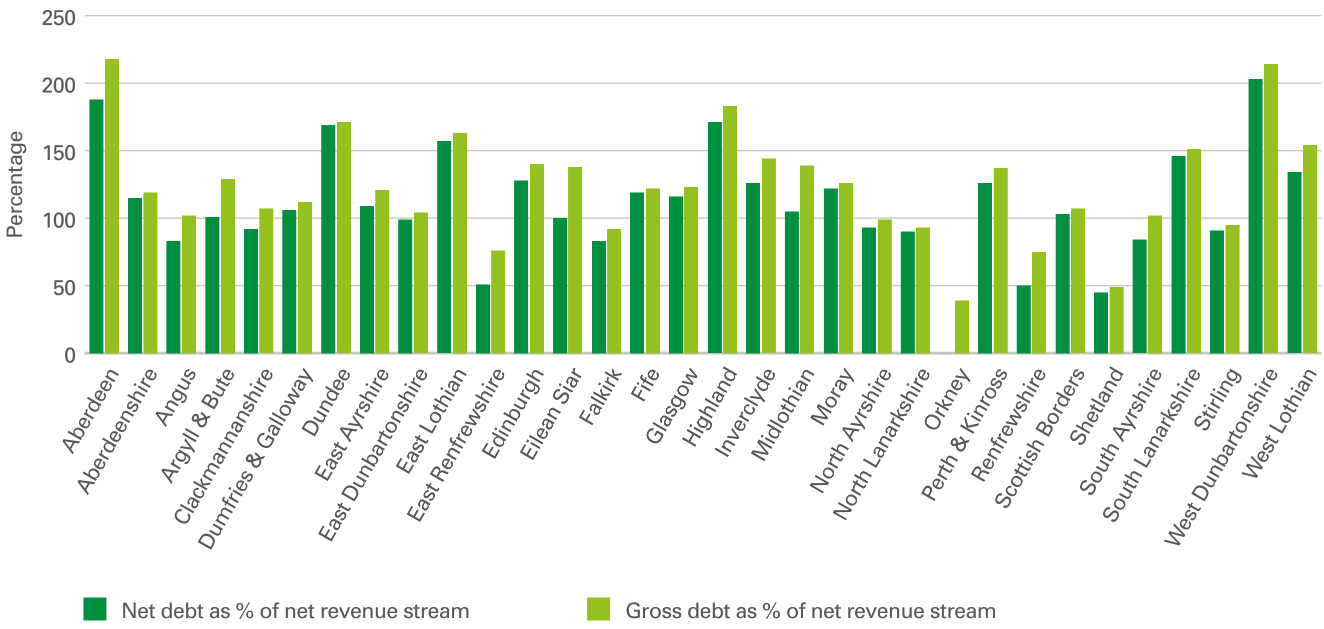


Source: Audited financial statements 2017/18 (Orkney and Shetland have reserves which are above 250 per cent of their annual revenue)

Exhibit 8

Council gross and net external debt compared to its annual revenue

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



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

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

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

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

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

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

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

What is the council's current debt position?

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

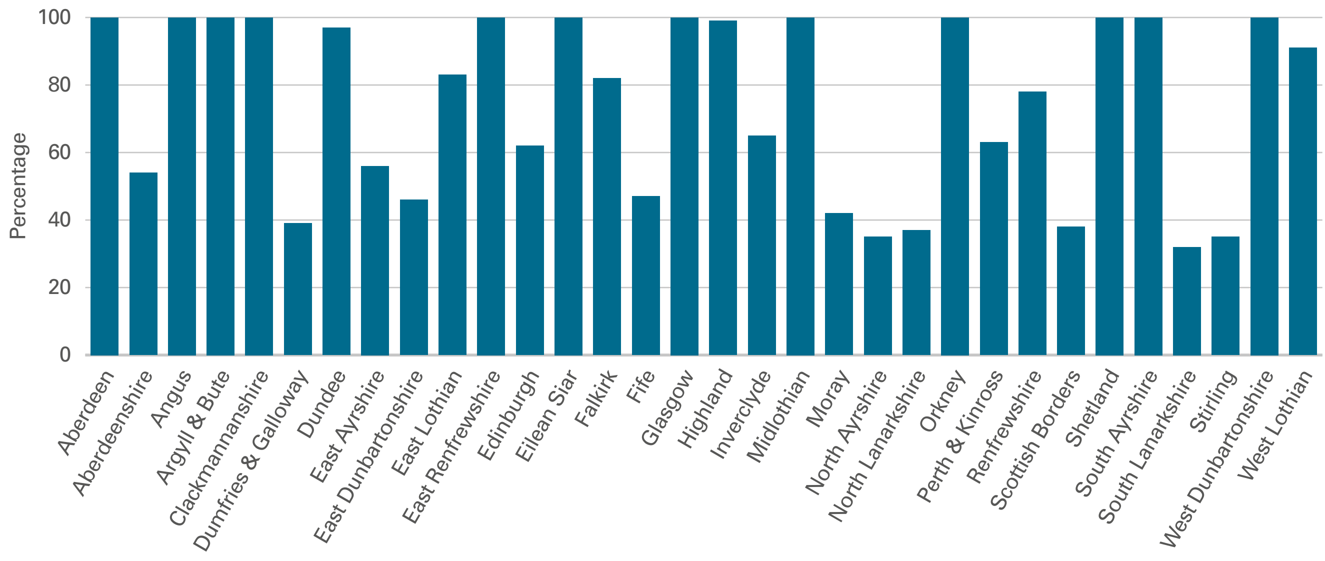
What share of the council's budget is taken up with interest payments and debt repayment?

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

Exhibit 9

Extent that usable reserves are represented by cash or investments

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

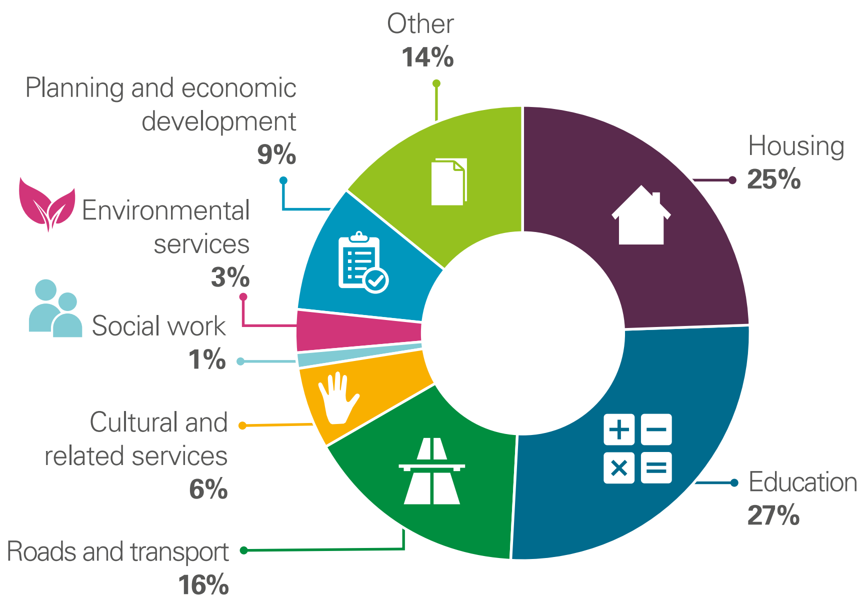


Source: Audited financial statements 2017/18 (100 per cent shown as max. amount, some councils exceed 100 per cent)

Exhibit 10

Capital expenditure by service area, 2017/18

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



Source: Scottish Government POBE provisional outturn by service

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

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

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

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

- £1 billion of government grants (£138 million or 16 per cent higher than in 2016/17)
- £0.6 billion of internal charges to services (loans fund principal repayments) (£0.7 billion in 2016/17)
- £0.6 billion increase in the underlying need to borrow[2] (£0.7 billion in 2016/17) with £0.3 billion of this resulting in an increase in external borrowing.

Some councils had significant increases in their net debt position

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

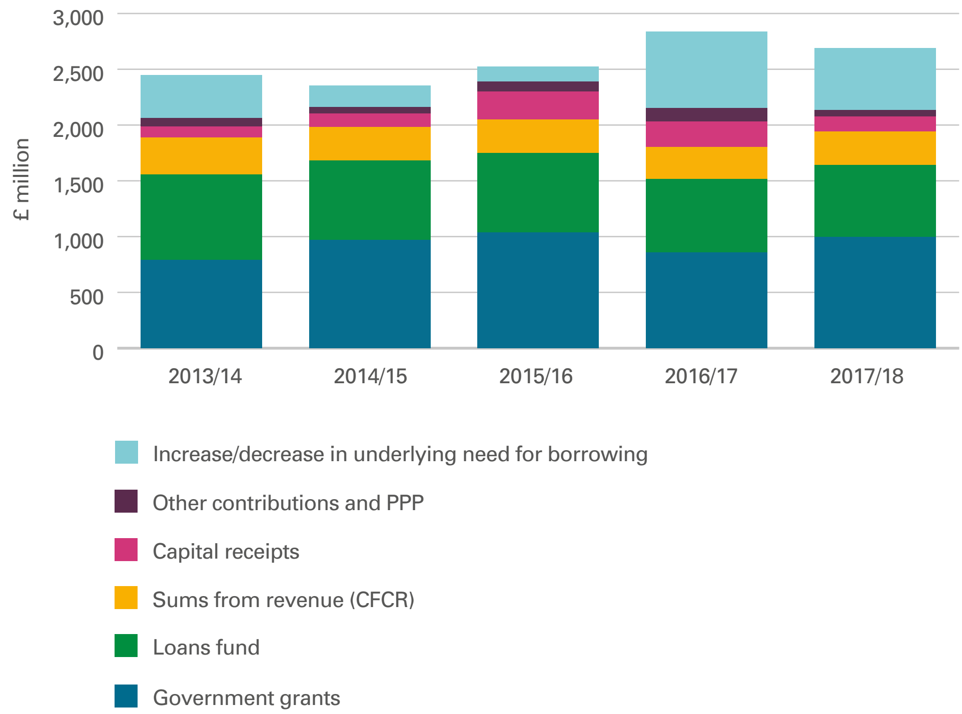
46. The councils with notable increases included:

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

Exhibit 11

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

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



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

Other key elements in the audited financial statements

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

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

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

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

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

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

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

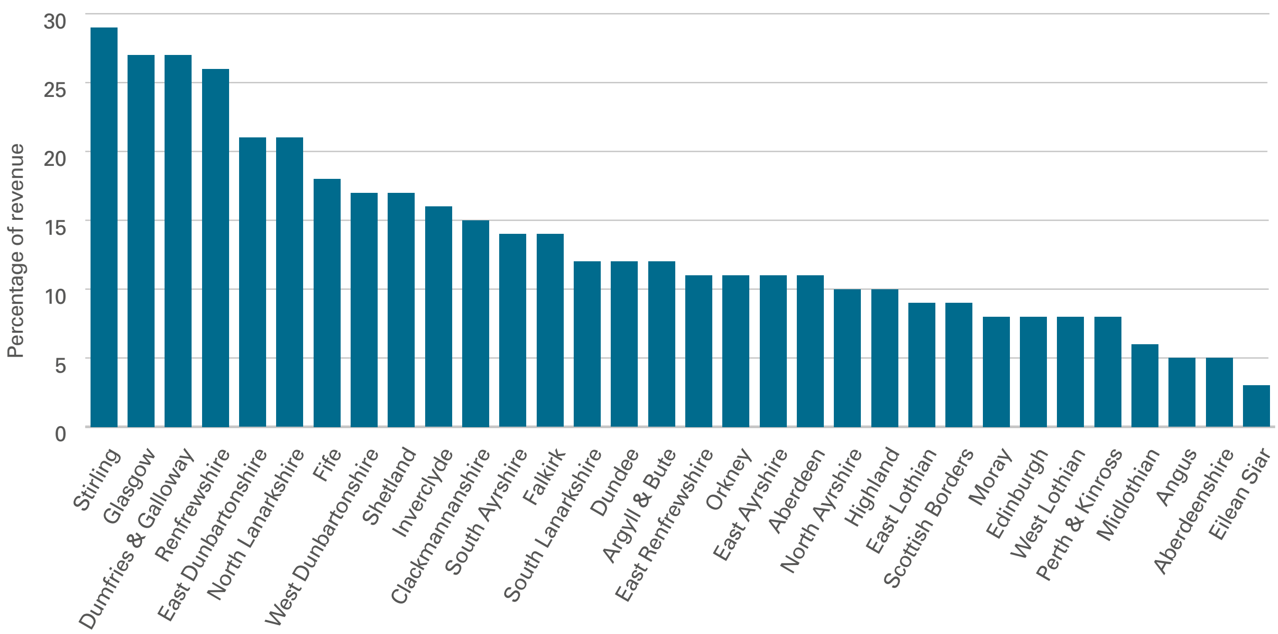
Unfunded LGPS liabilities vary significantly across councils

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

Exhibit 12

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

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



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

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

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

53. Glasgow City Council has identified a new contingent liability[3] disclosure in 2017/18 for equal pay claims, which it is unable to estimate. This is based on a May 2017 ruling by the Court of Session on pay protection claims, affecting around 8,000 claimants and an August 2017 ruling on the council's Job Evaluation Scheme. This will take time to resolve and the potential scale is likely to be significant and impact on the council's financial planning.

Financial management, governance and transparency

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

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

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

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

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

?

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

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

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

Part 3

Integration Joint Boards' overview 2017/18

Key messages

1 Funding to the IJBs increased in 2017/18 by three per cent in cash terms. Most of this additional funding came from the NHS and includes additional Scottish Government funding to the NHS for IJBs of £107 million.

2 The majority of IJBs have underlying financial sustainability issues, with 11 out of 30 incurring deficits in 2017/18. A further eight would have incurred deficits without additional ('deficit') funding from their partners.

3 Reserve positions vary enormously between IJBs.

4 Medium-term financial planning is not used by most IJBs and further improvements to financial management should be introduced.

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

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

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

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

the majority of IJBs have underlying financial sustainability issues

?

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

What are the levels of reserve held by the IJB?

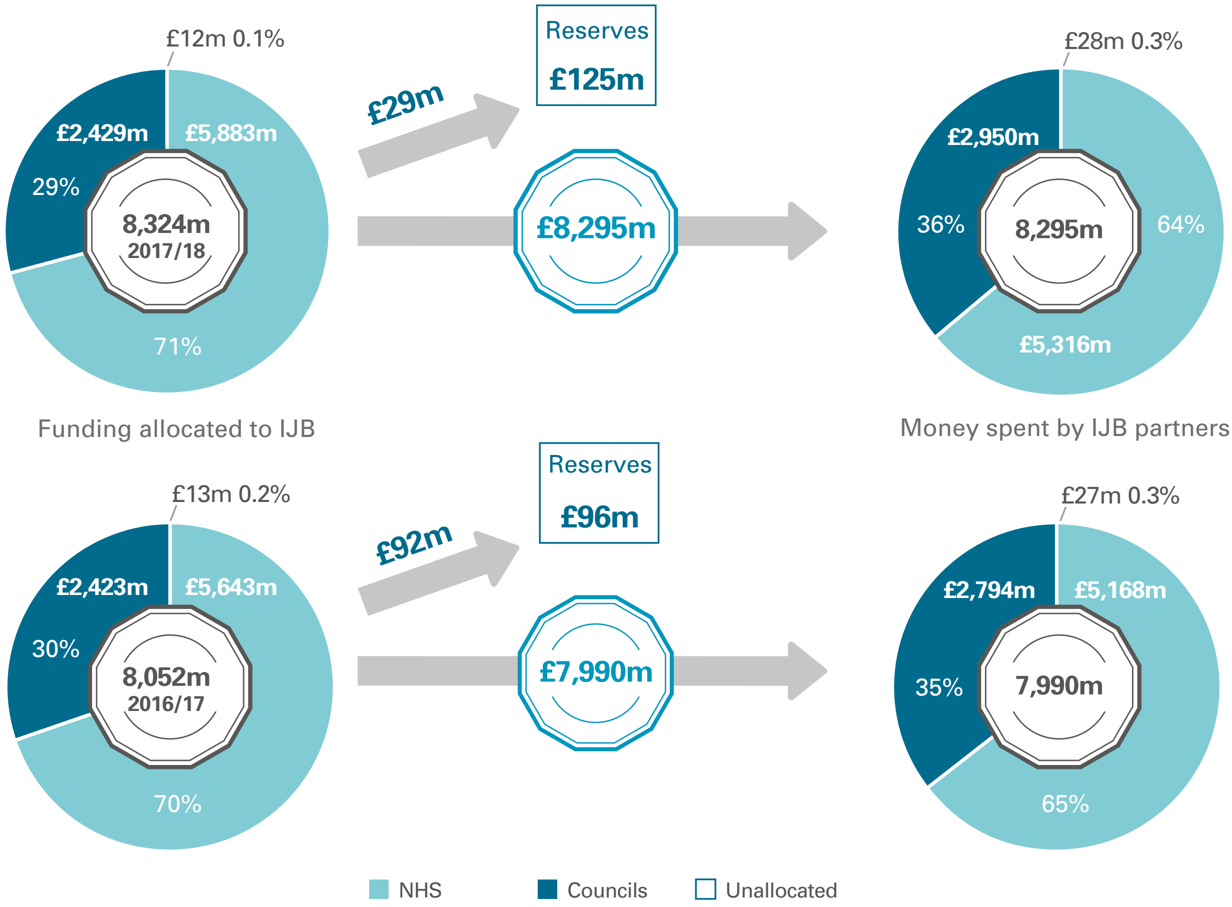
Are these in line with the IJB's reserve policy?

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

Exhibit 13

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

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



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

Source: IJB audited accounts

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

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

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

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

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

Reserve positions vary enormously

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

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

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

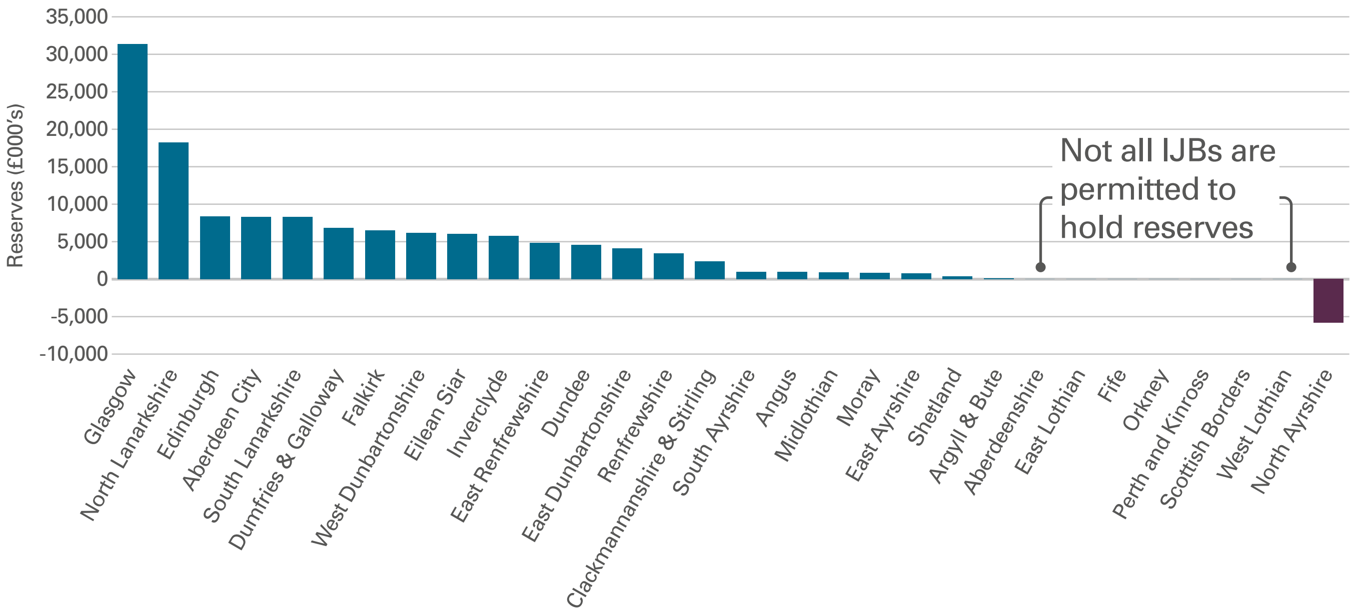
66. Forty per cent of the total reserves are held by two IJBs: £31 million in Glasgow and £18 million in North Lanarkshire. Comhairle nan Eilean Siar has the highest reserve relative to its income at ten per cent (Exhibit 14, page 30). North Ayrshire is unusual in having a negative reserve of £5.8 million.

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

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

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

Exhibit 14
Integration Joint Board reserves
Forty per cent of the total reserves are held by Glasgow and North Lanarkshire. North Ayrshire is unusual in having a negative reserve of £5.8 million.



Source: Audited financial statements 2017/18

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

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

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

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

Part 4

Councils' financial outlook

Key messages

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

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

Council future funding

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

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

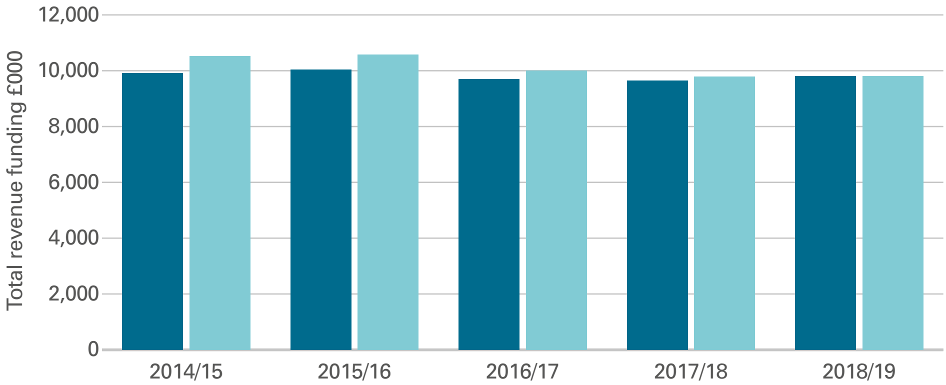
An increase in the 2018/19 settlement was late and the early payment of £35 million in 2017/18 reduced transparency in the funding available between the two years

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

Exhibit 15

Scottish Government funding to councils in real and cash terms

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



	2014/15	2015/16	2016/17	2017/18	2018/19
SG total revenue funding – cash terms	9,920.6	10,039.4	9,707.9	9,650.7	9,814.4
SG funding revenue funding – real terms	10,525.8	10,580.5	10,005.5	9,793.3	9,814.4

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

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

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

74. Funding settlements to councils continue to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term, given such a significant proportion of their income comes from Scottish Government funding. On 30 June 2017, the Budget Process Review Group[4] published its final report and this included a recommendation that the Scottish Government should develop a medium-term financial strategy. The Scottish Government's five-year financial strategy was published in May 2018.

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

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

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

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

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

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

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

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

Financial pressures and planning

Councils continue to recognise significant financial challenges in the medium term

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

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

Many councils are in the early stages of delivering transformational change

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

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

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

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

What is your council's financial position?

What particular challenges does the council face?

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

Does your council have a transformation plan?

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

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

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

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

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

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

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

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

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

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

Councils' budgets 2018/19

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Are these plans appropriate and reasonable?

Withdrawal from the EU

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

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

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

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

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

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

Endnotes

1 PFI/PPP/NPD/HuB - PFI is an approach financing public infrastructure where the private partner finances, designs, builds, and operates the infrastructure asset. PPPs, on the other hand, may refer to a wider range of public-private collaboration, and include several business structures and partnership arrangements such as joint ventures, concessions, outsourcing, and PFI. PFI and PPP generally involve a long-term contractual agreement between the public and private sectors with financing and risk sharing by the private partner. Scotland's Non-Profit Distributing (NPD) model is a type of PPP agreement. It differs from the PFI model in that that private sector returns are capped and any excess profit goes back to the public sector. NPDs also promote enhanced governance and transparency through the appointment of a public interest director to the project company.

2 An increase in the underlying need to borrow could be funded by a council over the short/medium term from working capital including reduced cash and investments. It may not result in external borrowing in year. In fact, many councils chose not to borrow as they did not consider current borrowing rates to be favourable.

3 Contingent Liability – a possible obligation that arises from past events and will be confirmed only by the occurrence or nonoccurrence of one-or more uncertain future events not wholly within the control of the council.

4 The remit of the group was 'to carry out a fundamental review of the Scottish Parliament's budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016'.

Local government in Scotland

Financial overview 2017/18

This report is available in PDF and RTF formats, along with a podcast summary at: www.audit-scotland.gov.uk

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Local government financial overview 2017/18

Scrutiny tool for councillors

ACCOUNTS COMMISSION

This scrutiny tool captures some potential questions for councillors and relates to our report *Local government in Scotland: Financial overview 2017/18*. It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's financial position and to scrutinise financial performance.

	How well informed am I?	
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
Financial planning and budget		
1. Does your council have a long-term financial strategy (ten years or more) that reflects the anticipated changes in demographics and demands on services?		
2. Do medium and long-term financial plans include a range of potential funding and financial scenarios?		
3. What is your council's financial position? What particular challenges does the council face?		
4. What new financial pressures are there for 2018/19 and 2019/20 and how much will these cost?		

Cont.

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
5. How do you engage with the budget setting process and ensure you have the opportunity to influence the development and content of a strategic budget?		
6. How does annual budget setting link to medium and long-term financial planning in your council?		
Savings and transformation plans		
7. Does your council have a savings plan? What are the options to close future funding gaps? How well are you kept informed about progress in delivering those savings?		
8. Which service areas are under the most pressure to make savings? What impact will savings have on the delivery of services and outcomes for service users, the wider community and the local economy? What are the potential risks?		
9. Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?		
10. Does the transformation programme of work aim to make positive change to improve outcomes for communities? Is it about seeking opportunities to do things differently to maintain or improve performance or is the focus only on making savings?		
11. Are projects within the transformation programme achieving their aims in terms of service quality, performance and cost?		
12. How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?		
13. Are detailed options appraisals or business cases set out for changes to services planned within transformation activity?		

Cont.

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
Reserves		
14. What is the council's reserves policy?		
15. What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?		
16. What are the different types of usable reserves your council holds? Do you know what these can be spent on?		
17. What is the likely use of unearmarked reserves for 2018/19? How does the remaining unearmarked reserve compare to forecast funding gaps?		
18. What are the plans for using the different reserve funds in 2019/20 and beyond? Are these plans appropriate and reasonable?		
19. Is it clear that the reserves are needed for the purposes they are assigned? Are the reserves sufficient for those purposes? Could the reserves be better used for something else?		
Levels of debt and affordability		
20. What is the council's current debt position? Do you have clear information about the potential need for future borrowing when agreeing authorised borrowing limits?		
21. What share of the council's budget is taken up with interest payments and debt repayment?		
22. What proportion of the council's debt is linked to inflation or at fixed rates? What does this mean for longer-term affordability?		

Cont.

How well informed am I?	
Budget outturn reports and management commentaries	
23. Do budget monitoring reports clearly explain financial performance against plans and any changes to plans, including the reasons for change?	
24. Does the management commentary clearly explain the council's financial performance and the changes to plans and reasons for those changes?	
Financial scrutiny	
25. What additional training would you like to receive to develop your knowledge and skills for financial scrutiny?	
Charging for services	
26. Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?	
27. Do you receive sufficient information about the potential impact on the service and the wider community when making decisions about changing fees and charges?	
28. What information do you need to be able to explain increases in fees and charges to your constituents?	
Integration joint board	
29. What is the IJB's financial position? Is it financially sustainable?	
30. What are the levels of reserves held by the IJB? Are these in line with the IJB's reserve policy?	
31. What does the IJB's financial position mean for the council and for the delivery of services?	

Cont.

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
EU withdrawal		
32. What planning and measures has your council undertaken in preparation for EU withdrawal?		
33. What are the risks and potential impacts of EU withdrawal for the function of your council and for the communities of your council area, In terms of workforce, regulation and funding?		

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