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AUDIT AND RISK MONDAY, 23RD NOVEMBER, 2015

A MEETING of the AUDIT AND RISK COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 23 NOVEMBER 2015 at 2.00 pm

As previously agreed, there will be an Informal Briefing Seminar for all Elected Members at 12.30 p.m. on Borrowing and Treasury Management in Councils followed by lunch for training attendees prior to the main meeting for the Members of the Committee.

The Audit Scotland report 'Borrowing and treasury management in councils' published in March 2015 on findings from a national review of borrowing and treasury management arrangements across all Scottish councils was presented to the Audit and Risk Committee on 11 May 2015. The report includes a Scrutiny checklist for councillors with Questions for councillors on borrowing and treasury management.

The Informal Briefing Seminar for all Elected Members will cover the following headings from the Scrutiny checklist for councillors:

- Treasury management strategy and related reports
- Borrowing and other financing decisions
- Affordability and sustainability
- Performance and benchmarking

J. J. WILKINSON,
Clerk to the Council,
16 November 2015

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declaration of Interest.	
4.	Minute (Pages 1 - 8) Minute of Meeting of the Audit & Risk Committee held on 28 September 2015 to be approved and signed by the Chairman. (Copy attached.)	4 mins
5.	Risk Management in Services Presentation by Chief Officer Health and Social Care and Chief Social Work Officer on the strategic risks facing Adult Services and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation)	15 mins

6.	Corporate Risk Management Strategy (Pages 9 - 16) Consider report by Chief Officer Audit & Risk on the revised Corporate Risk Management Strategy for scrutiny prior to presentation for Council approval. (Copy attached.)	15 mins
7.	Internal Audit Work 2015/16 to October 2015 (Pages 17 - 30) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, and work currently in progress. (Copy attached)	20 mins
8.	Internal Audit Mid Term Performance Monitoring Report 2015/16 (Pages 31 - 42) Consider a report by Chief Officer Audit & Risk on progress Internal Audit has made during the first half of the year towards completing the Annual Plan 2015/16 and an outline of performance. (Copy attached)	20 mins
9.	Mid-Term Treasury Management Report 2015/16 (Pages 43 - 60) Consider mid-term report by Chief Financial Officer on the Council's Treasury Management activities undertaken during first half of financial year 2015/16 for review and scrutiny prior to Council approval. (Copy attached.)	20 mins
10.	Housing Benefits Overpayment and Debt Recovery (Pages 61 - 70) Consider update report by Service Director Neighbourhood Services on Housing Benefits overpayment and debt recovery information. (Copy attached)	15 mins
11.	Benefits Performance Audit Update 2014/15 (Pages 71 - 86) Consider report by Audit Scotland published in June 2015 which provides a summary of the performance audit work carried out by Audit Scotland on Scottish Councils' housing benefit services during 2014/15. (Copy attached)	20 mins
12.	Any Other Items Previously Circulated.	
13.	Any Other Items which the Chairman Decides are Urgent.	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors M. Ballantyne (Chair), W. Archibald, J. Campbell, A. J. Nicol, S. Scott and B White (Vice-Chairman)

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SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE

MINUTE of MEETING of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St. Boswells on 28 September 2015 at 10.00 am.

Present: - Councillors M Ballantyne (Chairman), J Campbell, A Nicol, S Scott, B White; Mr D Gwyther.

Apology:- Councillor W Archibald.

In Attendance:- Chief Financial Officer, Corporate Transformation and Services Director, Senior Internal Auditor, Clerk to the Council, Democratic Services Officer (F. Henderson); Mr H Harvie – KPMG, Mr M Swan - KPMG.

1. **WELCOME**

The Chairman welcomed to the meeting Mr Hugh Harvie and Matt Swan from KPMG. The Chairman further advised that the vacancy for an external member of the Audit and Risk Committee was currently being advertised and interviews would be held in the near future. Mr Gwyther had agreed to continue as one of the external members of the Audit and Risk Committee.

**DECISION
NOTED.**

2. **MINUTE**

2.1 There had been circulated copies of the Minute of 30 June 2015.

**DECISION
APPROVED for signature by the Chairman.**

2.2 With reference to the decision at paragraph 1.3 of the Minute of 30 June 2015 regarding the informal briefing on Treasury Management/Capital for Elected Members, it was confirmed that this was now in the diary.

**DECISION
NOTED.**

2.3 With reference to the decision at paragraph 4.3(c) and (d) of the Minute of 30 June 2015 regarding the inclusion in the Corporate Counter Fraud Strategy of the timescales for the presentation of reports to the Audit and Risk Committee, and the recommendation of the revised Corporate Counter Fraud Policy and Strategy to Council, the Chief Financial Officer confirmed that these had been actioned.

**DECISION
NOTED.**

2.4 With reference to the decision at paragraph 5(b) of the Minute of 30 June 2015 regarding the publication of the Audit and Risk Committee Annual Report 204/15 on the Council's website, the Chief Financial Officer confirmed that this had been published.

**DECISION
NOTED.**

3. **SCOTTISH BORDERS COUNCIL ANNUAL AUDIT REPORT 2014/15**

There had been circulated copies of the draft Annual Audit report from the Council's External Auditors, KPMG. The report summarised the findings of KPMG in relation to the audit of Scottish Borders Council for the year ended 31 March 2015, highlighting the key issues and financial position. KPMG had issued an unqualified audit opinion on the 2014/15 financial statements. Mr Harvie of KPMG presented information on the strategic overview and use of resources; financial statements and accounting; corporate governance; and performance management arrangements. Members asked Mr Harvie about the Council's approach to reserves, which was risk rather than percentage based, and Mr Harvie judged that although this differed from the approach used by other Councils, he considered the Council's approach reasonable. The Chief Financial Officer confirmed that in terms of payments for the Borders Railway, the Council was liable to pay £8.5m over 30 years, which was anticipated to be funded from developer contributions. At the present time, £1m was due to be paid and this had been funded from developer contributions so there was no need to make provision within the Council's accounts, although this would be kept under review throughout the payment period. Mr Harvie spoke of the governance arrangements; the waste contract termination, and the External Auditors satisfaction that the Council had followed appropriate procedures in relation to its decision; and the action plan for the Council, which contained four Grade 3 (minor) observations. Members also received information on bank reconciliations and the Chief Financial Officer confirmed that the Council's Corporate Management Team had been discussed updating the staff survey.

DECISION

NOTED the draft Annual Report from the Council's External Auditors.

4. **SCOTTISH BORDERS COUNCIL FINAL REPORTS AND ACCOUNTS 2014/15**

4.1

With reference to paragraph 6 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Financial Officer presenting the Committee with the audited Annual Reports and Financial Statements for 2014/15 for Scottish Borders Council, the Scottish Borders Council Common Good Funds, the Scottish Borders Council Charitable Trusts, and Bridge Homes LLP. The report on the Council's Annual Accounts explained that the Council's External Auditors, KPMG, had completed the audit of the Council's 2014/15 Annual Accounts and had provided an unqualified independent audit opinion. The report further explained that KPMG had identified four Grade 3 (minor) recommendations requiring action and these had been accepted by management and would be enacted within the agreed timescales. As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC Charitable Trusts and Bridge Homes LLP as contained in Appendices 1-4 of the report were presented to the Audit and Risk Committee prior to signature. The Chief Financial Officer advised that the regulations governing the presentation of annual accounts had changed significantly this year and a related change in the sign-off process for this year only to comply with the new statutory reporting deadline of 30 September, with the accounts being submitted to the Executive Committee for approval in the absence of a Council meeting within the required timescales. Members commended the improvements made to the presentation of the accounts.

4.2

Members asked about particular aspects of the accounts. With regard to the amount spent on roads maintenance it was confirmed that an additional £1m would be spent in 2015/16. The cost of utilities had increased due to a price increase per kwh and the inclusion of street lighting in the calculation of the Council's carbon tax liability for the first time. The switching off of the three biomass boilers in schools had increased energy usage but overall consumption was down by 2.5%. The cost of responding to FOI requests was not recorded but was thought to be fairly high. In terms of the total number of complaints received (excluding those classed as invalid), the Chief Financial Officer advised that the level of complaints was not out of line with other public bodies. The Council had a robust procedure in place and often managed to resolve complaints at Stage 1. The Corporate Management Team reviewed complaints closely including an analysis of 'lessons learned' to try to reduce any future complaints. The Chief Financial Officer referred to the Council's Annual

Accounts, highlighting the main points for 2014/15 and plans for 2015/16; the management commentary; financial position at 31 March 2015, with the delivery of targeted savings; capital financing requirement and reserves, along with Group accounts; and performance priorities. In response to a question, Members were advised that it would be difficult to make comparison with other organisations across Scotland as data was collected differently in each organisation so like for like comparison could not be made. There had been an increase in remuneration but the current senior management structure was an interim one and the Chief Executive was reviewing this. Outstanding PPP debt was reflected in the SBC balance sheet and with regard to finance for the proposed new Kelso High School, there was ongoing debate at national level on how the current impasse regarding ESA10 would be resolved. This potentially could impact on the Council's capital programme if funding was not structured through revenue. Any loans/grants paid to 3rd parties by the Council were included on the debtors balance. No analytical information on these was provided in the accounts but this could be brought separately to the Audit and Risk Committee. Members then discussed the worth of renegotiating existing loan terms under PPP and PFI, and the Chief Financial Officer advised that there was provision within these contracts to allow re-financing under certain circumstances. This was kept under review but at the moment there was no benefit to the Council in pursuing this option under the current interest rate environment.

DECISION

AGREED:

(a) to approve the following for signature by the appropriate individuals:-

- (i) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 1 to the report;**
- (ii) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 2 to the report;**
- (iii) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(i) to the report;**
- (iv) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(ii) to the report;**
- (v) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(iii) to the report;**
- (vi) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(iv) to the report;**
- (vii) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(v) to the report;**
- (viii) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2015, as detailed in Appendix 3(vi) to the report; and**
- (ix) the Bridge Homes LLP audited Annual Accounts for the period 7 February 2014 to 31 March 2015, as detailed in Appendix 4 to the report.**

- (b) that the Chief Financial Officer provide a report to a future meeting of the Audit and Risk Committee with a high level analysis of the grants and loans given by the Council to 3rd Parties.

5. **SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL AUDIT REPORT 2014/15**
With reference to paragraph 7 of the Minute of 20 June 2015, there had been circulated copies of the draft Annual Audit Report by the Council's External Auditors, KPMG, for Scottish Borders Council Pension Fund for the year to 31 March 2015. Mr Matt Swan of KPMG presented the headlines from the report and advised that the audit of the Pension Fund was now complete and that an unqualified audit opinion on the 2014/15 financial statements had been given. KPMG reported that the Annual Report and Accounts had been prepared to a high standard and that there had been a relatively static position in relation to active contributing membership and a continuing rise in the number of pensioners. Total contributions had increased by £0.7m and benefits payable had increased by £1.3m during the year. The net return on investment had increased to £60.4m in 2015-15 (2013/14 £40.1m) primarily due to the positive change in market value of investments in line with the investment review performed by the Fund's investment consultants, Aon Hewitt, although it was noted that the stock market had fallen in recent weeks. Members confirmed that the Annual Audit report reflected what had been reported to the Audit and Risk Committee throughout the year.

DECISION

NOTED the Pension Fund Annual Audit Report 2014/15.

6. **SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL REPORT AND ACCOUNTS 2014/15**
With reference to paragraph 7 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Financial Officer presenting to Members the Scottish Borders Council Pension Fund's audited Annual Accounts for 2014/15. The report explained that the Council's External Auditors, KPMG had completed the audit of the Council's 2014/15 Annual Accounts. The Annual Audit Report summarised KPMG's conclusions, including an unqualified independent audit opinion; the Accounts having been prepared in accordance with the relevant legislation, Codes of Practice and accounting requirements; and the provision of high quality working papers. Councillor White, Chairman of the Pension Fund Committee, advised that going forward it was hoped to make the report more user friendly and provide help for individuals to plan for their future pension. The Corporate Finance Manager confirmed that a full review of the investment strategy for the Fund was planned over the next 12 months, although there would need to be empirical evidence before making any changes and also to bear in mind the members of the Fund.

DECISION

APPROVED the audited Scottish Borders Council Pension Fund Annual Report and Accounts 2014/15 for signature by the Chair of the Pension Fund Committee and the Chief Financial Officer.

7. **ANNUAL TREASURY MANAGEMENT REPORT 2014/15**
7.1 With reference to paragraph 6 of the Minute of Scottish Borders Council of 20 November 2014, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during 2014/15 financial year to the Audit and Risk Committee for review as part of their scrutiny role in relation to treasury management activities in the Council. The CIPFA Code of Practice on Treasury Management in the Public Services required an annual report on treasury management to be submitted to Council following the end of the financial year. Appendix 1 to the report comprised the annual treasury management report for 2014/15 and contained an analysis of performance against target set in relation to Prudential and Treasury Management Indicators. All of the performance comparisons reported upon were based on the revised indicators agreed as part of the mid-year report approved on 20 November 2014. The report advised that the Council's capital expenditure for 2014/15 was £31.4m which was £14.4m

less than estimated. The Corporate Finance Manager advised that the tables in the report had inadvertently not been updated and those in paragraph 1.3 of the Appendix were the correct ones, and they showed that the Council had not borrowed ahead of need. The Appendix highlighted activity in relation to the treasury management function during 2014/15, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2014/15 was funded. In terms of the Capital Financing Requirement (CFR), Table 5 contained in the Appendix showed that the Council was not borrowing to support revenue expenditure and had under borrowed by £40.2m. The report explained that the expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. The actual movement in gilt yields meant that Public Works and Loans Board rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.

- 7.2 In response to questions the Corporate Finance Manager confirmed that the Council had some debt which did not mature until 2060, but these were hard to reschedule to a lower rate without penalty due to the terms of the original agreements. The Chief Financial Officer explained that the Council looked to manage the cost of borrowing to around 10% of revenue. Members discussed the Council's relationship with Scottish Enterprise and the South of Scotland Alliance, with a recent report to the Executive Committee in relation to Business Gateway for support for businesses. In terms of economic development, it was necessary to link to the national agenda to be in a position to maximise funding and inward investment.

DECISION

- (a) **NOTED that treasury management activity in the year 31 March 2015 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **AGREED that the Annual Treasury Management Report Year to 31 March 2015, as detailed in Appendix 1 to the report, be presented to Council.**

8. ACCOUNTS COMMISSION ANNUAL REPORT 2014/15

There had been circulated copies of the Accounts Commission Annual Report for 2014/15. The Senior Internal Auditor presented the report and explained the financial context, with 4 specific pieces of work covering procurement in Councils; Borrowing and Treasury Management; Self-Directed Support; and School education. The Annual Overview report published in March 2015 concluded that Councils had managed financial pressures well to date largely by cutting staff numbers, but this alone was not sustainable in the longer term. It was confirmed that all of the Accounts Commission reports were examined by officers and those requiring actions brought either to the attention of the Corporate Management Team and/or to the relevant Committee for consideration.

DECISION

NOTED the report.

9. CORPORATE RISK REGISTER

- 9.1 There were circulated at the meeting copies of the current Corporate Risk Register along with the Risk Identification Prompt List and Categories document. The Corporate Transformation and Services Director, Mr Dickson, explained how the Corporate Risk Register was used in the operational work of the Council, with officers considering the inherent risk and then the controls to be put in place to mitigate these, leading to a residual

risk remaining. There were 7 risks, with 3 in particular highlighted at the meeting. The only risk in red at present was the Technology category, which involved the ICT Review and reports to Council on the work which was being carried out with City of Edinburgh Council. This had been highlighted as a red risk as at the time (June 2015) there had been some uncertainty whether Edinburgh would be in a position to award their ICT contract. If this was to be scored again, the risk would be lower as additional resources had been brought in and Edinburgh had now awarded the contract to CGI. Officers were currently working on outline business cases for the provision of various ICT services for Scottish Borders Council and a report was planned to come to Council on 17 December 2015. It was hoped to have information from CGI within the next 3 weeks to allow the Members Working Group to meet initially and then it was planned for that Group to meet on an increasing basis up until the report to Council in December. Mr Dickson confirmed that while officers were in discussion with CGI, no commitment had been made and this would be the case until Council had made its decision in December. At the moment the Council was still in the due diligence phase. The prior information documents were on the procurement portal, but not an invitation to tender.

- 9.2 In relation to Reputational category risk to the Council for externally organised events, Mr Dickson referred to the tragic events of the Jim Clark Rally of the previous year and advised that the inherent risk scored 20. Although the Safety Advisory Group was reviewing events safety processes and procedures, the risks could not be removed entirely. The risk for the Council rested on the wider legal responsibility of set up and planning of an event in terms of general public safety (i.e. members of the public going about their daily lives), with spectators at events the responsibility of the event organisers. Handling of risk was about striking a balance and Mr Dickson mentioned the Tour of the Borders cycle race as a good example. It was acknowledged that Summer Festivals found it challenging to meet the risk management requirements. Mr Dickson highlighted the value of having clear roles and responsibilities within an event's management, and that the Council facilitated and supported events but did not carry the risk/liability, as that remained with the event organisers. All Events and Festivals were assessed by the Safety Advisory Group which enabled a clear understanding of what was required i.e. road closures.
- 9.3 In terms of the Environment category risk, Mr Dickson advised that this related to major incidents, adverse weather events, etc. The list of controls was large as it was necessary to have effective control across all Council Services to ensure the Council was prepared for major incidents, with a huge volume of work carried out on a day to day basis to ensure this happened. As the Council carried significant risks at any given time, this was closely monitored by the Council's Corporate Management Team on a regular basis. In terms of waste management, Mr Dickson advised that this was contained within the Place Department Risk Register, rather than the Corporate Risk Register. The Chief Financial Officer further confirmed that by the very nature of services provided by the Council, there were a number of risk issues, but as long as there were processes in place to manage each of these risks and identify them appropriately within the relevant Department, then this was appropriate. Members then discussed the way risk was identified within committee reports and were advised that should Members have any concerns about any of the content of a particular report, then they should approach the author and/or relevant Director directly before the report was considered at Committee. It was highlighted that communication was not mentioned as a control for the Life and Limb category and Mr Dickson advised that he saw accident reporting information on a monthly basis, with incidents reported to the Wellbeing and Safety Committee on a quarterly basis, which included summaries of the Wellbeing and Safety team's communications to Management Teams. Individual Health and Safety Advisers also worked with the Departmental Management Teams, with the Council having a good track record due to the effort taken to ensure training and rules were followed.

DECISION

NOTED the update.

INTERNAL AUDIT WORK 2015/16 TO AUGUST 2015

10. There had been circulated copies of a report by the Chief Officer Audit and Risk which provided the Audit and Risk Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by management to improve internal controls and governance arrangements; Internal Audit work in progress and the work of Scottish Local Authorities Chief Internal Auditors Group. The work Internal Audit had carried out in the period from 4 April to 28 August 2015 to deliver the Internal Audit Annual Plan 2015/16 was detailed in the report. During the reporting period 5 final internal audit reports had been issued. There was one recommendation made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 1 Priority 3 Low Risk) specific to one of the reports. Management had agreed to implement the recommendation to improve internal controls and governance arrangements. An executive summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was detailed in Appendix 1 to the report. Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), the professional networking group for Heads of Internal Audit, was detailed in Appendix 2 to the report.

DECISION

- (a) **NOTED** the final reports issued in the period from 4 April to 28 August 2015 to deliver the Internal Audit Annual Plan 2015/16.
- (b) **AGREED** that the Committee was satisfied with the recommended audit actions agreed by Management.
- (c) **ACKNOWLEDGED** the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for heads of internal audit.

The meeting concluded at 1.20 p.m.

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Corporate Risk Management Strategy

Report by Chief Officer Audit & Risk

Audit and Risk Committee

23 November 2015

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to seek agreement from the Audit and Risk Committee to recommend the revised Corporate Risk Management Strategy for approval.**
- 1.2 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance. The revised Risk Management Policy v5 2015 was approved by Council on 19 February 2015 on recommendation by the Audit and Risk Committee on 19 January 2015.
- 1.3 Another of the recommended improvements to refine the risk management arrangements at the Council to ensure their ongoing effectiveness was the need to review and revise the current strategy that underpins the Council's management of risk arrangements.
- 1.4 A revised Corporate Risk Management Strategy has been developed (see Appendix 1), to facilitate implementation of the policy and procedures. The objectives of the Council's Risk Management Strategy are to:-
- Integrate risk management into the culture of the Council;
 - Manage risk in accordance with best practice;
 - Anticipate and respond to changing social, environmental and legislative requirements;
 - Prevent injury, damage and losses and reduce the cost of risk;
 - Raise awareness of the need for risk management by all those involved with the delivery of Council services; and
 - Ensure there are adequate arrangements for compiling the Council's Annual Governance Statement with governance and risk management arrangements to support it.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Risk Committee agrees to recommend to Council that the revised Corporate Risk Management Strategy (Appendix 1) be approved.**

3 BACKGROUND

- 3.1 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires the Council to adopt a coherent approach to the management of the risks that it faces every day. Common sense serves to underline the message that better and more assured risk management will bring many benefits to the Council and the people it serves.
- 3.2 The outcomes of the Risk Management Review carried out during 2014 were reported to the Audit and Risk Committee on 19 January 2015. At the same meeting within the same report the Committee considered the revised Risk Management Policy v5 2015, the result of one of the recommended improvements actions arising from the Risk Management Review. The revised Risk Management Policy v5 2015 was approved by Council on 19 February 2015 on recommendation by the Audit and Risk Committee on 19 January 2015.
- 3.3 Another of the recommended improvements to refine the risk management arrangements at the Council to ensure their ongoing effectiveness was the need to review and revise the current strategy that underpins the Council's management of risk arrangements.
- 3.4 A revised Corporate Risk Management Strategy has been developed (see Appendix 1), to facilitate implementation of the policy and procedures. The objectives of the Council's Risk Management Strategy are to:-
- Integrate risk management into the culture of the Council;
 - Manage risk in accordance with best practice;
 - Anticipate and respond to changing social, environmental and legislative requirements;
 - Prevent injury, damage and losses and reduce the cost of risk;
 - Raise awareness of the need for risk management by all those involved with the delivery of Council services; and
 - Ensure there are adequate arrangements for compiling the Council's Annual Governance Statement with governance and risk management arrangements to support it.

5 IMPLICATIONS

5.1 Financial

There are no financial implications as a direct result of the report. All the costs involved are contained within the central Risk Management or departmental budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget. Integration of Risk Management activity within the business planning process as outlined in this Corporate Risk Management Strategy should assist in supporting specific business cases for appropriate budget allocations.

5.2 Risk and Mitigations

The report sets out the need for an updated Corporate Risk Management Strategy to refine the risk management arrangements at the Council to ensure their ongoing effectiveness.

5.3 Equalities

An Equalities Impact Assessment (EIA) scoping assessment was carried out in November 2014 as part of the development of the revised Risk Management Policy. The outcome of the EIA is that it is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the revised Risk Management Policy.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

A Rural Proofing Checklist was completed in November 2014 as part of the development of the revised Risk Management Policy. The outcome was that it is anticipated there will be no adverse impact on the rural area from the proposals arising from the revised Risk Management Policy.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Corporate Management Team has been consulted on this report and the revised Corporate Risk Management Strategy and any comments received have been taken into account.

6.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR and the Clerk to the Council have been consulted on this report and the revised Corporate Risk Management Strategy and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036
Justine Leuty	Corporate Risk Officer Tel 01835 828076

Background Papers: Risk Management Policy v5 2015

Previous Minute Reference: Audit and Risk Committee 19 January 2015; Scottish Borders Council 19 February 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Justine Leuty can also give information on other language translations as well as providing additional copies.

Contact us at Justine Leuty jmleuty@scotborders.gov.uk

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SCOTTISH BORDERS COUNCIL RISK MANAGEMENT STRATEGY

Introduction

Scottish Borders Council (SBC), like all organisations, faces a wide range of risks at all levels of the organisation. The risk management landscape is dynamic and, as local authorities increasingly move towards arms-length delivery of essential services and partnership arrangements, the spectrum of risks that SBC is exposed to also increases. Management are committed to minimising these risks and recognise that effective Risk Management is one of the foundations of effective Corporate Governance.

SBC has made substantial progress in embedding risk awareness and management within business processes with established and effective links to all related aspects of the Council's governance, planning and service delivery operations. The refinements to the Council's approach to managing risks and the focus of this strategy will be to build on this foundation and add value by aligning risk management to the business planning and performance management process to ensure that the risks to achieving corporate objectives are systematically identified, analysed, evaluated, controlled and monitored.

The Council's strategy, supported by the Risk Management Process Guide (published on the Intranet), is underpinned by the Management of Risk (M_o_R) Guide and its associated framework, principles, approach and processes.

Key Elements of Effective Risk Management

The effective management of risks requires a strategy that has been sanctioned by and has clear support of Corporate Management Team, Elected Members and Chief Officers. Such a strategy is underpinned by:-

- o A clear and widely understood structure to secure implementation
- o A commitment to achievement
- o Appropriate training arrangements
- o Regular reporting arrangements.

Risk Management Objectives

The objectives of the Council's risk management strategy are to:-

- o Integrate risk management into the culture of the Council
- o Manage risk in accordance with best practice
- o Anticipate and respond to changing social, environmental and legislative requirements
- o Prevent injury, damage and losses and reduce the cost of risk
- o Raise awareness of the need for risk management by all those involved with the delivery of Council services
- o Ensure there are adequate arrangements for compiling the Council's Annual Governance Statement with governance and risk management arrangements to support it.

These objectives will be achieved by:-

- o Establishing clear roles, responsibilities and reporting lines within the Council for risk management and the Annual Governance Statement
- o Providing opportunities for shared learning on risk management across the Council
- o Offering a framework for allocating resources to identified priority risk areas

- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training
- Incorporating risk management into business planning
- Incorporating risk management considerations into partnership working and contractual arrangements
- Incorporating risk management considerations into the corporate project management arrangements
- Monitoring arrangements on an on-going basis.

The Status of Risk Management

Risk Management is as much a part of the duties of Council managers as are the control of budgets and the deployment of staff and equipment to deliver services. It is as important a part of the matters to be considered by elected members when making decisions as the costs of and return on investment or the staffing implications of a proposal. If the Council is to have a reasonable assurance that Risk Management is effectively in place it must be carried out in a systematic and structured manner and be subject to compliance testing and reporting.

Benefits

The real value of good risk management lies in the benefits it will deliver. Those benefits will be varied in their nature and extent and some might be more measurable than others, but they will all be important to the Council's reputation and ability to deliver improved and value for money public services. The benefits realised include:

- Improved business planning by focussing on the outcome not the process;
- More informed decision making process;
- Enhanced reputation and public confidence in its ability to deliver services;
- Fewer unpleasant surprises and crises through early warning of problems;
- More effective management of change;
- Prioritisation of resources and better value for money;
- Improved performance and achievement of objectives;
- Demonstrated good governance; and
- Innovation as Managers become confident risk takers who swiftly and confidently exploit new opportunities that will in turn improve the way services are delivered or reduce the cost of delivery.

Management Arrangements

Risk Management is a fundamental part of corporate and service management and, as such, should be integrated with normal management processes. As part of the business planning and performance management process risks will be identified and managed at 3 levels to reflect the varying perspectives:

- 1) Corporate / Strategic – ensuring that the Council's vision is implemented through the 8 corporate priorities and strategies
- 2) Directorate & Service – transforming strategy into action
- 3) Operational – maintaining appropriate levels of service and implementing actions

Each respective level the senior managers have primary responsibility for the management of all risks: Level 1 – Corporate Management including Chief Executive, Depute Chief Executives and Service Directors; Level 2 – Service Directors; and Level 3 – Service Managers. This will ensure that accountability lies clearly at the specific management levels to ensure that risk is being managed and effective monitoring is being carried out as part of the performance management process at the appropriate level throughout the Council. This will also aid

escalation of risks to ensure oversight and/or action at a higher level, as appropriate. Risks or actions to mitigate risks could be delegated to other levels.

Risk management is not a one-off process. It is a continuous process because the decision making processes it underpins are continuous. Circumstances and business priorities can, and do, change, and therefore risks (both threats and opportunities) and their circumstances will be regularly reviewed as part of the business planning and performance management process. That way, risks and opportunities are directly linked to the achievement of business objectives which can then be prioritised on that information. The process to be adopted is described in the Risk Management Process Guide (published on the Intranet) as it is designed as a systematic process to identify, analyse, evaluate, control and monitor risks.

The Council is engaged in a major change management programme, the Corporate Transformation Programme, which is being undertaken to meet the evolving needs and expectations of customers, to address the financial pressures placed on the Council, and to strive to meet the efficiency gains and requirements of Best Value. This adds a further specific area of risk exposure within the programmes and projects that underpin the delivery of corporate transformation.

- Programme – transforming corporate strategy into new ways of working that deliver measurable benefits to the organisation
- Project – delivering defined outputs to an appropriate level of quality within agreed time, cost and scope constraints

The Risk Management Process Guide will also be applied to programmes and projects. The use of MSP programme management methodology and PRINCE2 project management methodology provides a framework to ensure Programmes and Projects have their own operational risk registers which will continue to be monitored by individual programme and project boards. Material risks from these sources will be escalated to senior management as part of the regular reporting cycle so that any risks from potential interdependency failures can be properly assessed and appropriate action taken. This will ensure the benefits of effective programme and project risk management can be realised.

Training and awareness

To have effective management of risks and associated internal controls and governance the Council recognises that it must continue to support its people to develop the appropriate skills and competencies so as to enable them to manage risk effectively. Risk Management has been designated as one of the six Core Competencies for Managers. This has resulted in the development of a corporate Risk Management Training Programme that has been designed to improve risk management competency. The Course Objectives are: Understand why the management of risk is an essential part of management responsibilities; Understand how managing risks is fundamental to business plans; Be able to identify risks to achieving objectives and to put actions in place to mitigate these risks; and Understand how risks are analysed, assessed, recorded and monitored in the Council.

In its communications with employees and elected members to ensure awareness of effective risk management and good governance the Council will simply spread the word about good practice and this will be achieved by publishing relevant material within the Council using a variety of communication methods. The Council will incorporate the key message that internal control systems to minimise and mitigate risks are designed to deliver the benefits that are important to the Council's reputation and ability to deliver improved and value for money public services.

In the Council's dealings with outside individuals and organisations it will ensure that they are aware of the Council's approach to managing risk as part of sound governance.

Accountability

Accountability for performance must be an integral part of the Risk Management process and should cover two principal elements: -

- a) Delivering the Strategy to realise the associated benefits
- b) Implementing actions that contribute to mitigation of Risk

The Depute Chief Executives and Service Directors sign off an annual assurance statement on internal controls and governance operating in their departments and directorates / services respectively which includes risk management. These along with other sources of assurance are used to inform the Annual Governance Statement by the Chief Executive which is presented to the Audit and Risk Committee for scrutiny and then incorporated within the Annual Statement of Accounts.

A Standard Approach

A standardised approach will be implemented across the Council's operations to assist with the achievement and the demonstration of effective Risk Management:

- Governance through the Organisation Structure
- Adoption of a Single Standard – Management of Risk (M o R)
- Implementation of 'Risk Management Process Guide' enabling consistent application across the Council using best practice procedures
- Attendance at corporate Risk Management Training Programme by all Managers with responsibility for managing risks in the delivery of business Plans, Programmes and Projects.
- Corporate membership of the Association of Local Authority Risk Managers (ALARM)

Monitoring and Review

Internal Audit will continue to review the efficacy of risk management arrangements and associated internal controls put in place by Management and provide independent assurance over risk management strategy and activities as part of its assurance on the Council's Corporate Governance arrangements.

The Audit & Risk Committee will oversee the adequacy and effectiveness of the Council's risk management systems and associated internal control environment through scrutiny of annual reports on the assessment of risks and the monitoring of the risk management strategy, actions and resources, and through scrutiny of periodic presentations by Corporate Management to outline the strategic risks facing their directorates/services and internal controls and governance in place to manage or mitigate those risks.

Internal Audit Work 2015/16 to October 2015

Report by Chief Officer Audit and Risk

Audit and Risk Committee

23 November 2015

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to provide the Audit and Risk Committee with details of:

- a) the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and**
- b) Internal Audit work currently in progress.**

1.2 The work Internal Audit has carried out in the period from 29 August to 31 October 2015 to deliver the Internal Audit Annual Plan 2015/16 is detailed in this report. During this period a total of 5 final internal audit reports have been issued. There were 4 recommendations made (0 Priority 1 High Risk, 1 Priority 2 Medium Risk, and 3 Priority 3 Low Risk) specific to 3 of the reports. Management have agreed to implement the recommendations to improve internal controls and governance arrangements.

1.3 An Executive Summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

- a) Notes the final reports issued in the period from 29 August to 31 October 2015 to deliver the Internal Audit Annual Plan 2015/16; and**
- b) Acknowledges that it is satisfied with the recommended audit actions agreed by Management.**

3 PROGRESS REPORT

3.1 The Internal Audit Annual Plan 2015/16 was approved by the Audit and Risk Committee on 23 March 2015. Internal Audit has carried out the following work in the period 29 August to 31 October 2015 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.

Audit Reports

3.2 Internal Audit issued final internal audit reports on the following subjects:

- Corporate Transformation – Cultural Services Review
- Authorised Signatories – Salaries and Creditors (Interim)
- LEADER Programme – Grant Funding Compliance
- European Fisheries Fund Programme – Grant Funding Compliance
- Public Sector Network (PSN) Compliance

3.3 An Executive Summary of the final internal audit report issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level of Assurance	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Work in Progress

- 3.4 Internal Audit work in progress to deliver the Internal Audit Annual Plan 2015/16 consists of the following:

Audit Area	Audit Stage
Salaries (including expenses)	Fieldwork nearly completed
Creditors Payments	Fieldwork nearly completed
ICT Operational Processes	Fieldwork nearly completed
Homelessness	Fieldwork nearly completed
Waste & Recycling	Fieldwork nearly completed
Information Governance	Fieldwork underway
Corporate Transformation	Fieldwork underway
Grants	Fieldwork underway
Primary Schools	Fieldwork underway
Capital Projects	Fieldwork underway

Other Productive Work

- 3.5 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.5.1 Attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements.
 - 3.5.2 Offering advice on internal controls and governance to managers on request and a number of clients are proactively engaging internal audit in consultancy work as the Council's continues to transform its services, for example, the Welfare Reform Programme, the Information Governance Group, and the Serious Organised Crime Officer Working Group.
 - 3.5.3 Reviewing outstanding and overdue audit recommendations to ensure Internal Audit are satisfied that progress has been made to implement the previous internal audit recommendations and management actions, that actions taken have had the desired effect in improving internal controls and governance, and are reflected in the corporate performance systems for reporting purposes. Appendix 1 highlights any matters Internal Audit requires to bring to the attention of Management and the Audit and Risk Committee relating to areas reviewed this period.
 - 3.5.4 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management. Internal Audit resources have also been deployed on corporate process reviews, for example, the Corporate Fraud Working Group.
- 3.6 The Chief Officer Audit and Risk has provided support to the Selection Committee on the advertising and recruitment to the roles of External Members of the Audit and Risk Committee.
- 3.7 To support the Council's work opportunities scheme and ambitions to offer employment opportunities to young people, a Modern Apprentice has been recruited within the Audit & Risk service on a 24-month fixed term contract. Under the national Framework the apprentice will follow the Audit Pathway to achieve a Scottish Higher Level Apprenticeship: a Technical Apprenticeship in Professional Services at Level 4.

Recommendations

- 3.8 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

Priority 1: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.

Priority 2: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.

Priority 3: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management. The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.9 The table below summarises the number of internal audit recommendations made during 2015/16:

	2015/16 Number of Recommendations
Priority 1	0
Priority 2	1
Priority 3	3
Sub-total reported this period	4
Previously reported	1
Total	5
Recommendations agreed with action plan	5
Not agreed; risk accepted	0
Total	5

5 IMPLICATIONS

5.1 Financial

It is anticipated that cost efficiencies will arise as a direct result of Management implementing the recommendations made by Internal Audit.

5.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically as "a contribution to the Council's corporate management of risk" this includes responsibility in "Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."

- (b) Key components of the audit planning process include a clear understanding of the Council’s functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2015/16, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and management may not be able to demonstrate improvement in internal control and governance arrangements.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

5.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.
- 6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 6.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Audit and Risk jcollin@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation – Cultural Services Review</p> <p>No: 010/009</p> <p>Date issued: 13 November 2015</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the audit was to review governance arrangements being developed as part of proposals for transferring Cultural Services to a Trust. This was a continuation of audit work undertaken during 2014/15.</p> <p>Management, advised by external consultants, undertook a detailed options appraisal exercise on the future delivery arrangements for cultural and related services. The output of that exercise was presented to Council on 27 February 2014. The transfer of Cultural Services to a Trust was approved in principle.</p> <p>On 20 November 2014 a report was presented to Council on the Culture Trust requesting time to investigate the feasibility of an Integrated Trust with Borders Sport and Leisure Trust (BSLT).</p> <p>The terms of reference for joint working with BSLT to consider an Integrated Culture and Sport Trust were agreed by Council on 19 February 2015. A Joint Officer Working Group, involving officers of both organisations, was established to carry out the feasibility exercise and a Member Reference Group, consisting of elected members of the Council and BSLT Trustees, was set up to provide feedback on proposals.</p> <p>The final report on the outputs of the feasibility study was presented by the Corporate Services & Transformation Director to Council on 7 October 2015.</p> <p>The key areas where the Integrated Trust proposals are in need of detailed development were acknowledged in the report to Council on 7 October 2015 and in the agreement by members of Council that authorises officers and members to complete the necessary due diligence and the necessary arrangements in anticipation of going live on 1 April 2016. We consider that there has been sufficient consideration of these matters to support the 'in principle' decision that has been made at this stage.</p>	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Corporate Transformation – Cultural Services Review (cont'd)	<p>We were able to confirm that the key processes and considerations described in the Accounts Commission publication "Options appraisal; are you getting it right?" (March 2014) were evidenced in the methodology employed by officers in the options appraisal exercise. This confirms within the Council's governance and internal controls arrangements that there is evidence that elected members and senior officers are presented with good information pertinent to their decision making.</p> <p>There is evidence of appropriate identification, management and mitigation of risk.</p> <p>Our audit review relates to the proposals which have been developed thus far. We intend to issue a further report towards the anticipated 'go live' date as part of the due diligence process. We would anticipate examining in more detail the arrangements relating to financial and budgetary matters between the Council and the Trust, the proposals relating to performance management, and a further assessment against the Accounts Commission publication "ALEOs: are you getting it right?".</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive, based on the work we have undertaken at this stage. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.</p> <p>We have made no recommendations.</p>				In the interim period the Chief Officer Audit & Risk will support the development of the detailed arrangements relating to governance, risk and internal control by sitting on the Integrated Trust Project Board and the Senior Internal Auditor will continue to work with the project team.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Authorised Signatories – Salaries (including expenses) & Creditors Payments</p> <p>No: 079/010</p> <p>Date issued: 30 October 2015</p> <p>Level of Assurance: this is an Interim Report on a specific area though assurances will be provided within the Internal Audit Reports on Salaries (including expenses) & Creditors Payments at the conclusion of those audits</p>	<p>The audit work of the authorised signatories' process was undertaken in connection with both the Salaries (including expenses) audit and Creditors Payments audit.</p> <p>The purpose of this interim report is to bring the findings to date to the attention of Senior Management to ensure that action is taken promptly to implement the recommended changes to existing processes to improve the controls and to ensure compliance with legislation.</p> <p>Our review of the authorised signatories' process has found that whilst there is an authorised signatory list available it is out of date and contains names of many people who have now left the Council. No regular reviews of this database have taken place for some time.</p> <p>There is no automatic process to ensure that the authorised signatory documentation held of staff leaving or changing post within the Council is retained, archived or destroyed appropriately in conjunction with data protection principles. Nor does it take account of the system changes towards an electronic method of authorisation within computer-based applications, such as Proactis (orders and payments), Resourcelink (travel and expenses).</p> <p>We have made the following recommendations:</p> <ul style="list-style-type: none"> • In the first instance the current database of authorised signatories and forms should be purged to ensure only appropriate details reflecting the Council's current establishment of posts are retained for proper purposes. (P2) • Create a centralised database (where possible using existing system functionality) to allow the delegation of authority information to be managed and maintained at a post level with appropriate controls to ensure that systems with in-built authorisation workflow are periodically checked to ensure in line with these. (P3) 	0	1	1	<p>Management have agreed the report findings and the implementation of recommendations within reasonable timescales.</p> <p>A data cleanse and update is underway, and a project has been established to take forward improvements to the management and maintenance of the delegation of authority and authorised signatories process.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Compliance</p> <p>Subject: LEADER Programme – Grant Funding Compliance</p> <p>No: 154/010</p> <p>Date issued: 21 October 2015</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess compliance with the requirements of the SLA and relevant EC Regulations in observance of 5.6 of the SLA and Regulation (EC) 885/2006 Annex 1 Section 4b. The SLA for the LEADER Programme 2007-2013 between the Managing Authority, the Paying Agency and Scottish Borders Council requires that Internal Audit annually assess compliance by SBC with the terms of the SLA and that the resulting report is sent to them by 31 October of each year.</p> <p>The LEADER Programme 2007-2013 has come to an end however the SLA extends to 31 December 2015. All projects are closed and all claims have been processed. Project files have been checked and archived in accordance with the Scottish Government Programme Closure Requirements.</p> <p>In total 71 Projects received funding under LEADER 2007-2013. Total project value was £5.7m; made up of £3.531m of LEADER Funding and Match Funding of £2.2m. The total Administration costs of the Programme of £408k were split 50/50 between LEADER and SBC. The Project Officer performed a reconciliation which was independently validated.</p> <p>We are pleased that the recommendations from our previous Internal Audit reports have been implemented by the Programme team at appropriate times throughout the Programme. During the life of the Programme the compliance requirements have evolved to become more onerous and the risk of decommitment of funds increased as the SLA was amended to pass liability to the lead partner (SBC).</p> <p>It is our opinion that the Scottish Borders LEADER 2007-2013 Programme has been managed well and administered effectively. This corresponds with the findings from the Managing Authority's annual audit visit in July 2014 where SBC Green Status was maintained. Because of this they have confirmed that they will not be performing an audit visit in 2015.</p>	0	0	1	<p>Management has agreed the report findings and to implement the recommendation within reasonable timescales.</p> <p>The final internal audit report has been submitted to the Scottish Government by 31 October 2015 timescale.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: LEADER Programme – Grant Funding Compliance (cont'd)	<p>LEADER 2014-2020 derives its funding from European Agricultural Fund for Rural Development (EAFRD). The EU Regulations establishing the EAFRD for the new funding period came into force in January 2014 and have been transposed into national law with the Rural Development (Scotland) Regulations 2015 effective since June 2015. LEADER will be delivered through the Scottish Rural Development Programme via the mandatory Community Led Local Development method and approach.</p> <p>The new SLA was signed by SBC on 31 July 2015. The terms are similar to those under the previous programme, the main risk being that of decommitment of EU funds as a result of failures in compliance by SBC as lead partner. A report reflecting the current position was presented to the Executive Committee on 1 September 2015.</p> <p>The SBC Economic Development Team is fully engaged in preparation for delivery of the new programme. We are satisfied that they are taking appropriate action towards implementation of LEADER 2014-2020.</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place.</p> <p>We have made the following recommendation which is supported by the new SLA (4.4) which highlights the importance of complying with eligibility, state aid and public procurement requirements:</p> <ul style="list-style-type: none"> • Management should ensure that the LEADER State Aid guidance is clear to all participants, including the LEADER team. State Aid assessment and judgement to be documented and evidenced with rationale following approved process. The recording and reporting requirements of the State Aid Unit of the Scottish Government to be incorporated into procedures to ensure compliance with requirements. (P3) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Compliance</p> <p>Subject: European Fisheries Fund Programme – Grant Funding Compliance</p> <p>No: 154/011</p> <p>Date issued: 21 October 2015</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess compliance with the requirements of the SLA which are derived from relevant EU Legislation and the European Fisheries Funds (Grants) (Scotland) Regulations 2007 (SSI 2007 No 307) (as amended), and to provide an update on the position of the European Maritime Fisheries Fund (EMFF), which replaces the European Fisheries Fund (EFF) for EU funding period 2014-2020.</p> <p>The EFF Programme 2007-2013 suffered a delay at outset and was not launched until January 2012 which resulted in the Fisheries Local Action Group (FLAG), the delegated delivery partner for the programme, only having 2013 in which to find eligible projects to commit £720k, half of which was SBC funded.</p> <p>This year marks the final year of the EFF Programme (Axis 4) 2007-2013. All funds were required to be allocated by end of June 2014 and all Claims had until the end of August 2015 to be submitted with final drawdown from the Scottish Government timetabled for 31 October 2015.</p> <p>By June 2014 all but £3k of the funds had been committed. Since then a number of projects have withdrawn, citing either time pressures or match funding issues. The total uncommitted funds at the end of the programme were £113k.</p> <p>In general we have found governance and management of the programme to be good. The FLAG was established and governed as required by the EU regulations. Internal control and project governance were found to be good. Eligibility was well considered. A claims process was established and followed. Financial controls were put in place for the administration and distribution of funds.</p> <p>Management have yet to address some of the findings that we had from the previous audit identifying some improvements to be made relating to incomplete file documentation in particular the importance of recording decision making and ensuring procurement evidence is on file.</p>	0	0	0	<p>Management have agreed the report findings, and acknowledged that the recommendation within the recently published Internal Audit report on the LEADER Programme applies equally to EMFF.</p> <p>The final internal audit report has been submitted to the Scottish Government by 31 October 2015 timescale.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: European Fisheries Fund Programme – Grant Funding Compliance (cont'd)	<p>The European Maritime Fisheries Fund (EMFF), one of the 5 European structural and investment funds, will deliver the reformed Common Fisheries Policy for the EU funding period 2014-2020. The EU fund Regulations became effective 1 January 2014. They have yet to be transposed into UK law.</p> <p>EMFF is structured around 4 Pillars; Pillar 3 (Sustainable Development of Fisheries), which builds on the work done by EFF Axis 4, is to be delivered using the Community Led Local Development method and approach, the same delivery model of 2007-2013 EFF and LEADER Programmes. This involves an innovative bottom-up approach to local community led development and presents a number of innovative local projects funded to enhance rural and coastal economic development.</p> <p>A Report to the Executive Committee on 8 June 2015 informed of a delay to the EMFF Programme. This has occurred due to a change of policy at EU level towards a more regionalised approach in its delivery, resulting in larger FLAG areas to enable larger financial allocations and benefits of economies of scale.</p> <p>We are confident that the Programme team are fully engaged in the process with Marine Scotland and the other two Councils and know what it is that they need to do to move forward towards the implementation and delivery of the EMFF.</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place.</p> <p>Eligibility, Public Procurement requirements and State Aid are important areas for compliance and we would urge the Project team to ensure that sound processes and controls are in place to evidence the assessments and decision making processes and resolutions made. The Internal Audit recommendation within our recently published report on the LEADER Programme applies equally to EMFF.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: IT Governance</p> <p>Subject: Public Sector Network (PSN) Compliance</p> <p>No: 237/001</p> <p>Date issued: 13 November 2015</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to examine the Council's compliance with the requirements of the Public Sector Network (PSN) and progress with implementation of actions required to achieve full compliance.</p> <p>In addition one of the Senior Internal Auditors has undertaken the Project Assurance function on the Project Board. This review is designed to assess specific aspects of the programme to provide assurance that, as a whole, the programme has been managed effectively and delivered the expected benefits.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • There were effective processes for reporting to the PSN Project Board on the progress of the project. The Project Board was made up of key stakeholders in the project, roles were well defined, and there was generally good engagement by members of the Project Board. • There were effective processes to identify and report risk through the regular highlights reports, and the Project Board was able to escalate matters as appropriate to Senior Management outwith the Project Board as appropriate. • A lessons learned assessment has been carried out in line with good practice. <p>During the course of the project a number of factors were identified as causing delays to the implementation of the actions required to achieve full compliance: Technological issues; Revised governance arrangements (e.g. creation of SB Cares); and Information management and governance. The delay in preparing a successful submission added to the cost of the exercise, and increased the risk of not achieving accreditation.</p> <p>However, a successful submission of the Council's application was made and the Council achieved accreditation of its compliance with the requirements of the Public Sector Network (PSN) in August 2015.</p>	0	0	1	<p>Management have agreed the report findings and to implement the recommendation.</p> <p>The PSN End of Project Report highlights 4 major risks to achieving the Council's next PSN accreditation.</p> <p>Management of these risks will be the responsibility of the recently-formed ICT Board (Risks 1 and 2) and the Information Governance Group (Risks 1, 3 and 4) with Audit & Risk service providing support in assessing any impact to the corporate risk management profile.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Public Sector Network (PSN) Compliance (cont'd)	<p>We have made the following recommendation:</p> <ul style="list-style-type: none"> Senior Management should review the Lessons Learned part of the End of Project report and prepare an action plan noting how each area will be addressed. (P3) <p>Internal Audit considers that the level of assurance we are able to give in respect of PSN compliance is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.</p> <p>Improvements required to Information management and governance were included within Internal Audit Report 236/007 Data Security & Information Management (Final Report Issued 4 April 2014) and follow-up on progress with implementation of audit recommendations was most recently reported to the Audit and Risk Committee on 11 May 2015. Further audit work on Information Governance is planned during 2015/16 and those findings will be reported in due course.</p>				

Internal Audit Mid-Term Performance Report 2015/16

Report by Chief Officer Audit & Risk

Audit and Risk Committee

23 November 2015

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit and Risk Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2015, towards completing the Internal Audit Annual Plan 2015/16. It also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards.**
- 1.2 The Objectives of Internal Audit are set out in its Charter: “As part of Scottish Borders Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives.” Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council.
- 1.3 The Internal Audit Annual Plan 2015/16 that was approved by the Audit and Risk Committee on 23 March 2015 sets out the audit coverage for the year utilising available internal audit staff resources to enable the Chief Officer, as the Council’s Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made progress towards completing the Internal Audit Annual Plan 2015/16 despite the need to reschedule some of the planned audits to the second half of the year. In contrast some internal audit work that was originally scheduled for completion in the 3rd quarter has been accelerated. Internal Audit is currently on target to complete its Annual Plan 2015/16, assuming planned staffing levels for the remainder of the year.
- 1.5 The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). The External Quality Assessment (EQA) Peer Review carried out by Renfrewshire Council in October 2015 has concluded that the SBC Internal Audit Service generally conforms to the PSIAS.

2 RECOMMENDATION

- 2.1 I recommend that the Audit and Risk Committee approves the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2015/16, and confirms that it is satisfied with the Performance of the Internal Audit service.**

3 BACKGROUND

- 3.1 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.2 Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2015/16 key stakeholders have been consulted and risk registers have been considered to capture potential areas of risk and uncertainty more fully.
- 3.4 The Internal Audit Annual Plan 2015/16 that was approved by the Audit and Risk Committee on 23 March 2015 sets out the audit coverage for the year utilising available internal audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2015/16

- 4.1 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work (the status of those audits which are complete are highlighted) to deliver the Internal Audit Annual Plan 2015/16. The following table summarises the Internal Audit activity for the 6 months to 30 September 2015:

	Plan days Apr-Sep 2015/16	Actual days Apr-Sep 2015/16	Plan Nos. Apr-Sep 2015/16	Actual Nos. Apr-Sep 2015/16
Corporate Governance	100	62	2	2
Financial Governance	60	40	2	1
IT Governance	35	8	3	3
Internal Controls	40	22	2	0
Asset Management	0	0	0	0
Legislative and other Compliance	50	82	4	4
Consultancy and Advice	40	33		
Other	74	86		
Total	399	333	13	10

- 4.2 The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 83% (CIPFA Directors of Finance PI for Internal Audit services) and 77% completion of planned audits, though in a number of cases some work has been commenced during the first half of the year.
- 4.3 Not all planned audits have been completed in the 6 months to 30 September 2015 for the following reasons:
- Some elements of the audit scopes have been completed though other aspects have been re-phased in consultation with Management to match availability (e.g. Creditors Payments; Salaries including Expenses).
 - The timing of some of the planned audits had to be amended and re-phased to align the audits to the review and development work within service areas in consultation with Management (e.g. Homelessness; Waste and Recycling).
- 4.4 In contrast some internal audit work that was originally scheduled for completion in the 3rd quarter has been accelerated to ensure productivity levels are retained as part of effective use of internal audit resources (e.g. Financial Policies and Procedures; Grants; ICT Operational Processes).
- 4.5 The allocation of audit plan hours is not an exact science and some of the audit scopes have been carried out using less than planned hours and some using more than planned hours. The latter was relevant to Legislative and Compliance work particularly relating to Kelso Town Heritage Initiative, and also to European Fisheries Fund Programme SLA Compliance and LEADER Programme SLA Compliance attributed to more in-depth end of programme assurance.
- 4.6 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance as the Council continues to transform its service delivery, for example, Health and Social Care Integration, the Welfare Reform Programme, the Information Governance Group, the Serious Organised Crime Officer Working Group, and the Corporate Fraud Working Group).
- 4.7 Internal Auditors have also carried out contingency work requested by Management as part of other planned audit work.
- 4.8 Internal Audit resources were deployed in the delivery of the follow-up work to check that recommendations have been implemented by Management to ensure added value has been derived from the Internal Audit work through improvement in internal financial control and / or internal control and governance. Internal Auditors continue to work with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Risk Committee. The follow-up activity takes into consideration their priority status, what target timescales are in place for full implementation, the explanation of the reason for any delay in implementation, and a review of their status to ensure the recommendations are still relevant or whether alternative solutions are required to address the identified weakness.
- 4.9 Internal Audit adopting its 'critical friend' role is collaborating with the Corporate Performance team to perform independent and objective validation of Services' performance measures and self-assessments within a cycle of improvement planning that demonstrates best value, an improvement action within the Audit and Risk Business Plan 2015/16.

5 COMPLETING THE PLAN FOR 2015/16

- 5.1 The Internal Audit programme of work for the six months from October 2015 to March 2016 incorporating the remaining planned audit work has been discussed with Management. Based on planned staffing levels within this period, the Internal Audit Annual Plan 2015/16 can be delivered in full. There is no change proposed to the audit plan that would require approval by the Audit and Risk Committee.
- 5.2 The following table summarises the Internal Audit planned work in the second half of the year to 31 March 2016:

	Plan days Oct-Mar 2015/16	Plan Nos. Oct-Mar 2015/16
Corporate Governance	85	4
Financial Governance	135	4
IT Governance	25	1
Internal Controls	45	2
Asset Management	25	1
Legislative and other Compliance	0	0
Consultancy and Advice	40	0
Other	55	3
Total	410	15

- 5.3 The Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud. Audits are scheduled in the 4th Quarter relating to these areas. In order to ensure that internal audit independence and objectivity is maintained in this scenario, the internal audit work on these areas will be carried out with the Chief Officer Audit & Risk as the client, with the Internal Audit Manager fulfilling the CAE role in accordance with the Internal Audit Charter, and Internal Auditors, who are governed by their professional codes and standards of integrity and objectivity, performing the detailed testing of controls. It should also be noted that Management are responsible for putting in place effective systems of internal control, risk management and counter fraud arrangements to ensure robust and efficient governance of the Council.
- 5.4 To support the Council's work opportunities scheme and ambitions to offer employment opportunities to young people, a Modern Apprentice has been recruited within the Audit & Risk service on a 24-month fixed term contract. Under the national Framework the apprentice will follow the Audit Pathway to achieve a Scottish Higher Level Apprenticeship: a Technical Apprenticeship in Professional Services at Level 4.
- 5.5 With effect from 6 October 2015 and in light of interim changes to the Corporate Management structure the Chief Officer Audit & Risk reports administratively to the Service Director Regulatory Services (who is also the Monitoring Officer) thus audit and risk functions and support services transferring to the Place department. The Chief Officer Audit & Risk continues to report functionally to the Audit & Risk Committee, continues to meet regularly with the Chief Financial Officer, and has direct access to the Chief Executive, Depute Chief Executives, and Service Directors who make up the Corporate Management Team. The Chief Officer Audit & Risk continues to report in her own name and retains final edit rights over all internal audit reports.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

- 6.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the authority.
- 6.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

7 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP)

- 7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 which requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS and develop a quality assurance and improvement plan (QAIP) based on the outcome. The PSIAS include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2 The PSIAS includes the requirement to report the results of the QAIP to senior management and elected members. The following table provides Corporate Management and the Audit and Risk Committee with a summary overview of the outcome of the internal self-assessment against the PSIAS 2014/15, carried out by one of the Senior Internal Auditors, and the QAIP:

Standard	Improvement Action	Target Date	Action Owner
B1 Integrity B2 Objectivity B3 Confidentiality B4 Competence	Adherence to <i>Code of Ethics</i> included in "Performance Standards" on PRD forms	July 2015- Complete	Senior Internal Auditor
As above	Development of pre-Audit checklist	October 2015- Complete	Senior Internal Auditor
1100.14 Due consideration to potential conflicts of interest	Development of pre-Audit checklist	October 2015- Complete	Senior Internal Auditor
1300.1 Performance monitoring	Develop Balanced Scorecard measures in line with SLACIAG guidance and input into Covalent	November 2015	Senior Internal Auditor
2000.6 Risk management	Continued improvement in identification and management of risk within the Council	March 2016	Chief Officer Audit & Risk
2000.12 Policies and Procedures	Review and revision of Audit Manual	March 2016	Senior Internal Auditor

- 7.3 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have agreed proposals for a "peer review" framework as a cost effective means of complying with this requirement. At the SLACIAG meeting on 12 September 2014 it was reported that 24 Scottish Local Authorities had agreed to participate in the "peer review" framework.
- 7.4 SBC has participated in a pilot of this framework along with 5 other Councils though the EQA Peer Review site visit by Renfrewshire Council was delayed from March until October 2015. The methodology included: review of the latest self-assessment; canvass of the opinions of key stakeholders such as Chair of the Audit and Risk Committee and members of the Corporate Management Team; and testing using a standard checklist, a review of guidance and process documents, and a sample of files.
- 7.5 The draft report received from Renfrewshire Council on 9 November 2015 has concluded that the SBC Internal Audit Service generally conforms to the PSIAS, has identified areas of Good Practice, and has highlighted a few areas where improvements can be made. The Summary of Conformance with the PSIAS in the draft report states either 'Fully Conforms' or 'Generally Conforms' against the 13 Assessment Areas. Areas of good practice include: substantial compliance with PSIAS and the International Professional Practices Framework (IPPF); clear, concise and easy to follow Internal Audit Charter; appropriate functional and administrative reporting lines for the CAE; appropriately qualified and experienced Internal Audit team. The implementation of the Action Plan covering the areas of improvement is designed to enable SBC Internal Audit Service to move from an assessment of 'Generally Conforms' to 'Fully Conforms' in each of the Assessment Areas. Once the content and action plan in the draft report have been agreed with Renfrewshire Council, the EQA Peer Review improvement actions will be added to the QAIP and their implementation will be led by the Chief Officer Audit & Risk.
- 7.6 The SBC Internal Audit service will be subject to an annual self-assessment against the PSIAS at the end of 2015/16. The progress with implementation of the improvement actions in the QAIP, including those arising from the EQA Peer Review, will be evaluated at that time. The results will continue to be reported to the Audit and Risk Committee each May within the Internal Audit Annual Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

8 IMPLICATIONS

8.1 Financial

- (a) There are staff and other resources in place to achieve the Internal Audit Annual Plan 2015/16 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on systems of internal financial control, internal control and governance, and to highlight good practice and recommend improvements.

- (b) Budget monitoring of the Audit & Risk service (Internal Audit, Risk Management and Counter Fraud) is carried out by the Chief Officer Audit & Risk and the Internal Audit Manager on a monthly basis (and discussed on a quarterly basis with Finance staff in accordance with current practice) to address any budgetary pressures and to manage service delivery within available financial resources.

8.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically, as "a contribution to the Council's corporate management of risk", this includes responsibility in "Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2015/16, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of:
- Ensuring that sufficient Internal Audit resources are available to deliver the Internal Audit Annual Plan 2015/16 in full.
 - Scheduling of audits through discussion with Management to ensure available capacity, and making suitable arrangements to minimise the impact of the audit process on service delivery.
 - Regularly monitoring progress on higher priority audits by the Chief Officer Audit & Risk and Internal Audit Manager and taking action as necessary.
 - Controlling and managing Contingency work by way of: Greater emphasis on what is not the responsibility of Internal Audit but what is the responsibility of Management; where possible, incorporating Contingency work within planned audit work; and the requirement for approval by the Chief Officer Audit & Risk before commencement.

8.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

8.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this report.

8.5 **Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

8.6 **Rural Proofing**

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

8.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

9 **CONSULTATION**

9.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

9.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel. 01835 825036
James Collin	Internal Audit Manager Tel. 01835 825232
David Clark	Senior Internal Auditor Tel. 01835 825464

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin, Place Department can also give information on other language translations as well as providing additional copies.

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AUDIT	2015/16 (Days)	COMMENTARY	STATUS
Corporate Governance			
Corporate Governance - annual evaluation and statement 2015/16	20	Interim review of the Local Code of Corporate Governance and progress on improvement action plans. Annual evaluation against Local Code of Corporate Governance covering the corporate whole and individual Service Directorates.	Continuous audit approach including follow-up on areas of improvement as part of other planned audit work; Annual evaluation scheduled 4th Qtr
Risk Management	15	Progress on the implementation of corporate risk management improvement actions including policy, strategy, training and toolkits.	Scheduled 4th Qtr
Information Governance	20	Review of the Information Governance framework including roles and responsibilities, policy development and implementation.	Continuous audit approach including follow-up on areas of improvement as part of assurance role in Information Governance Group.
Performance Management	30	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.	Interim report issued 17 September 2015
Workforce Planning	10	Review of approach to workforce development to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.	Scheduled 4th Qtr
Corporate Transformation	50	Review of governance and accountability arrangements for the Corporate Transformation programme including programme and project management. Review of processes for benefit (financial and other) identification, tracking and realisation.	Audit work underway; selection of projects for detailed review include Cultural Services Review; ICT Review; Borders Railway Programme; Children & Young People Programme.
Health and Social Care Integration	25	Review governance arrangements being developed to meet new statutory obligations which are designed to promote closer integration and partnership working to meet the needs of the community.	Continuous audit approach covering the operation of the Shadow Board, the finalisation of the Scheme of Integration, the development of the Strategic Plan, and outputs of working groups.
Cultural Services Review	15	Review governance arrangements being developed as part of proposals for transferring Cultural Services to a Trust.	Part of Corporate Transformation audit work; Final report issued 13 November 2015
	185		

AUDIT	2015/16 (Days)	COMMENTARY	STATUS
Financial Governance			
Financial policies and procedures	15	Assess progress with review and update of Financial Regulations and associated procedures and guidelines including revenue and capital budgetary control codes of practice.	Continuous audit and follow-up
Income Charging, Billing & Collection	35	Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.	Scheduled 3rd Quarter
VAT	35	Review of the VAT treatment of supplies and services made by the Council to customers.	Audit work underway
Revenues (Council Tax, NDR)	20	Assess completeness and accuracy of Revenues (Council Tax and Non Domestic Rates) income, including application of relevant reductions, discounts, reliefs and exemptions.	Scheduled 3rd Quarter
Grants	15	Review of authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of grant. Assess process against following the public pound code of practice.	Audit work underway
Contract Management	30	Adequate controls are in place over contract monitoring arrangements with third parties including sports trusts, and arms-length external organisations.	Scheduled 4th Quarter
Creditors Payments	20	Review of payments processes at Service level including authorisation and non-Proactis source systems such as Servitor, Framework-I and Template payments.	Final Interim Report on Authorisation Controls issued 30 October 2015
Salaries (incl expenses)	25	Review of controls at Service level.	
	195		

AUDIT	2015/16 (Days)	COMMENTARY	STATUS
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IT Governance

Security controls	5	Assess the adequacy of the physical access and environmental controls to the Council's ICT equipment, software and data to prevent unauthorised access and damage including third party access agreements.	Final report issued 21 September 2015
Public Secure Network (PSN) Compliance	5	Examine the Council's compliance with the requirements of the Public Secure Network (PSN) and progress with implementation of actions required to achieve full compliance.	Final report issued 13 November 2015
Disaster Recovery	30	Review of ICT disaster recovery strategies and plans to ensure they are aligned with business continuity requirements, are fit for purpose (i.e. no critical single points of failure) and tested appropriately.	Final report issued 21 September 2015
ICT Operational Processes	20	A review of the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering and complying with them. Specifically with change management, the review will consider business as usual change vs a corporate transformation project.	Audit work underway
	60		

AUDIT	2015/16 (Days)	COMMENTARY	STATUS
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Internal Controls

Homelessness	10	Review of controls in place to ensure efficient and effective use of social and private sector housing and B&B accommodation to ensure achievement of obligations for the homeless, specifically Rent Accounting processes and procedures, including collection and recovery of rents, training and guidance notes.	Audit work underway; originally planned to report in 1st half of the year.
Primary Schools	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the establishments.	Audit work underway; selection of schools for detailed site visits include Tweedbank, St Ronans and Denholm Primary Schools.
Waste & Recycling	15	Review of operational and financial controls in place for the effective delivery of waste and recycling services.	Audit work underway; originally planned to report in 1st half of the year.
Capital Projects	30	Review of management systems in place to ensure that capital projects are being managed efficiently and effectively from inception to completion including post project evaluation, and capacity is reviewed and monitored to utilise available funding as planned (sample of specific projects per year). Capital planning basis on priorities and outcomes set by the Council.	Audit work underway; selection of projects for detailed review of documentation include two being led by each of the Projects, Design and Architectural teams.
	85		

AUDIT	2015/16 (Days)	COMMENTARY	STATUS
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Asset Management

Asset Registers	25	Review of processes and controls management have implemented to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities.	Scheduled 4th Qtr
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AUDIT	2015/16 (Days)	COMMENTARY	STATUS
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Legislative & Other Compliance

Kelso THI	15	Review as part of end of programme compliance and evaluation requirements of the two external funders (the Heritage Lottery Fund and Historic Scotland) including audit requirements.	Final report issued 23 July 2015
LEADER	15	Annual review of LEADER programme required by the Service Level Agreement (SLA) between Scottish Ministers (Managing Authority and the Paying Agency (RPID)) and Scottish Borders Council (Lead Partner for Scottish Borders Local Action Group (LAG)) to assess compliance by SBC with the terms of the SLA.	Final report issued 21 October 2015
European Fisheries Fund	10	Annual audit under the terms of the SLA and legislative compliance including an assessment of compliance with the requirements of the SLA and the relevant EC Regulations.	Final report issued 21 October 2015
Carbon Reduction	10	Annual audit as part of the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) prior to the Council's annual submission to Department of Energy and Climate Change (DECC).	Final report issued 26 August 2015
	50		

AUDIT	2015/16 (Days)	COMMENTARY	STATUS
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Consultancy

Reviews	40	Provision of internal audit advice, facilitation and consultancy support to management at an early stage in new developments and within change and transformation programmes and projects.	Ongoing
Specific Requests	20	Highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews.	Ongoing
Project Boards / Teams e.g. Information Governance; Welfare Reform; Serious Organised Crime	20	Provision of internal audit advice and support to management within change and transformation programmes and projects.	Ongoing
	80		

AUDIT	2015/16 (Days)	COMMENTARY	STATUS
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Other

Contingency	30	Investigations and other reative work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.	On request and in agreement by Chief Officer Audit & Risk.
Follow-Up	30	Recommendations are followed-up to ensure management implementation to improve the internal control and governance arrangements.	Ongoing
National Fraud Initiative	9	Submission of data sets and case management of data matches arising from NFI exercise.	Delayed though progress now being made
Counter Fraud, Theft, Corruption & Crime	20	Progress on the implementation of corporate counter fraud improvement actions. Review of fraud prevention controls and detection processes put in place by management. Proactive data matching exercises, spot checks and visits. Independent validation of self-assessment of Local Authority Readiness Serious Organised Crime and Corruption Risk 2015/16 Checklist and progress with implementation of associated Improvement Plan actions.	Continuous audit approach including follow-up on Counter Fraud areas of improvement scheduled 4th Quarter; Serious Organised Crime self-assessment validation scheduled 3rd Quarter.
SB Cares	30	To be determined and agreed with SB Cares Board and Management.	SB Cares Internal Audit Annual Plan 2015/16 approved by SB Cares Board and Management on 22 October 2015; audit work underway.
Scottish Borders Pension Fund	10	To be determined and agreed with Pension Fund Committee and Management.	Attendance at Pension Fund Committee and Board to assess new governance arrangements.
	129		

Overall Total	809
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TREASURY MANAGEMENT MID-YEAR REPORT 2015/16

Report by Chief Financial Officer

AUDIT AND RISK COMMITTEE

23 November 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the mid-year report of treasury management activities for 2015/16, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit and Risk Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2015 and demonstrates that Treasury activity in the first six months of 2015/16 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2014/15 out-turn and experience in 2015/16 to date for Council approval.

2 STATUS

- 2.1 This report is being presented prior to having undergone full consultation due to the fact that Appendix 1 depends on monitoring information from the Capital Financial Plan Monitoring report going to the Executive Committee on 17 November 2015. As Appendix 1 will be submitted to Council for final approval on the 1st December 2015 any consultation responses reported to the Audit and Risk Committee will be incorporated into that report.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Risk Committee:**
 - a) **Notes that treasury management activity in the six months to 30 September 2015 was carried out in compliance with the approved Treasury Management Strategy and Policy**
 - b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2015/16, as contained in Appendix 1, to Council for approval of the revised indicators.**

4 BACKGROUND

- 4.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2015/16 at the Council on 12 February 2015. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 As set out in the annual Treasury Strategy, the Audit and Risk Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

5 TREASURY MANAGEMENT MID-YEAR REPORT 2015/16

- 5.1 The Treasury Management Mid-Year Report for 2015/16 (the Mid-Year Report) is contained in Appendix 1. All of the 2015/16 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 12 February 2015.
- 5.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
 - a) An economic update for the first six months of 2015/16
 - b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - c) The Council's capital expenditure (prudential indicators)
 - d) A review of the Council's investment portfolio for 2015/16
 - e) A review of the Council's borrowing strategy for 2015/16
 - f) A review of compliance with Treasury and Prudential Limits for 2015/16
- 5.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval. An additional indicator has been included for PI-3 to show the Ratio of Financing Costs to Net Revenue including the PPP financing and repayment costs.
- 5.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

6 IMPLICATIONS

6.1 Financial

There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.

6.2 Risk and Mitigations

This report is an account of the outcomes delivered at the six month stage from the tightly risk controlled work that the Council's Treasury staff. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

6.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council’s sustainability policy.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are currently being consulted and any comments received on the report will be reported at the Audit and Risk Committee meeting.

Approved by

David Robertson
CHIEF FINANCIAL OFFICER

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital and Investment Manager

Background Papers:

Previous Minute Reference:

Scottish Borders Council, 12 February 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Treasury & Capital Team can also give information on other language translations as well as providing additional copies.

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SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT MID-YEAR REPORT 2015/16

Draft – Pending 17 November 2015 Executive Committee

1. BACKGROUND

a) Treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

b) The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. A primary function of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

c) The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, where favourable conditions exist, any debt previously drawn may be restructured to meet Council risk or cost objectives.

d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2015/16 as highlighted throughout this report.

2 ECONOMIC POSITION

2.1 ECONOMIC UPDATE *(from Capita Asset Services)*

a) UK

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% though there was a rebound in quarter 2 to +0.7%. The Bank of England’s August Inflation Report included a forecast for growth to remain around 2.4 – 2.8% over the next three years. However, the subsequent forward looking Purchasing Manager’s Index, (PMI), surveys in both September and early October for the services and manufacturing sectors showed a marked slowdown in the likely future overall rate of GDP growth to about +0.3% in quarter 4 from +0.5% in quarter 3. This is not too surprising given the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets creating headwinds for UK exporters. Also, falls in business and consumer confidence in September, due to an increase in concerns for the economic outlook, could also contribute to a dampening of growth through weakening investment and consumer expenditure. For this recovery to become more balanced and sustainable in the longer term, the recovery still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly over the last few years although it has now ticked up recently after the Chancellor announced in July significant increases planned in the minimum (living) wage over the course of this Parliament.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. It has therefore been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which slipped back to zero in June and again in August. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn. The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. Despite average weekly earnings ticking up to 2.9% y/y in the three months ending in July, (as announced in mid-September), this was unlikely to provide ammunition for the MPC to take action to raise Bank Rate soon as labour productivity growth meant that net labour unit costs appeared to be only rising by about 1% y/y. However, at the start of October, statistics came out that annual labour cost growth had actually jumped sharply in quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

There are therefore considerable risks around whether inflation will rise in the near future as strongly and as quickly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets. On the other hand, there are also concerns around the fact that the central banks of the UK and US have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are therefore arguments that they need to raise rates sooner, rather than later, so as to have ammunition to use if there was a sudden second major financial crisis. But it is hardly likely that they would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has therefore progressively been pushed back during 2015 from Q4 2015 to Q2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20.

b) **U.S.**

GDP growth in 2014 of 2.4% was followed by first quarter 2015 growth depressed by exceptionally bad winter weather at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) and strong growth was initially expected going forward. Until the turmoil in financial markets in August caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. might start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, and due to a 20% appreciation of the dollar which has caused the Fed to lower its growth forecasts. Since then the nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to significantly weaken. This has pushed back expectations of the first rate increase from 2015 into 2016.

c) **Eurozone**

The ECB fired its big bazooka by announcing a massive €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government debt of selected EZ countries. This programme started in March and will run to September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment. There has also been a continuing trend of marginal increases in the GDP growth rate which hit 0.4% in quarter 1 2015 (1.0% y/y) and +0.4%, (1.5% y/y) in Q2 GDP. The ECB has also stated it would extend its QE programme if inflation failed to return to its target of 2% within this initial time period.

During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

2.2 ECONOMIC OUTLOOK

Economic forecasting remains difficult with so many external influences weighing on the UK. Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

2.3 INTEREST RATE FORECAST

- a) Table 1 summarises the latest interest rate forecast from the Council’s treasury adviser, Capita Asset Services.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PVLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PVLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PVLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PVLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Source: Capita Asset Services – October 2015.

- b) Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PVLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There were no policy changes to the Statement. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2015/16

4.1 This part of the report is structured to update:

- The Council's capital expenditure plan.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow, and
- Compliance with the limits in place for borrowing activity.

4.2 CAPITAL EXPENDITURE

(Prudential Indicator (PI-1))

a) The original capital plan for 2015/16 was approved on 12 February 2015. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2015/16.

Table 2	2015/16 Original Budget	2015/16 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Place	23.4	33.5	10.1
People	25.2	11.9	(13.3)
Chief Executive	9.5	5.3	(4.2)
Emergency & Unplanned Schemes	0.3	-	(0.3)
Total Capital Expenditure (PI-1)	58.4	50.7	(7.7)

¹ Executive Committee 17 November 2015

b) The current approved budget for 2015/16 is lower than the original budget due to adverse timing movements in areas of the capital plan. Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 17 November 2015. The key drivers of the changes in Table 2 are:

- Place department – the key movements are linked to the re-profiled post contract award for Selkirk Flood Protection project and the bringing forward of £1m for Roads investment.
- People department – the key reduction in estimated expenditure is the adjustment to remove the Kelso High School project which is to be fully funded by the Scottish Government via Scottish Futures Trust.
- Chief Executives department – the key reduction is in relation to the Next Generation Broadband (BDUK) project being funded from General Capital grant retained by the Scottish Government.

4.3 FINANCING OF THE CAPITAL PROGRAMME

a) **Table 3** on the following page draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2015/16 capital programme.

Table 3	2015/16 Original estimate £m	2015/16 Current Approved Budget ¹ £m	Variance - Original to Current Approved £m
Capital Expenditure (PI-1)	58.4	50.7	(7.7)
Other Relevant Expenditure	17.0	1.0	(16.0)
Total Expenditure	75.4	51.7	(23.7)
<i>Financed by:</i>			
Capital fund/Capital receipts	(1.7)	(1.7)	-
Capital grants & other contributions	(44.5)	(30.1)	14.4
Plant & Vehicle Fund	(2.0)	(2.5)	(0.5)
Total Financing	(48.2)	(34.3)	(13.9)
Net Financing Need for the Year	27.2	17.4	(9.8)

¹ Executive Committee 17 November 2015

- b) The reduction in overall financing need has arisen primarily due to the re-profiling the timing of the “Other Relevant Expenditure” which relates to lending to Registered Social Landlords (RSLs) and the National Housing Trust project via Bridge Homes LLP. This amounts to a movement of £16m and is primarily due to a lack of uptake of borrowing from RSL’s. Also, there is a projected re-profiling of the Capital Plan resulting in a further £7.7m of expenditure being incurred in 2016/17, see paragraph 4.2 (b). In addition the level of Specific Capital Grants receivable from the Scottish government has reduced by £10.5m as a reflecting the funding arrangements for Kelso High School which is revenue funded.

4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council’s accounts for the year ending 31 March 2015.

Table 4	2015/16 Original estimate £m	2015/16 Revised estimate £m	Variance £m
CFR * (PI-2)	276.1	261.8	(14.3)

* The CFR for this calculation includes current capital expenditure to 31 March 2015

ACTUAL EXTERNAL DEBT (PI-5)

- iii) Projected external debt for 2015/16 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. The borrowing figure is slightly lower than originally projected as the Council has had sufficient cash balances to meet expenditure requirements without further borrowing.
- v) No additional external borrowing has been undertaken during 2015/16 to date and no further long-term borrowing is anticipated for the rest of the year.

Table 5	2015/16 Original estimate £m	2015/16 Current Approved Budget £m	Variance £m
Borrowing	193.1	171.6	(21.5)
Other long-term liabilities	54.2	54.3	0.1
Total External Debt (PI-5)	247.3	225.9	(21.4)

(UNDER)/OVER BORROWING AGAINST CFR (PI-6)

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external 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 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cashflows to finance capital expenditure rather than enter into new debt financing arrangements.

Table 6	2015/16 Original estimate £m	2015/16 Current Approved Budget £m	Variance £m
Gross External Debt	247.3	226.0	(21.3)
CFR *	284.3	278.3	(6.0)
(Under)/Over Borrowing against CFR (PI-6)	(37.0)	(52.3)	(15.3)

* The CFR for this calculation includes the current and two future years projected capital expenditure.

- viii) No difficulties are envisaged for the current or future years in complying with this prudential indicator.

AUTHORISED LIMIT AND OPERATIONAL BOUNDARY (PI-7 and PI-8)

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
 - (ii) The **Operational Boundary** shows the expected operational debt position for the period.
- x) **Table 7** below shows revised estimates for the debt indicators for the 2015/16 financial year and compares them with the original estimates shown in the 2015/16 Treasury Management Strategy Report.

Table 7	2015/16 Original estimate £m	2015/16 Revised estimate £m	Variance £m
Gross External Debt (PI-5)	247.3	226.0	(21.3)
Authorised Limit inc. Long Term Liabilities(PI-8a)	323.4	304.0	(19.4)
<i>Variance to External Debt Estimate</i>	<i>76.1</i>	<i>78.0</i>	<i>1.9</i>
Operational Boundary inc. Long Term Liabilities (PI-7a)	251.1	239.0	(12.1)
<i>Variance to External Debt Estimate</i>	<i>3.8</i>	<i>13.0</i>	<i>9.2</i>

4.9 DEBT RESCHEDULING

Debt rescheduling opportunities continue to have been limited in the current economic climate. No debt rescheduling was undertaken during the first six months of 2015/16. The position will continue to be monitored on an ongoing basis.

INVESTMENT ACTIVITY

5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.
- b) The Council held £16.6m of balances in interest bearing accounts as at 30 September 2014 (£16.4m at 31 March 2015), and the investment yield for the first six months of the year was 0.40% against a benchmark of the average 7 day LIBID rate of 0.36%. As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term. As part of this, and within the Treasury Management Strategy's Investment criteria officers have expanded the counterparty list used for operational purposes to Svenska Handelsbanken through the use of a call account.

5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.
- b) The Bank of Scotland is the Council's own bank for transactional receipts and payments. Although the bank only has a single 'A' long term credit rating from the main credit rating agencies, which is the lowest counterparty credit rating for investments as defined in the approved 2015-16 Treasury Management Strategy, it still remains a part-nationalised bank. On this basis, and as the Council currently only has an instant access investment account with the bank, it is proposed that the Council continue to allow the use of £5m as the daily maximum to be held with the Bank of Scotland to allow the daily cash management functions to operate effectively.
- c) The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of the new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.
- d) It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their

methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

TREASURY PERFORMANCE INDICATORS

The Treasury Management Strategy for 2015/16 established certain performance indicators for the Treasury Management Function, as defined below.

6.1 DEBT PERFORMANCE INDICATORS

These indicators are additional to the prudential & treasury management indicators covered earlier in this report. The Indicators are:

- i) **Average 'Pool Rate'** charged by the Loans Fund compared to Scottish Local Authority average Pool Rate. Target is to be at or below the Scottish Average for 2015/16.
- ii) **Average rate movement year on year.** Target is to maintain or reduce the average borrowing rate for the Council versus 2014/15.

The Average 'Pool Rate' can only be measured at the end of the financial year, once the Scottish Treasury Indicators have been published. The Average Rate movement year on year is on target to be maintained / reduced.

6.2 INVESTMENT PERFORMANCE INDICATORS

a) SECURITY

The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.02% historic risk of default when compared to the whole portfolio.

Year to Date (YTD) Performance of this indicator is **0.02% historic risk** which is equivalent to the benchmark, if overnight deposits with the Council's own bank, the Bank of Scotland, are taken into account. Excluding Bank of Scotland deposits, the risk of default on deposits was 0.002%, which is lower than the benchmark. This was achieved by investing with counterparties with higher credit ratings, especially in money market funds (AAA credit rating), which have a lower historic risk of default. Security risk was also managed by utilising only overnight or short term notice accounts.

b) LIQUIDITY

- i) Liquid short term deposits should be at least £3,000,000, available with a week's notice. Liquid deposits were maintained above £3,000,000 throughout the six months to 30 September 2015.
- ii) Weighted Average Life benchmark, i.e. the average length of time over which cash is deposited, is **expected to be 0.5 years** (equivalent to a weighted average life of 6 months), with a **maximum of 1.00 years**.

The YTD weighted average life has been 0.01 years, well below the 0.5 year target. This 2015/16 figure also included money deposited in money market accounts, which could be called back at any time.

YIELD

- i) Internal returns on cash investment above the 7 day LIBID rate.

The return for the six months to 30 September 2015 has averaged 0.40%, compared against an average seven day LIBID rate of 0.36%. This reflects the continued priority on ensuring cash is held in a secure and liquid form (as described in paragraph 5.2).

6.3 LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 12 February 2015 was £20.71m. It is expected that charges for 2015/16 will be lower than the budgeted figure, as no additional external debt has been undertaken to date in 2015/16. During the year so far an amount of £1.7m has been removed from this budget as approved by Executive Committee on the 18th August 2015 to mainly support the maintenance of a Treasury Reserve (£1m) and also to support the costs of the Early Retirement / Voluntary Severance packages granted. Updates on the estimates will continue to be reported as part of the revenue budget monitoring process.

ANNEX A

Indicator Reference	Indicator	Page Ref.	2015/16 Original estimate	2015/16 Revised estimate
PRUDENTIAL INDICATORS				
Capital Expenditure Indicator				
PI-1	Capital Expenditure Limits	6	58.4	50.7
PI-2	Capital Financing Requirement (CFR)	7	276.1	261.8
Affordability Indicator				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	10.0%	8.9%
PI-3	Ratio of Financing Costs to Net Revenue (exc PPP repayment costs)	N/A	8.2%	7.8%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	(0.00)	(0.50)
External Debt Indicators				
PI-5	External Debt	8	£247.3m	£225.9m
PI-7a	Operational Boundary (inc. Other Long Term Liabilities)	9	£251.1m	£239.0m
PI-7b	Operational Boundary (exc. Other Long Term Liabilities)	N/A	£196.9m	£182.5m
PI-8a	Authorised Limit (inc. Other Long Term Liabilities)	9	£323.4m	£304.0m
PI-8b	Authorised Limit (exc. Other Long Term Liabilities)	N/A	£269.7m	£242.8
Indicators of Prudence				
PI-6	(Under)/Over Net Borrowing against the CFR	8	(£37.0)	(£52.3m)
TREASURY INDICATORS				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt		£251.1m	£239.1m
TI-2	Upper Limit to Variable Interest Rates based on Net Debt		£87.9m	£83.7m
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		Lower	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	12	20%	20%

HOUSING BENEFIT OVERPAYMENT AND DEBT RECOVERY REPORT

Report by Service Director – Neighbourhood Services

AUDIT AND RISK COMMITTEE

23 November 2015

1 PURPOSE AND SUMMARY

- 1.1 This report provides further performance details of Housing Benefit overpayments and debt recovery as requested by the Audit and Risk Committee at its meeting on 11 May 2015. The report provides an update on the performance during the first half of 2015/16.**
- 1.2 The value of overpayments outstanding at the start of quarter 3 of 2015/16 was £1.5m in comparison to 2014/15 when it was £1.1m.
- 1.3 During 2013/14 and 2014/15, Scottish Borders Council (SBC) made awards of Housing Benefit totalling circa. £30m. Of this, £746,340 (2.5%) was overpaid in 2013/14. The amount overpaid increased to £1,016,215 (3.3%) in 2014/15.
- 1.4 The number and value of overpayments have increased from quarter 3 of 2014/15. This is a result of new initiatives from the DWP which allows better matching of data across organisations. This will be an ongoing practice.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

- (a) notes the comparative activity relating to Housing Benefit overpayments and debt recovery during the period 1 April 2015 to 30 September 2015;**
- (b) requests that a further performance report be brought back to the Committee in six months.**

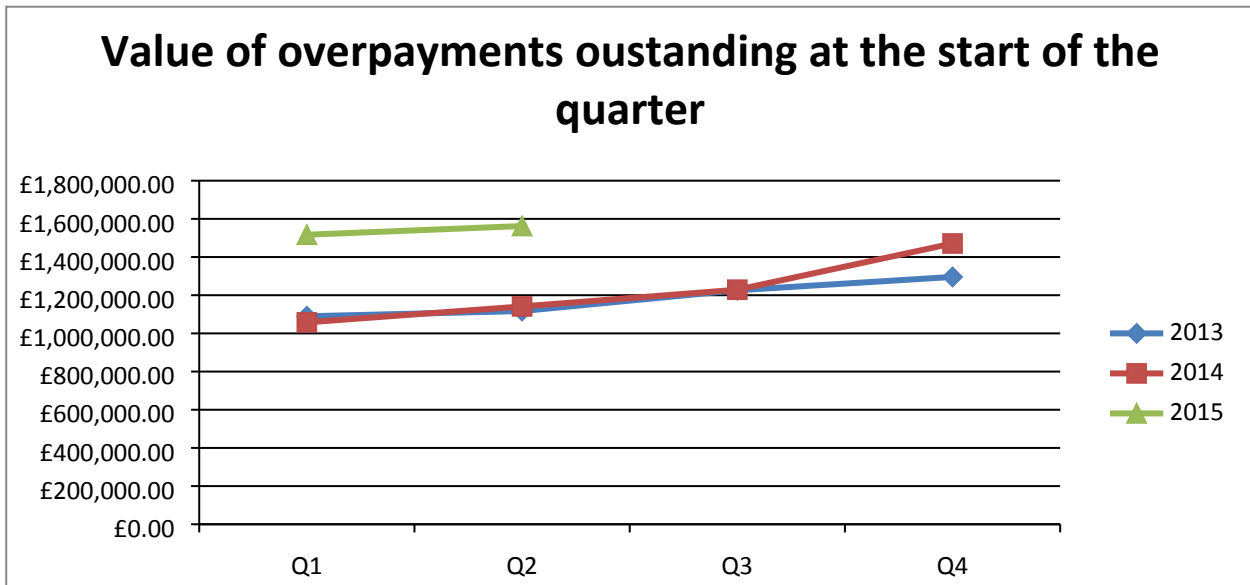
3 BACKGROUND

- 3.1 Housing Benefit is administered by local authorities on behalf of the Department for Work and Pensions (DWP). Each year Scottish Borders Council (SBC) pays out Housing Benefit in the region of £30m to approximately 8,000 claimants.
- 3.2 Overpayments are created where claimants are paid benefit to which they are not entitled and are caused by a number of reasons. The main reasons are as follows:
- (a) Claimant error – this is by far the most common reason and is due to claimants either providing incorrect information at the time of their claim or by not informing the council of a change in their circumstances at the time the change occurs;
 - (b) Local authority error and administrative delay - for example not acting on a notified change of circumstances on time;
 - (c) Fraud – where benefit has knowingly been claimed based on incorrect information.
- 3.3 The value of overpayments is an indication of the level of fraud and error in the benefits system and, to protect public funds local authorities should take appropriate steps to ensure that overpayments are minimised, and that when they do occur, that recovery is sought.
- 3.4 In terms of subsidy, for the majority of overpayments, caused by claimant error, local authorities receive 40% subsidy on any overpaid benefit. However, local authorities are penalised if 'local authority error and administrative delay' overpayments are above predetermined levels set by the DWP. These are expressed as a percentage of the value of correct payments and are calculated as follows:
- (a) Less than or equal to 0.48% - 100% subsidy
 - (b) Between 0.48% and 0.54% - 40% subsidy
 - (c) Above 0.54% - nil subsidy
- 3.5 There are a number of options available for local authorities to recover overpayments. The most efficient and effective method is recovery from ongoing entitlement when the claimant is still receiving Housing Benefit. Where deductions are not an option, local authorities can pursue overpayments using a number of different methods. These include issuing an invoice, recovery from other DWP benefits or working with external debt recovery agents.

4 PERFORMANCE

- 4.1 As shown in table 1 below the value of overpayments outstanding to SBC was £1.5m at the start of quarter 1 of this year 2015/16. This is a cumulative figure covering all overpayments which have been identified over a number of years and remain outstanding.

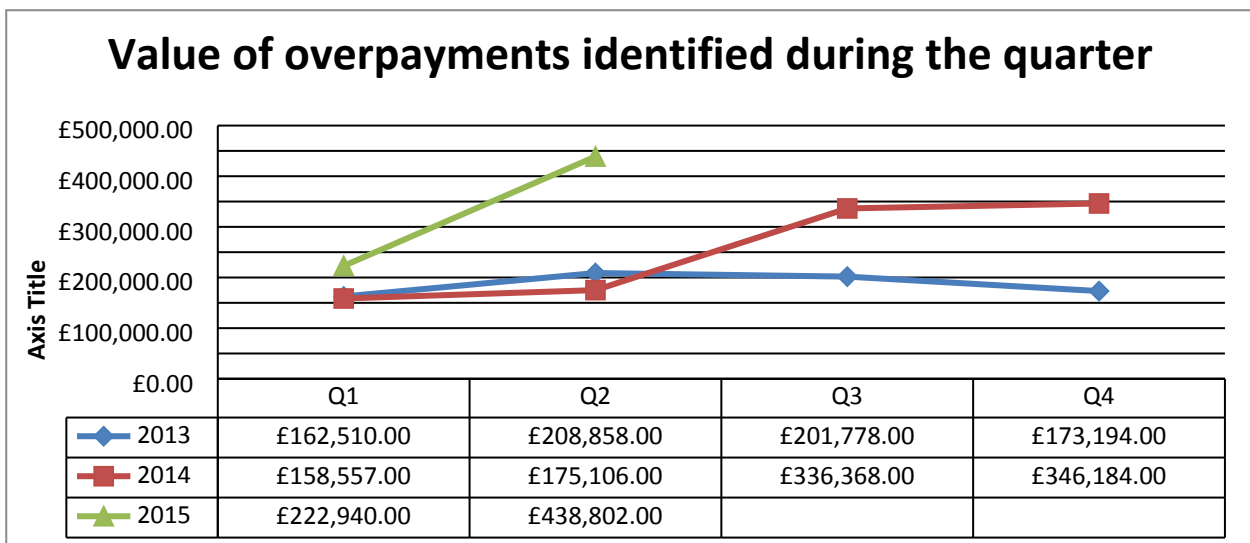
Table 1



4.2 Table 1 shows a fluctuation in the value of outstanding overpayments each quarter compared to previous years. However, table 2 below shows a significant increase in the level of overpayments identified since quarter 3 of 2014/15. This reflects the impact of a new initiative, introduced by the DWP, to improve the quality of information available to assess benefit claims.

4.3 This allows local authorities direct information on earnings and private pensions from HMRC via 'Real Time Information'. The data includes changes back to April 2013, which allows better identification of errors and potential overpayments. Once updated, it ensures that the correct entitlement is being paid to the claimant.

Table 2



- 4.4 During 2013/14, SBC made awards of housing benefit totalling circa. £30m. Of this, £746,340 (2.5%) was overpaid. The percentage of Housing Benefit overpaid during 2014/15 has increased to 3.3%.

Table 3

Year	Overpayments Identified	Overpayments Recovered	% of debt recovered in year
2013-14	£746,340	£489,979	65.7%
2014-15	£1,016,215	£522,311	51.4%
2015-16 Q1 and Q2	£661,742	£411,532	62.2%

The table above shows that SBC have recovered 62.2% of overpayments identified during the first two quarters of 2015/16. This is an increase on 2014/15.

5 BENCHMARKING

- 5.1 Every quarter, each local authority is required to provide a Housing Benefit Recoveries and Fraud (HBRF) return to the DWP. A link to the release published on 9 September 2015 for 2014/15 can be found here <https://www.gov.uk/government/collections/housing-benefit-recoveries-and-fraud-data>.
- 5.2 The data in Appendix 1 table 1 shows the value of SBCs outstanding overpayments during 2014/15 at the start of each quarter compared to other similar sized authorities. SBC is around the median level for the Councils compared. The value of overpayments created by each Local Authority fluctuates quarterly so comparisons are of limited value.
- 5.3 Table 2 reflects that during quarters 1 and 2 of 2014/15, Scottish Borders Council identified a low number of overpayments compared to other councils. This increases significantly during quarters 3 and 4.
- 5.4 The data in table 3 demonstrates that Scottish Borders Council, like other authorities, recovered a higher amount in quarter 4. This is mainly because a higher number of overpayments were created in quarters 3 and 4.
- 5.5 Table 4 shows that the net amount written off by SBC in 2014/15 was £33,000, which compares favourably with the comparator councils.
- 5.6 As detailed in Audit Scotland's report 'Review of auditors' Housing Benefit subsidy claim reported errors 2013/14' five councils in Scotland exceeded either the lower or higher threshold for local authority and administrative delay overpayments. SBCs performance relating to local authority error and administrative delay overpayments is 0.21% (15th lowest in Scotland), well below the lower threshold resulting in 100% subsidy.

6 IMPROVEMENT PLAN

- 6.1 The Council has ended its arrangement to work with an external recovery agent but will continue to work with its Sheriff Officers and the DWP to recover outstanding Housing Benefit overpayments.
- 6.2 Funding has been received from the DWP's Fraud and Error Reduction Incentive Scheme (FERIS) which will allow the Council to carry out more reviews to ensure the correct rate of entitlement is in payment. This is likely to result in more overpayments being created. DWP are extending the submission of Real Time Information direct to local authorities which is also likely to increase the number of overpayments created.
- 6.3 There has been a slight improvement in the percentage of debt being recovered each quarter in comparison to previous periods, though the Council needs to continue to monitor the effectiveness of its arrangements.

7 IMPLICATIONS –

7.1 Financial

There are no costs attached to any of the recommendations contained in this report. However, there are financial implications around the consequences of Housing Benefit overpayments as follows :

- (a) The Council receives 40% subsidy on overpayments created generally. For example, if the overpayment was £100, the Council would receive £40 subsidy.
- (b) If an overpayment is created as a result of Local Authority error, the amount of subsidy received depends on the level of Local Authority error overpayments compared to the total amount of Housing Benefit paid out.
- (c) If the overpayments created as a result of Local Authority error are less than 0.48% of the amount spent on Housing Benefit to date, 100% subsidy is paid to the Council by the DWP.
- (d) If the overpayment created as a result of Local Authority error is more than 0.54% of the amount spent on Housing Benefit to date, there is no subsidy paid by the DWP.
- (e) If the overpayment created as a result of Local Authority error is between 0.48% and 0.54%, 40% subsidy is paid by the DWP.
- (f) If the overpayment IS partially or fully recovered for any of the above, this income is retained by the Council.

If the Council Housing Benefit overpayments are not recovered effectively, this could result in budget shortfalls. The exact impact of these possible shortfalls cannot be quantified at this point in time.

7.2 Risk and Mitigations

- (a) As the rollout of Universal Credit (UC) continues, the number of new overpayments is likely to gradually reduce until a bulk transfer of claims takes place. In which case the level of new overpayments will reduce significantly. An alternative route of collection from UC (which will be at a lower rate) will be required where Housing Benefit is no longer in payment. This means the level of overpayment recovery may slow down as sundry debtor accounts will be issued rather than automatic deduction from ongoing Housing Benefit entitlement.

7.3 Equalities

There are no adverse equality implications.

7.4 Acting Sustainably

There are no economic, social or environmental implications.

7.5 Carbon Management

There are no effects on carbon emissions.

7.6 Rural Proofing

This is not a new or amended policy or strategy.

7.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to the Scheme of Delegation required.

8 CONSULTATION

- 8.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and any comments received have been incorporated into the final report.

Approved by

Signature

Name Jenni Craig
Title Service Director – Neighbourhood Services

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Background Papers: None

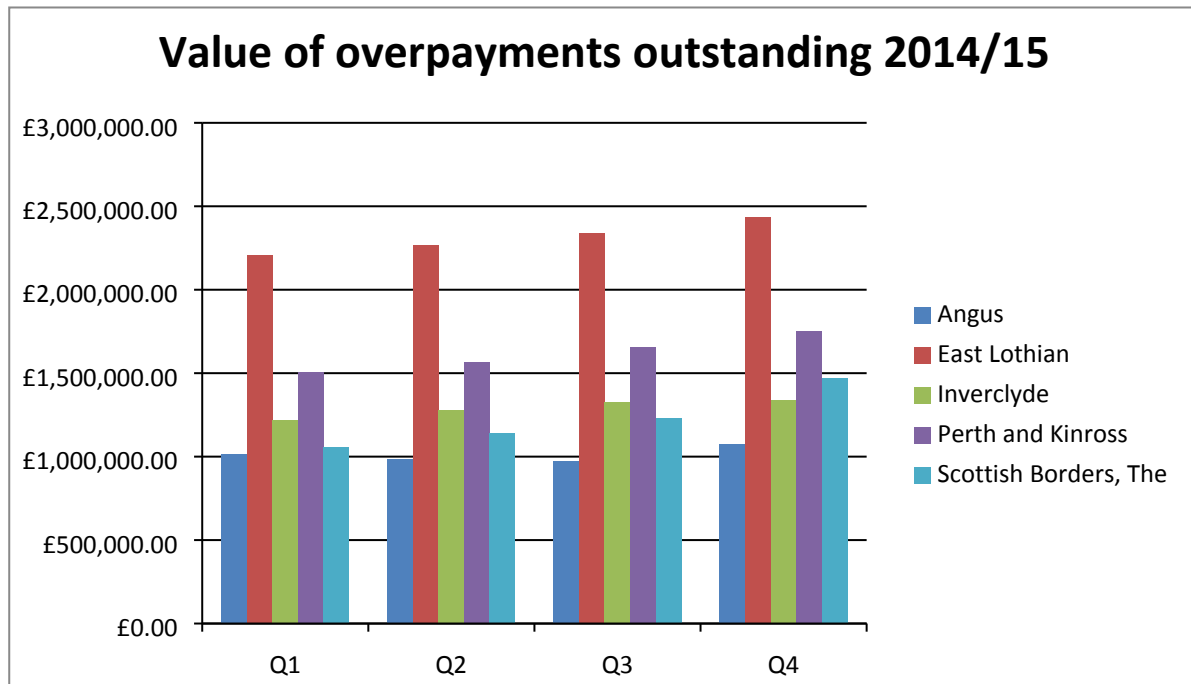
Previous Minute Reference: Item 8, 11 May 2015 Audit and Risk Committee

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Gary Murdie can also give information on other language translations as well as providing additional copies.

Contact us at Scottish Borders Council, Customer Services Development Team,
Council Headquarters, Newtown St Boswells, TD0 6SA

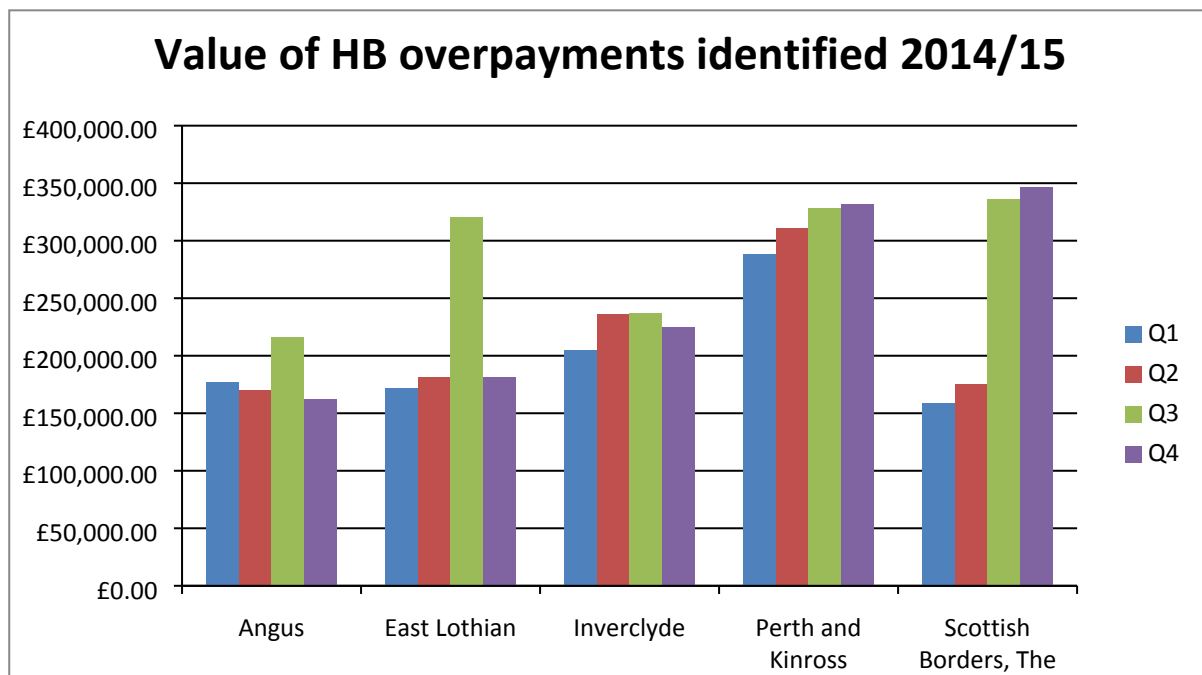
Appendix 1

Table 1



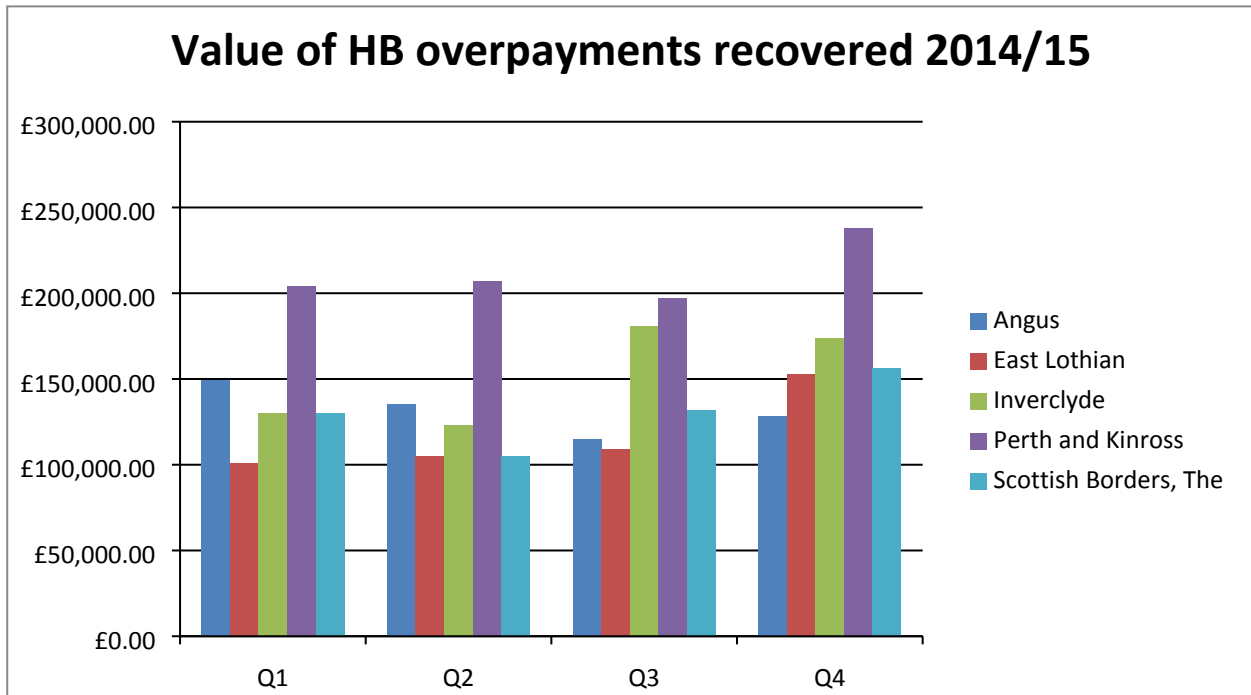
(Source - HB recoveries and fraud data: April 2013 to March 2014)

Table 2



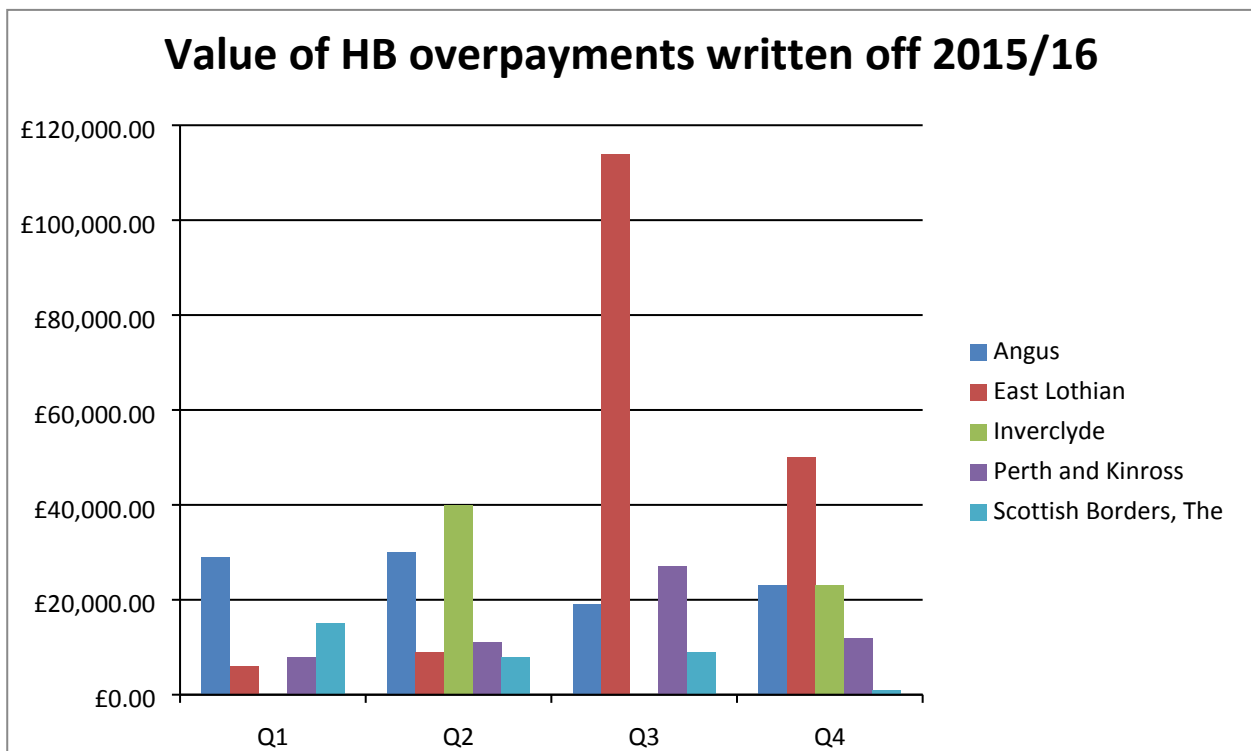
(Source - HB recoveries and fraud data: April 2013 to March 2014)

Table 3



(Source - HB recoveries and fraud data: April 2013 to March 2014)

Table 4

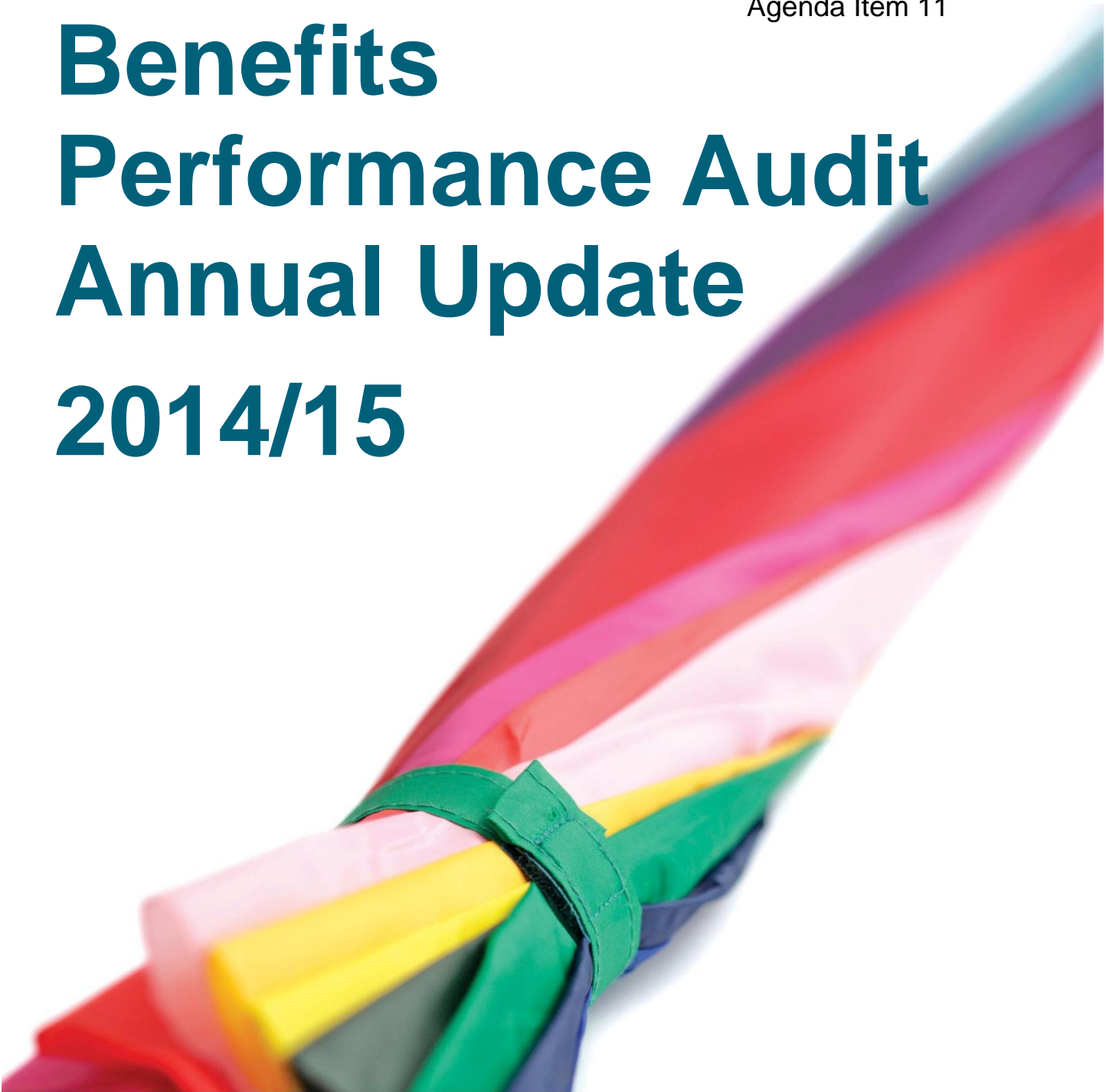


(Source - HB recoveries and fraud data: April 2013 to March 2014)

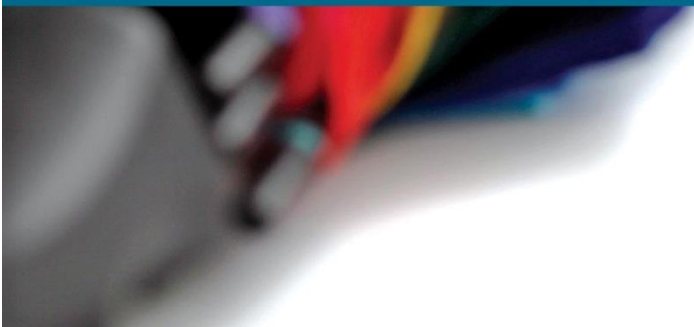
NB - Where there is no data, the Local Authority has not reported any write offs or has reported a very small amount of write offs during that quarter.

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Benefits Performance Audit Annual Update 2014/15



Prepared for The Accounts Commission
June 2015



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

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Purpose

1. This report provides a summary of the performance audit work carried out by Audit Scotland on Scottish council's housing benefit (HB) services during 2014/15.

Key messages

2. During 2014/15 we visited 10 councils and identified 70 risks to continuous improvement with councils accepting all of these risks. We found 83% (86% in 2013/14) of risks identified during previous risk assessments had been either fully or partially addressed. Council feedback on the audit process remains positive.
3. However, we found that business planning and performance reporting is weak in a number of councils. We appreciate that the delay and uncertainty around the roll-out of Universal Credit (UC) has made it difficult for councils to plan ahead. However, despite this, some HB services could do better. We also identified that accuracy checking and intervention activity in some councils could be improved by being more focused on high risk areas.
4. We have found that despite the number of HB claims having increased when compared with the position six years ago and the decrease in administration grant funding from the DWP, where benefit services are well managed they can deliver value for money and high quality services for claimants.
5. Looking forward, UK Government welfare reforms continue to have a significant impact on councils. UC continues to be rolled out across Scotland for the most straight forward claims. The rollout is being carried out in four tranches which will result in all Scottish councils having some of their local residents claiming UC by April 2016. The majority of existing HB claims are due to migrate to UC during 2016 and 2017. However, there remains uncertainty around the specific timing of the migration of HB to UC.
6. The Department for Work and Pensions (DWP) roll out of its Single Fraud Investigation Service (SFIS) has seen 19 Scottish councils already transferring their responsibility for investigating benefit fraud, and in many cases their fraud investigators, to SFIS. The DWP plans to have all councils transferred over by March 2016.

Background

7. In Scotland, one in five eligible households received financial support to help pay for their rent during 2014/15 in the form of means tested HB. Scottish councils paid out £1.74 billion in HB awards in 2014/15. This represents a 2% decrease from 2013/14.
8. Between November 2008 and February 2015, there has been a 12% increase in HB claims in Scotland. However as discussed later at paragraph 26, the increase in claims has not been constant.
9. Councils received £29.5 million (£40.83 million in 2013/14) in funding from the DWP to deliver HB services in 2014/15. The reduction in funding in 2014/15 is due to a 10% efficiency saving and disaggregation from 2014/15 onwards of the joint HB and Council Tax Benefit (CTB) funding following the abolition of CTB in April 2013.
10. The main objective of the benefit performance audit is to help councils improve their benefit services but it also holds councils to account for any failing services. The audit has two phases:
 - a risk assessment phase that identifies risks to continuous improvement
 - a focused audit phase that examines the service, or parts of it in more detail if a council is unable, or unwilling to address key risks identified in phase one.
11. Risk assessment reports are provided to council Chief Executives who are invited to prepare an improvement plan detailing the actions with associated timescales that they will take to address identified risks. These reports are also copied to the DWP to provide assurances over how Scottish councils are performing.
12. When a focused audit is required the Controller of Audit prepares a report to the Accounts Commission. Focused audit reports are provided to council Chief Executives and are also copied to the DWP and published on the Audit Scotland website.

Work carried out during 2014/15

13. We revised our risk based model to ensure that the councils representing what we considered to be the highest risk were visited. Appendix A contains the details of the ten risk assessment visits that were planned and completed during 2014/15. No focused audits were carried out.
14. Following receipt and review of council improvement plans to address the risks identified in our risk assessment reports, progress reports were requested from nine councils. Eight progress reports relate to risk assessment reports issued in 2013/14 as detailed in Appendix B.
15. To date, progress reports have been received from all councils with the exception of East Renfrewshire and West Lothian Councils which are due to report back to us at the end of July 2015. Action taken to address risks was considered to be satisfactory in all updates received.
16. In line with Audit Scotland's objective of identifying and sharing good practices, two thematic studies were undertaken during 2014/15.

The impact of welfare reforms on council rent arrears in Scotland

17. A review was undertaken of council tenant rent arrears in order to determine the extent to which the removal of the spare room subsidy (RSRS) and other welfare reforms have impacted on rent arrears in Scotland.
18. The report highlights that in 2012/13 the value of current tenant rent arrears for all Scottish councils was £28.2 million which represented an increase of approximately 16% on 2011/12 levels. Following the introduction of the RSRS, rent arrears increased further to £35.1 million by 31 March 2014, which represents an increase of approximately 24% on 2012/13 levels.
19. Looking forward, future reforms such as UC, direct payments to claimants, and the fact that many households are, or might be affected by more than one welfare reform change, are likely to make rent collection even more challenging.

Review of housing benefit subsidy errors in 2013/14

20. A review was undertaken of the issues identified by auditors during the certification of the 2013/14 HB subsidy claims. Auditors identified errors which resulted in subsidy being over-claimed by £0.274 million, which represents 0.01% of expenditure (£0.149 million in 2012/13).

In addition, five councils were unable to claim a total of £0.784 million (£0.809 million in 2012/13) in subsidy as a result of exceeding the pre-agreed DWP threshold limits for local authority error and administrative delay HB overpayments.

21. Auditors reported 60 errors and other issues in their 2013/14 certification letters in respect of 19 of the 32 Scottish councils. No issues were identified in the certification of the remaining 13 subsidy claims. This is an increase in the number of issues reported in 2012/13 where auditors identified 40 errors across 20 councils.
22. Most errors identified were in the calculation of claimant income and with the classification of overpaid HB. Auditors reported that, in order to help reduce subsidy loss, effective management arrangements should be in place to ensure overpayments, processing errors and administrative delays are minimised and, where they do occur, that overpayments are correctly classified and calculated.

Key issues from 2014/15 Risk Assessments

Outcomes of the risk assessments

23. Audit Scotland identified 70 risks to continuous improvement (64 in 2013/14) in the ten risk assessment visits completed in 2014/15. We are pleased to report that only one risk to continuous improvement was identified in the Scottish Borders Council.
24. Our work identified that 83% (148 out of 179) of previously agreed actions had been fully or partially implemented (86% in 2013/14).
25. Improvement plans have been received from all councils visited with the exception of East Dunbartonshire and Clackmannanshire Councils which are in the process of preparing their action plans. Analysis of the risks identified shows that:
 - 100% (98% in 2013/14) of the identified risks were fully accepted by councils
 - 22% (39/179) of agreed risks from previous risk assessments were carried forward.
26. Councils have cited resourcing issues and on-going welfare reform pressures as reasons why not all agreed actions have been implemented.

27. Between November 2008 and February 2015, there has been a 12% (48,953) increase in HB claims in Scotland. However the increase in claims has not been constant. Exhibit 1 below shows that claims peaked at a high of almost 485,000 during 2012/13 before falling from 2013/14. This trend is replicated across Scottish councils. Exhibit 2 shows the caseload increase for the ten councils we visited between November 2008 and February 2015.

Exhibit 1: Change in HB caseload in Scotland between November 2008 and February 2015

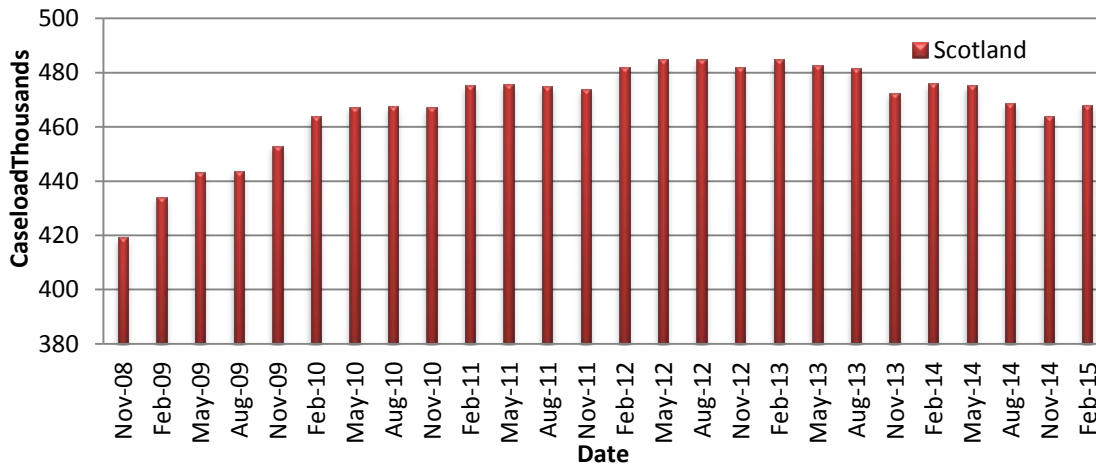


Exhibit 1: Source DWP caseload statistics November 2008 to February 2015

Exhibit 2: Caseload increase November 2008-February 2015 for the ten councils visited during 2014/15

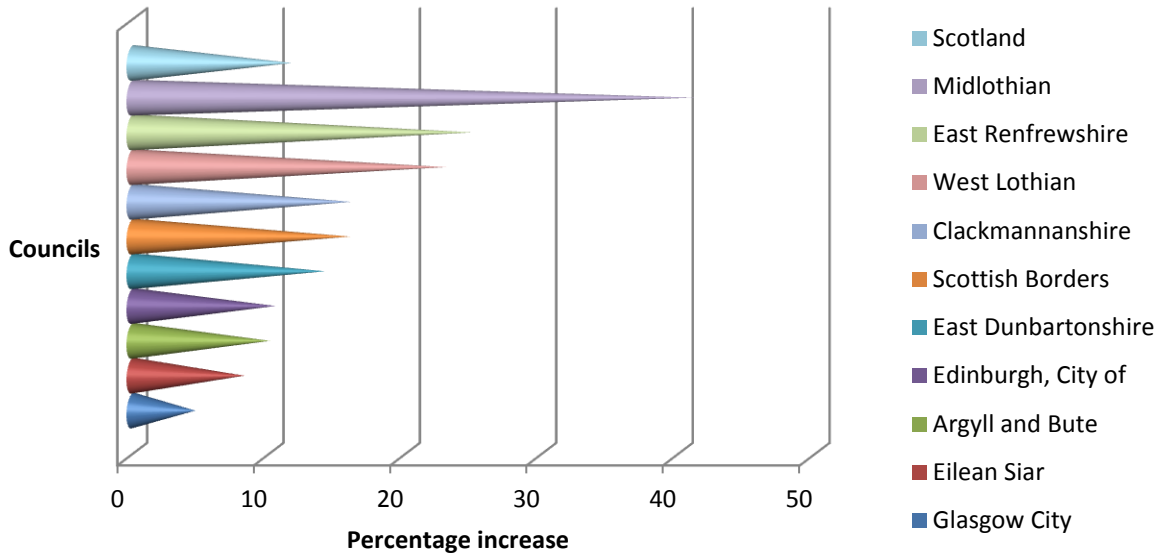


Exhibit 2 Source DWP caseload statistics November 2008 to February 2015

28. We have found that despite increasing numbers of claims over the last six years along with decreasing administration grant funding for the DWP, where benefit services are well managed they can deliver value for money and high quality services for claimants.

Good practices identified

29. A number of areas of good practice have been identified in Scottish benefit services during 2014/15. These include:

National and local priorities

30. The Scottish Borders Council has adopted a collaborative working approach to welfare reform by integrating its welfare reform programme into the local community planning process. This programme is managed by a joint delivery team comprising of senior executives from partner organisations and the council's Chief Executive.

Business planning and reporting

31. Midlothian Council provides staff with a detailed breakdown of their individual performance to ensure that each member of staff fully understands how their performance impacts the overall performance of their team, and the service as a whole.

Delivering outcomes -speed of processing

32. To maximise efficiency the Scottish Borders Council put in place a number of practices and arrangements, including the introduction of a pre-assessment function to allow assessors to focus on decision making, homeworking, and individual performance monitoring. The council also plan to implement an electronic benefits claim along with risk based verification.
33. Argyll & Bute Council use a performance management tool to help the service identify and analyse 'waste' in the claims process. The 'waste' report includes a review of the time taken to allocate claims for processing, and the verification of claims.
34. In order to improve speed of processing, Midlothian Council
 - improved its claim indexing process
 - reviewed evidence requirements
 - introduced a fast-track service
 - provide training on evidence standards to key internal and external stakeholders.
35. Comhairle nan Eilean Siar has introduced the closure of the benefits offices to the public each Wednesday and an appointment system at all other times to allow staff to process claims uninterrupted.
36. The City of Edinburgh Council has put in place several initiatives to improve processing speed including:
 - the ongoing use of temporary agency staff when required
 - a contract with an external provider for off-site processing
 - the recruitment of additional staff on fix term contracts to help sustain the service until the roll out of UC
 - an arrangement where a benefit processor works in three housing associations offices
 - introducing Risk Based Verification for new claims and for changes
 - the implementation of a fully integrated e-form for new claims.

Accuracy

37. The City of Edinburgh Council's accuracy checking includes pre and post payment random sampling of individual cases, targeted reviews of certain processes and reviews of individual officer's processes. As part of the council's performance development process, all processing staff have an accuracy target and all errors are fed back to the individual staff member and their team manager. Where performance is below target a support and monitoring process begins.
38. East Renfrewshire Council's checking process consists of a daily check of cases randomly selected from a benefit IT system report and a benefit audit check form is completed in each case. Outcomes are recorded and analysed in order to help identify patterns of error. Where recurring errors are identified remedial training is carried out.
39. Glasgow City Council has a number of initiatives in place to improve accuracy performance. These include:
 - staff recording errors found when processing claims on a log which is reviewed to identify patterns of error and areas where remedial training could be beneficial
 - providing staff whose accuracy rate falls below target with dedicated support and training.

Overpayments

40. To reduce overpayments from occurring, Glasgow City Council has a benefit officer co-located in four Glasgow Housing Association (GHA) offices and an IT interface automatically suspends benefit claims when GHA tenants change address.
41. As a result of these initiatives the value of GHA tenants' overpayments outstanding reduced significantly from £286,670 at October 2013 to £57,345, at October 2014. This is a reduction of approximately 80% which is highly commendable.
42. The Scottish Borders Council tries to minimise overpayments through analysis of overpayment causes to identify changes to working practices to help reduce future occurrence, checking BACS payments over £500 and monthly monitoring of all overpayments as part of the budget monitoring.
43. East Renfrewshire Council is one of the first councils in Scotland to use the decree certification process to recover overpayments. This means the council can apply for the arrestment of customers' wages, freeze funds in customers' bank accounts and petition for bankruptcy proceedings against the customer.

44. Argyll & Bute Council has entered into a contract with an external provider to pursue debt that is difficult to recover. It is also one of the first councils in Scotland to use Direct Earnings Arrestment (DEA) as a means of recovering benefit overpayments.

Areas for improvement

45. Audit Scotland has identified that improvement is required in the following key areas:
- Business planning and performance reporting weaknesses have been identified. Specifically, either targets are not set for all areas of the service and/or there is limited reporting to senior management in respect of all areas of the service. We appreciate that the delay and uncertainty around the roll-out of UC has made it difficult for councils to plan ahead. However, despite this some HB services could do better.
 - Cases selected for quality checking are selected without a focus on higher risk cases. While in most instances processes are in place to record the results of quality checks, the results are not analysed to a level to inform a risk based approach to checking, either by officer or claim type.
 - Intervention approaches need to be reviewed in many cases to ensure they are effectively and efficiently focused on identifying unreported changes and errors. Analysis of the outcomes from interventions activity is not to a level that would enable the easy identification of trends and to help inform any future intervention programme targeted on risk.
 - There is limited assurance in a number of councils that the value of overpayments raised, recovered and outstanding is being accurately recorded and reported.

Stakeholder feedback

46. Feedback questionnaires are issued to benefit managers after each risk assessment. The questions are designed to gain assurances over whether the audit methodology and documentation are effective and to look for areas which can be improved. During 2014/15, we received replies from nine councils.
47. Overall the responses were positive and provided assurance that the audit methodology is fit for purpose and proportionate. The following comments help illustrate these responses:

- "This has forced us to take a step back from the detail and refocus on better ways of doing things. The audit process helps to focus on high risk areas and to take action to improve processes and make relevant changes."
 - "The audit had a positive impact in the transparency of reporting and governance and financial management of the service. The Performance Management Framework and performance reporting have been reviewed following the risk assessment."
 - "The auditor was very knowledgeable about benefits."
 - "We felt there was recognition and appreciation of the various challenges faced by housing benefit services."
48. Whilst the majority of the responses were positive not every council found the process to be so. Particular concerns raised were:
- "A minor improvement would have been to put more emphasis on the fact that performance was showing sustained recovery and more recognition of the efforts of the workforce to affect recovery."
 - "There could have been increased flexibility in terms of audit approach and reporting and more focus on "now" and future direction."
49. Audit Scotland has taken these comments on board in the planning and delivery of risk assessments. We give councils as much notice as possible of risk assessments. We also try to concentrate on the challenges facing each council and how they respond to those challenges. We continue to share copies of all our risk assessment plans and reports with DWP.
50. We will also continue to monitor our approach going forward in conjunction with the DWP through quarterly meetings between the Manager, Benefits-Technical and senior officers in the DWP's Housing Delivery Division.

Welfare reform

51. Scottish councils continue to work with partners to implement changes to help deliver the UK government's welfare reform agenda. During 2014/15 UC has continued to be roll-out in the Inverness Jobcentre area where single claimants have claimed UC since November 2013. This has expanded with claims from couples going live in June 2014 and claims from families going live in January 2015. Highland Council has been providing personal budgeting support, digital access, housing cost knowledge, and advice and support to claimants. So far over 200 Highland Council HB claimants have moved over to UC. In the Inverness area 90% of UC

claims have been made online, although this may include claims completed with the support of council or Jobcentre Plus officers.

52. The rollout of UC across Scotland began from February 2015 for single people who would otherwise have been eligible for income based Jobseeker's Allowance, including those with existing HB and Working Tax Credit claims. The rollout is being carried out in four tranches which will result in all Scottish councils having some of their local residents claiming UC by April 2016.
53. Indications from councils are that some UC claimants are in arrears with rent payments. However accurate information is not available due to:
 - new UC claimants not receiving their first payment until five weeks after claiming
 - arrears statistics not showing an aged debt analysis, and whether or not the debtor is claiming UC.
54. The Smith Commission proposals to allow the frequency of UC payments to be changed and to make direct payment to landlords may help keep rent arrears minimised.
55. New claims to legacy benefits such as HB are expected to be closed from 2016 with the migration to UC to follow thereafter. However uncertainties remain which make it difficult for councils to plan effectively.
56. The latest information from the DWP states that the majority of the HB caseload will migrate to UC during 2016 and 2017 although no detailed migration plans are in place. This planned migration will not include HB claims for customers who have reached the age to qualify for Pension Credit, HB customers in receipt of Employment Support Allowance (ESA) or customers living in supported or specified accommodation. These customers are expected to remain with councils until after 2017.
57. The DWP has been rolling out its Single Fraud Investigation Service (SFIS) since July 2014. So far, 19 Scottish councils have transferred their responsibility for investigating benefit fraud, and in many cases their fraud investigators, to SFIS. The DWP plans to have all councils transferred over by March 2016. Councils should ensure sufficient resources are in place to investigate non-benefit fraud such as council tax reduction fraud, tenancy fraud and other corporate fraud.

Appendix A – The 2014/15 risk assessment programme

Date on site	Council	Date reported
May 2014	Argyll & Bute	August 2014
May 2014	Scottish Borders	June 2014
July 2014	Midlothian	October 2014
July 2014	Comhairle nan Eilean Siar	October 2014
November 2014	West Lothian	February 2015
October 2014	East Renfrewshire	January 2015
January 2015	Glasgow City	March 2015
January 2015	City of Edinburgh	March 2015
March 2015	Clackmannanshire	Report issued to Chief Executive in May 2015. Currently awaiting the council's improvement plan
March 2015	East Dunbartonshire	Report issued to Chief Executive in May 2015. Currently awaiting the council's improvement plan

Appendix B – Progress reports requested during 2014/15

Council	Date progress report received/expected	Conclusion on action taken to address risks
South Ayrshire Council	April 2014 January 2015	Updates received and satisfactory progress made. A full risk assessment is planned for 2016
City of Edinburgh Council	April 2014	Update received and satisfactory progress made. A full risk assessment was carried out in 2014/15.
West Dunbartonshire Council	April 2014	Update received and satisfactory progress made.
Aberdeen City Council	August 2014	Update received and satisfactory progress made.
Perth & Kinross Council	November 2014	Update received and satisfactory progress made.
Falkirk	November 2014	Update received and satisfactory progress made.
East Ayrshire Council	April 2015	Update received and satisfactory progress made.
East Renfrewshire Council	July 2015	
West Lothian Council	July 2015	