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AUDIT AND SCRUTINY COMMITTEE MONDAY, 13 MAY 2019

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COMMITTEE ROOMS 2 & 3, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 13 MAY 2019 at 10.15 am.

As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting. The primary focus of the Informal Session will be to consider and agree the annual self-assessments for the Committee to enable preparation of the Committee's Annual Report 2018/19.

J. J. WILKINSON,
Clerk to the Council,

7 May 2019

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
AUDIT & SCRUTINY BUSINESS		
4.	Minute (Pages 5 - 10) Minute of Meeting of the Audit and Scrutiny Committee held on 18 April 2019 to be approved and signed by the Chairman. (Copy attached).	5 mins
5.	Action Tracker (Pages 11 - 12) To note progress made on the Action Tracker. (Copy attached).	5 mins
AUDIT BUSINESS		
6.	Property and Estate Assurance Report (Pages 13 - 26) Consider a report by Service Director Assets and Infrastructure which provides an update on various matters which have had implications for the Council's operational property portfolio. (Copy attached).	20 mins
7.	Local Government Challenges and Performance 2019 (Pages 27 - 86) Consider the national performance report by Audit Scotland of relevance to Local Government on "Local Government Challenges and Performance 2019" published on 21 March 2019 designed to share best practice and lessons learned, which sets out recommendations and includes a scrutiny	15 mins

	toolkit for Councillors. (Copies attached).	
8.	Internal Audit Work to March 2019 (Pages 87 - 102) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit to complete the Internal Audit Annual Plan 2018/19, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements. (Copy attached).	10 mins
9.	Risk Management Annual Report 2018/19 (Pages 103 - 108) Consider report by Chief Officer Audit and Risk on progress made to deliver the Council's Risk Management Strategy 2018 including an update on agreed Improvement Actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. (Copy attached).	15 mins
10.	Counter Fraud Annual Report 2018/19 (Pages 109 - 116) Consider report by Chief Officer Audit & Risk on the Council's counter fraud responsibilities and the progress made to deliver the Council's Counter Fraud Strategy 2018 including an update on improvement actions to refine the arrangements to tackling fraud at the Council. (Copy attached).	15 mins
11.	Internal Audit Annual Assurance Report 2018/19 (Pages 117 - 128) Consider report by Chief Officer Audit & Risk on the annual assurance and audit opinion to Management and Audit and Scrutiny Committee arising from Internal Audit activity in completing the Internal Audit Annual Plan 2018/19. (Copy attached).	20 mins
12.	Scottish Borders Council Annual Governance Statement 2018/19 (Pages 129 - 138) Consider the draft Annual Governance Statement 2018/19 by the Chief Executive for inclusion in Scottish Borders Council's Statement of Accounts 2018/19. (Copies attached).	15 mins
13.	Any Other Audit Items Previously Circulated.	
14.	Any Other Audit Items which the Chairman Decides are Urgent.	
	SCRUTINY BUSINESS	
15.	PRIVATE BUSINESS Before proceeding with the private business, the following motion should be approved:- "That under Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in the relevant paragraphs of Part 1 of Schedule 7A to the aforementioned Act."	
16.	Minute (Pages 139 - 140) Private section of Minute of meeting held on 18 April 2019 to be approved and signed by the Chairman. (Copy attached).	2 mins
17.	Any Other Scrutiny Items Previously Circulated.	

18.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	
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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 S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, E. Thornton-Nicol, S. Scott, M Middlemiss and H. Barnett

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**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chamber, Council Headquarters, Newtown St Boswells on Thursday 18 April at 10.00 am

Present:- Councillors S Bell, (Chairman), H. Anderson, K. Chapman, S. Hamilton, J. Fullarton, N. Richards, E. Thornton-Nicol, S. Scott

Apologies:- Councillors H. Scott, Ms H Barnett, Mr M. Middlemiss.

In Attendance:- Mr G Samson – Audit Scotland, Principal Internal Auditor, Clerk to the Council, Trainee Democratic Services Officer.

1. WELCOME AND INTRODUCTIONS

The Chairman welcomed those present to the meeting and introductions were made.

SCRUTINY BUSINESS

2. INTRODUCTION OF SPEED BUMPS IN LANGLEE DRIVE

2.1 There had been circulated copies of an extract from the Audit and Scrutiny Committee Petitions procedure. The Chairman gave a reminder of the Petitions procedure to be followed at the meeting, highlighting the options available to the Committee. The Chairman welcomed Mrs Elspeth Johnston, Lead Petitioner, who was in attendance to present a petition on the introduction of speed bumps in Langlee Drive and who was accompanied by Mr Albert Cruikshank. Mrs Johnson gave further information in support of the supporting statement in the Petition, advising that 260 children attended Langlee Primary School, including her 2 grandchildren, and they were intimidated by speeding cars using Langlee Drive, which was the main access road to the Primary School. While the SBC survey showed an average speed of 18mph, this did mean that some cars were driving in excess of this. Braking distances increased exponentially with increased speed and it was felt that the only thing that would work would be the installation of speed bumps as accident prevention measures. The proposed speed bumps would help curtail the speeding of cars along this narrow residential area. Mrs Johnston made reference to the development of children's perceptual ability and judgement of distances, commenting that there should be no price on a child's life. Mr Cruikshank added that this had been an ongoing issue and he had been in communication with Scottish Borders Council for 4 years and he had also communicated with MP John Lamont, who had campaigned on their behalf and the issue had been reported in the local press and on local radio. The 20's plenty and cardboard pop up police officer were frequently ignored and were no longer effective on this one-way street. He further explained that young drivers were rushing to get to school along this one-way road, which had a straight stretch for 300 yards. Cars were parked diagonally so there were also issues with cars reversing out of spaces into oncoming traffic. Mr Cruickshank then passed round a photograph of the type of speed bump the petitioners wished to have installed, which were rubber and bolted to the road surface. The Chairman assured the petitioners that the Committee and the Council took child safety very seriously and he summarised the main points put forward by the petitioners: appropriate signage installed; reduced speed limit; installation of speed bumps; enforced speed restrictions on both Langlee Road and Melrose Road;

and an increased Police presence in the area at peak times. Members asked various questions of the petitioners to gain further clarification on the points raised.

- 2.2 There had been circulated copies of a presentation by the Service Director Assets and Infrastructure, Mr Joyce, and the Team Leader for Traffic and Road Safety, Ms Philippa Gilhooly. Ms Gilhooly explained that the road had been surveyed a number of years ago with the involvement of parents. The Safer Schools Team had worked with Langlee Primary School to encourage more walking to school over a period of many years and most recently the school had signed up to a walking initiative. The existing traffic calming features and initiatives included extending the radius of footways to improve the crossing at the school entrance and to slow vehicles. Ms Gilhooly reported that a Twenty's Plenty sign; echelon parking; school sign and plate; and stop, look and listen crossing mats had been included along Langlee Drive as well as a flat topped speed hump at the crossing point at the school access. The Safer Routes to School process included parents, Community Councils and the Police. Ms Gilhooly further reported that the zebra crossing on Melrose Road had been replaced with a Puffin light controlled crossing, the school crossing patrol was retained, and a part time 20mph speed limit was also in place. There was also a multi-coloured fence in place to indicate to drivers that a school was close by.
- 2.3 Ms Gilhooly went on to explain that traffic surveys had been carried out and showed general compliance with advisory Twenty's Plenty signs, and the low average and 85%ile speeds were to be welcomed, and would be welcomed at other school locations. Large scale traffic calming measures using speed humps had been constructed in other areas more than 15 years previously and smaller scale ones had been installed at a limited number of schools since then. A second flat topped speed hump and build-out at a revised crossing point to the school entrance was planned to be installed in the future. The presentation given showed clear data from Tracsis plc traffic and data services which highlighted traffic flows and speed of vehicles in this area with an average speed of 18mph. It was also noted that zero reported injury accidents were on record since 2003. Having spoken with Police Scotland a few times, Ms Gilhooly advised that they had not indicated any concerns about traffic speeds in Langlee Drive. Mr Joyce confirmed that the planning application for the new school at Langlee would have taken account of traffic and included any off-site road works as part of the conditions for the build and no such conditions had been put in place. Ms Gilhooly further advised that the rubber speed bumps being proposed by the petitioners were only for use in car parks as they were unfortunately not suitable for use on public roads as they were not robust enough and had a limited life span. The flat topped speed hump would be the better option. Discussions had taken place with Langlee Primary School as children were now using a different access point to the school than had been originally envisaged. Ms Gilhooly also suggested that moving the parking from the right hand side of the road to the left may help with some of the concerns of the petitioners over children running out from the grass verge. Residents could be asked their opinion on this change. In response to questions from Members, Ms Gilhooly advised she would be happy to pass on the data to the community; the Twenty's Plenty signs had been part of a programme from a few years ago; police were targeting resources where they were most needed and 20mph zones were not where accidents were happening. Mr Joyce confirmed that putting in a second flat top speed hump reflected the actuality of the entrance to school most used by children and was not in response to speeding concerns in the road.
- 2.4 Members of the Committee discussed the information which had been provided at the meeting and made reference to the enforcement of the 20mph speed limit. Ms Gilhooly reported that the Restricted Roads (20 mph Speed Limit) (Scotland) Bill was currently going through Stage 1 in Parliament and officers were waiting on that outcome. Langlee Drive would be covered by the 20mph zoning if the Bill became law. Members appreciated the frustrations of the petitioners and had some concerns over the vehicles that chose not to adhere to the speed limit, but overall were content by the number of vehicles within the speed limit, it being evident from the data that only one vehicle had been over the limit. In response to the Members' suggestion made on the presence of the

Police Community Action Team (CAT) at peak times and to work in this area to improve some of the issues the community were facing, it was noted that Ms Gilhooly would approach them to see if this would be feasible. Members then discussed the matter of communication with the community and how the Department managed this. It was the responsibility of parents to get their children to and from school safely, and there was a footway which children could use on one side of Langlee Drive. In response to a question about what would officers consider a safe speed, Mr Joyce confirmed that this was a difficult question to answer as injury incidents were significantly better at 20mph but there had been no recorded accidents in Langlee Drive since 2003. In the survey data, 1 in 5 vehicles were travelling at more than 20mph (16 out of 71) but that in itself did not cause undue alarm. Parking on the angle narrowed the road and slowed down traffic.

- 2.5 The petitioners expressed concern that the 2nd speed hump being located close to the school would not help slow traffic from the entrance to Langlee Drive which is where speeding took place. However, the site for the most recent survey of traffic had been requested by the community and that was where the data had been provided for the meeting. The speed bump was close to the school to offer children a safer crossing point to school from the footway. The petitioners again expressed concern that children did not always stay on the footway where it was safe. Members discussed the options available to them and considered the data output from the surveys, the concern of the petitioners, and what the Department could do to alleviate these concerns, taking account of the road layout and the resources available. The Chairman then advised the Committee Members of their options in response to the petition: to refer the petition to another Committee or Director for final decision; to refer the petition to a relevant Community Planning Partner; or that the issue(s) raised did not merit or did not require further action. The Chairman clarified the main points raised and thanked the petitioners and officers for their attendance and the comprehensive clear presentation that was provided to the Committee.

DECISION

AGREED to refer the petition to the Service Director Assets & Infrastructure, who would consider:

- (a) what improvements could be made to Departmental communications with communities about road issues, sharing the data from traffic surveys, and proposals for any changes to road architecture;**
- (b) investigating the opportunity for a mandatory 20mph speed limit being applied in Langlee Drive on either a temporary or permanent basis;**
- (c) the Police CAT monitoring speeds on Langlee Drive at peak times;**
- (d) the community being asked about changing the parking from one side of Langlee Drive to the other; and**
- (e) a further meeting with the community to explain the location of the 2nd speed bump and to ascertain if there were any other measures the Department could put in place to assist with road safety.**

3. HEALTH & SOCIAL CARE INTEGRATION UPDATE

- 3.1 With reference to paragraph 11 of the Minute of 14 May 2018, the Chairman welcomed Mr Robert McCulloch-Graham, Chief Officer Health and Social Care Integration, to the meeting who was in attendance to provide Members with a greater understanding on how the Health and Social Care Integration Joint Board (IJB) was delivering its Strategic Plan to improve the lives of Borderers and meet the growing demands in the care sector. Mr McCulloch-Graham began by informing the Committee that the Interim Chair of NHS Borders Board was Non-Executive Director Karen Hamilton, and the new Chief Executive of NHS Borders was Ralph Roberts who was due to take up the post on Monday 22 April

2019. Mr McCulloch-Graham updated Members on the identified challenges facing the Health and Social Care Partnership which included an increase in the population in the Borders, an increase in the complexity of cases being presented, and the reduction in available resources, with difficulties in balancing the budget. More people were accessing Primary Care (GPs) and presenting at hospital; admissions were more complex and therefore patients were remaining in hospital for longer; more care at home was required; and more care home places were also required. Mr McCulloch-Graham explained the governance of the Integrated Joint Board (IJB) and how funding under Delegated Funds and Set Aside Fund was allocated differently at a local level in the Scottish Borders and nationally, an example being that Palliative Care may or may not be included in this Set Aside Fund. The process for the Discharge to Home Service was now across the five localities and numbers had increased with the STEP down facilities at Garden View (Craw Wood) and Waverley improved. Work was ongoing to put savings in place to close the budget gap. There had been challenges during the previous winter period through significant delays and cancellations although due to the partnership working this year this had substantially improved and the joint winter plan had worked well. Mr McCulloch-Graham went on to explain how integrated services were provided and funded under the headings of Community Health Services, Acute Health Services provided in a hospital and Adult Social Care Services. Mr McCulloch-Graham reported that SB Cares and the NHS were working closely within the partnership with a consultation firm called Meridian now in place to look at improvements in processes. There had been a particular challenge around nursing care and the Council had helped to purchase beds at Queens House in Kelso. The question was how to make the best use of health care services in communities. A new system had been trialled at The Knoll, using a consultant from the BGH and nurse practitioners, with the rest of the Community Hospitals supported by GPs. The whole essence of the Health and Social Care partnership was to shift from acute to community based services, and there was a need to have a fundamental look at how health was managed in the Borders. The Primary Care Improvement Plan, led by GPs, was being introduced, with the intention being to support GPs work and adopt different models of triage going forward. Scottish Government was happy with progress made to date although there were some issues to resolve.

- 3.2 Members raised a number of questions, in particular around delayed discharges and lack of transport. Mr McCulloch-Graham advised that transport was reliant on the ambulance service and there was some funding of voluntary transport services. Some delayed discharges had been due to lack of transport at the weekends and SB Cares had brought in a vehicle/driver to assist. Issues still remained with transport and this was being worked on within the partnership. Rurality was an issue in the Borders but had not impacted on the recruitment of GPs in the Borders, although there were difficulties in recruiting nurses and care staff to work in residential and private homes. Some nursing homes were changing to residential care homes. Most of the GP practices in the Borders were individual companies but the property was owned by NHS. With regard to delayed discharges, the measure for these had changed and there had been a 10% improvement over the last year. If that rate of improvement continued, then it would be possible to release acute beds. In response to a question from Members on pay scales and terms and conditions for NHS and SBC staff, Mr McCulloch-Graham advised that the differences still existed as the IJB was not an employer. NHS and SBC mental health and learning disability had been operating as joint services for 8 years, but they were still using separate IT systems, etc. although that was being worked on to try to find a solution.
- 3.3 Further discussions followed in relation to the way the Borders was changing, with communities growing at different rates. Rurality was a very important factor and an example was given of physiotherapy service being hospital based when the service should be out in the community in clinics. The challenge was also around communication and ensuring the public understood the changes in services. The example was given of the recent gap in communication around proposed changes to the Day Centre provision. Mr McCulloch-Graham confirmed that only 40 clients were currently using the Day Centres and these Centres would not close until alternative provision had been put in

place for clients. The Chairman thanked Mr McCulloch-Graham for his attendance and update on the work of the partnership.

DECISION

NOTED the update.

4. **PRIVATE BUSINESS**

AGREED that under Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 9 of Part 1 of Schedule 7A to the aforementioned Act.

SUMMARY OF PRIVATE BUSINESS

5. **DELIVERY OF THE COUNCIL'S IT STRATEGY AND PLAN WITHIN SCOTTISH BORDERS COUNCIL**

The Committee noted the presentation by the Chief Financial Officer and Interim ICT Programme Manager regarding delivery of the Council's IT strategy.

AUDIT & SCRUTINY BUSINESS

6. **MINUTE.**

There had been circulated copies of the Minute of Meeting of the Audit & Scrutiny Committee held on 11 March 2019.

DECISION

APPROVED for signature by the Chairman.

7. **ACTION TRACKER**

With reference to paragraph 5 of the Minute of 11 March 2019, there had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee.

DECISION

NOTED the Action Tracker

The meeting concluded at 1.10 pm

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SCOTTISH BORDERS COUNCIL
ACTION SHEET MASTER COPY
AUDIT & SCRUTINY COMMITTEE 2018/19

Notes:-

1. Paragraphs Marked with a * require full Council approval before action can be taken
2. Items for which no actions are required are not included

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
25 June 2018				
National Performance Reports by Audit Scotland	AGREED the proposed schedule for presentation of the National Performance Reports by Audit Scotland.	Assets & Infrastructure	Service Director Assets and Infrastructure	Complete - as the Property Assurance Report is included in agenda for Audit & Scrutiny Committee on 13 May 2019.
14 February 2019				
Treasury Management Strategy 2019/20	Members also requested a further treasury management training session prior to the September meeting, Ms Stacey and Mr Robertson would liaise regarding outwith the meeting.	Finance	Chief Financial Officer	The Pensions and Investments Manager is liaising with the Council's Treasury Management Adviser to arrange a date; provisionally 25 November 2019 at Informal Session prior to considering the Mid-Term Treasury Management Performance Report 2019/20 in formal business.
Risk Management in Services – Regulatory Services	To request a further briefing session on managing information.	Regulatory Services	Service Director Regulatory Services	To be added to programme of Members briefings.
11 March 2019				

Nursery Place Discrimination in Peebles 2019 Petition	DECIDED to refer the matter to the Executive Committee and that officers prepare a report - in terms of costs, workforce and property availability – for consideration to accelerate the provision of 1140 hours of nursery provision to all eligible two year olds across the region in 2019/20.	C&YP	Chief Officer for Education	Complete as Report presented to Executive Committee on 30 April 2019.
18 April 2019				
Speed Bumps in Langlee Drive	<p>AGREED to refer the petition to the Service Director Assets & Infrastructure, who would consider:-</p> <ul style="list-style-type: none"> (a) what improvements could be made to Departmental communications with communities about road issues, sharing the data from traffic surveys, and proposals for any changes to road architecture; (b) investigating the opportunity for a mandatory 20mph speed limit being applied in Langlee Drive on either a temporary or permanent basis; (c) the Police CAT monitoring speeds on Langlee Drive at peak times; (d) the community being asked about changing the parking from one side of Langlee Drive to the other; and (e) a further meeting with the community to explain the location of the 2nd speed bump and to ascertain if there were any other measures the Department could put in place to assist with road safety. 	Assets & Infrastructure	Service Director Assets & Infrastructure	The Service Director Assets & Infrastructure to give consideration to the points raised.

PROPERTY AND ESTATE ASSURANCE

Report by Service Director Assets & Infrastructure

AUDIT AND SCRUTINY COMMITTEE

13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 This report provides a summary update on various matters which have had implications for the Council's operational property portfolio.**
- 1.2 This report fulfils a request on the Action Tacker of the Audit and Scrutiny Committee agreed at its meeting on 26 June 2018 with further information included.
- 1.3 Specifically, this report provides details of the SBC response, instructions or works which have been undertaken primarily in response to concerns raised following several specific and tragic events which occurred nationally.
- 1.4 The report notes that in light of these recent events, the Scottish Government has indicated that irrespective of the contractual procurement route, Local Authorities cannot abdicate responsibility for quality assurance and oversight with respect to the construction and maintenance of operational properties.
- 1.5 The report notes potential future changes which may be enacted in law which may have further future consequences for the Council and other third-party construction works.

2 RECOMMENDATIONS

- 2.1 Officers recommend that Audit & Scrutiny Committee: -**
- (a) Notes the contents of this report;**
- (b) Notes that Officers will continue to ensure that appropriate systems and processes are in place to manage and mitigate risk wherever possible in respect of the Council's operational estate;**
- (c) Notes there may be further implications for the Council as further likely legislative changes are implemented.**

3 BACKGROUND INFORMATION

- 3.1 In recent years there have been nationally, several health and safety related incidents which by extrapolation, have had the potential to have serious implications for the Council, and its partners, across their operational property portfolios.
- 3.2 These specific incidents include:
- Liberton High School, Edinburgh wall collapse which unfortunately resulted in the fatality of a young schoolgirl.
 - Howdenburn Primary School in Jedburgh which suffered a partial external wall collapse due to storm damage.
 - Oxfgangs PPP School in Edinburgh which resulted in a partial wall collapse, and the subsequent closure of 17 No. Edinburgh PPP Schools resulting in a public enquiry led by John Cole.
 - Grenfell Tower, London in which a fire resulted in the significant loss of life due to the nature and type of cladding installed during a refurbishment of the tower.

4 LIBERTON WALL INCIDENT, EDINBURGH

- 4.1 In April 2014, a 12 year old schoolgirl was fatally injured when a free-standing modesty wall serving as a partition to provide privacy while showering in changing rooms collapsed.
- 4.2 A fatal accident inquiry into the death of the girl commenced in Edinburgh in June 2017, and the following receipt of the subsequent report prepared by the Sheriff Principal Mhairi Stephen, City of Edinburgh Council noted her conclusion that there were no reasonable precautions that could have been taken to avoid the accident which resulted in the girl's death. The Sherriff further found that the maintenance and inspection regime at Liberton High School complied with statutory requirements and that there was a comprehensive understanding of the fault reporting system among staff. The determination also stated that the Council had taken all reasonably practicable measures to ensure that the wall was inspected and maintained.
- 4.3 As an immediate consequence of the fatality however, and in April 2014, the Council's property personnel undertook emergency visual inspections of the Council's entire property portfolio (not just the education estate), followed up by intrusive works where required, to identify if any SBC properties had similar free-standing walls. These inspections were also not restricted to internal walls but also covered external boundary walls and retaining structures.
- 4.4 All reports were uploaded to the Council's property asset management system (Technology Forge) and a consequence of these inspections one wall was subsequently deemed unsafe and removed on health and safety grounds.
- 4.5 There have been no further reports to date of any similar issues.

5 HOWDENBURN PRIMARY SCHOOL, JEDBURGH

- 5.1 On 9 December 2015, during a storm and while the school was unoccupied, a length of external wall on the building collapsed. On investigation, while the wall appeared to have been designed for lateral (horizontal) loading it was not sufficiently robust to resist the wind loading that was imposed on it during those specific conditions.
- 5.2 Immediate action was taken to secure the site by the Property Management team with a visual inspection undertaken by the Council's Structural Engineer the following day. It was concluded by the Emergency Planning Team that the school would be closed with pupils relocated to Parkside Primary School and that no further immediate emergency remedial action was needed, beyond securing the site.
- 5.3 In early January 2016, the Council's Architects' Section was brought into the project and a firm of external consultant structural engineers, Christie Gillespie, were then appointed to undertake a more detailed inspection.
- 5.4 Two visits were made to the school. The first visit was used to carry out a visual inspection of the school and assess what further investigations would be required. The observations from the first inspection resulted in recommendations for the opening up of some areas of the school to enable an intrusive inspection of some of the wall construction interfaces and this further inspection was carried out on the second visit. An extract from their report noted:
- "The wall was a gravity wall with no structural head restraint and the external buttresses at each end of the wall did not provide sufficient resistance to the wind loading to which the wall was subjected. This wind loading may have been unusual turbulence caused by abnormal gusting or wind direction. The wall has rotated (overturned) about the damp proof course level to a degree sufficient for it to become unstable and to ultimately collapse and fall over."*
- When the bond between the masonry and the damp proof course was broken, the wall would have been weaker and less able to resist wind loading.
- 5.5 The report is too detailed to include in this document; however, it should be noted the only area of concern within the school identified for attention was the hall where the wall had collapsed.
- 5.6 Drawings were prepared by the Architects' Team with structural design provided by Christie Gillespie & a building warrant obtained. Property Management procured the building contract to make the repairs with a local building firm and the school was reopened after the Easter school holiday.
- 5.7 With the subsequent announcement of funding for the new Jedburgh Intergenerational Learning Campus in 2017, Howdenburn Primary School will be demolished, and the site redeveloped once the new building is complete. Vacant possession is currently scheduled for April 2020.

6 PPP SCHOOL ESTATE

- 6.1 As a result of a series of surveys following a partial wall collapse at Oxbgangs Primary School in Edinburgh in January 2016, concerns in relation to the structural stability of a number of walls were identified at all 17 schools built in Edinburgh between 2002 and 2005 under a PPP (Public Private Partnership) programme. This led to the temporary closure of all the affected schools and alternative arrangements for children in nearly all the schools had to be urgently put into place. A remediation contract was completed which focussed on ensuring the proper incorporation of wall and head restraint ties and related works.
- 6.2 This occurrence has attracted considerable interest at a national level and within the Construction Industry, particularly considering the number of school buildings affected in Edinburgh and emerging evidence of the discovery of similar shortcomings across some school buildings in other parts of Scotland.
- 6.3 The City of Edinburgh Council commissioned an independent inquiry, led by John Cole, to examine the history of events leading to and the period following the discovery of these structural issues with the objective of establishing any learning that might be derived from these unfortunate circumstances that may help prevent similar building construction issues, and the resulting consequences, arising in future.
- 6.4 A report entitled "Report of the Independent Inquiry into the Construction of Edinburgh Schools" was subsequently published in February 2017 and runs to some 270 pages in length.
- 6.5 SBC has responded to various requests for information, and clarification that similar inspections have been carried out, particularly in respect of any PPP schools which had been constructed in a similar manner, using a similar form of contract.
- 6.6 On 15 June 2017, the Service Director Assets & Infrastructure attended a joint session with the Minister for Local Government & Housing and Scottish Government's Building Standards team which was also attended by 30 of 32 local authorities. Each Council was called upon to individually articulate its response to the Inquiry Report, planned future activities, governance arrangements and any other pertinent details. (For noting, this meeting took place the day after the Grenfell Tower incident).
- 6.7 Subsequent to the meeting of 15 June, the Cabinet Secretary for Education and Skills also issued a similar request to Councils asking that investigations be undertaken on relevant educational properties.
- 6.8 Within the school estate Scottish Borders Council has three secondary schools (Berwickshire, Earlston and Eyemouth) constructed under a public private partnership (PPP) contract. Under the PPP Consortium the Council pays an annual unitary charge which covers all aspects of the project from initial construction to maintenance and Facilities Managements servicing for the period of 30 years. All three schools were completed during 2009 and are operated by Scottish Borders Education Partnership (SBEP) through Bilfinger RE Asset Management and

maintained by Amey FM Services. (Bilfinger RE have now rebranded as Apleona GVA Real Estate Advisors).

- 6.9 A series of structural surveys have been undertaken in recent years at all three PPP schools following wall collapses at Liberton High School and Oxfgangs Primary School.
- 6.10 During April 2014, initial surveys at each of the three schools were undertaken by Robertson Eadie Consulting Engineers, as a result of cracking to walls and lintels identified through visual inspections undertaken by Amey Services (and post the Liberton School incident).
- 6.11 The surveys identified that several lintels at Eyemouth and Earlston High School were found to be inadequate and remedial steel angles were installed to a specification provided by the structural engineer. The surveys at both Earlston and Eyemouth High Schools concluded that cracking identified on walls was associated in the main with thermal movement and were of no structural concern. Whilst the report relating to Berwickshire High School concluded that the building had been constructed in a workmanship like manner with few defects and where any defects were evident these were associated with shrinkage or deflection of supporting structures.
- 6.12 On the basis of the Robertson Eadie reports, and as a precautionary measure Graham Construction (original builders) instructed McFarland Associates in June 2014 to undertake a further inspection of the internal concrete lintels spanning doors and openings at Earlston and Eyemouth High School following the reported concerns surrounding their structural adequacy. Remedial works to coat and seal the lintels were undertaken in line with the structural engineer's recommendations. Following the completion of the recommended works Graham Construction also removed a concrete head lintel for analysis and lab testing by the structural engineer to provide further re-assurance regarding their adequacy. Information received confirmed that the remediations completed to the lintels were adequate and that no risk remained.
- 6.13 In May 2015, concerns raised in relation to internal wall cracking and ground subsidence in a courtyard area at Eyemouth High School led to further structural surveys being commissioned by SBEP (Currie & Brown) and Scottish Borders Council (Christie Associates, Consulting Engineers). Both surveys confirmed that the cracking within the building was non-structural in nature and attributable to movement caused by moisture and temperature changes. In addition, the reports concluded that the external ground settlement was not connected with the cracking evident on the internal walls.
- 6.14 During the same period Graham Construction appointed Coffey as principal designer to design a system to prevent future ground subsidence of the block paving within the external courtyard. The extensive remedial works completed in the early part of 2016 included altering carrier pipes, adding additional attenuation and diverting existing drainage lines.

- 6.15 In April 2016 because of the wall collapse and failures in the Edinburgh City Councils school estate, SBEP appointed an external consulting engineer (Curtins) to undertake structural surveys at all three sites. The scope of the surveys at each of the three sites was to inspect the principal structural elements and although not confined to, paid particular attention to the wall ties, size of cavities, head restraint details and wind post designs.
- 6.16 Each of the reports provided recommended actions to be undertaken at the three sites and areas for follow up or intrusive investigation. Graham Construction completed the intrusive investigations in line with required actions and confirmed that as a result of the inspections there was no further evidence of structural distress or required works in connection with structural issues. All other items noted within the report which were confirmed as non-structural or aesthetic were completed as part of an active plan of work.
- 6.17 In addition to the various structural surveys that have been undertaken a planned and preventative maintenance programme is undertaken by Amey Services at regular intervals to retain the function and operation of the assets along with a programme of lifecycle replacement.
- 6.18 Monitoring and Contractual Compliance – although the PPP contract is in effect, 'self-monitoring', following discussions and initial input from SFT's PPP team, SBC engaged Turner & Townsend to review the service specification provision. The outcome of this review identified mixed service performance with Berwickshire and Eyemouth High Schools being well maintained whilst issues were uncovered at Earlston High School. As a result of the findings, an increased focus was placed on contract performance and this continues to be monitored by Council Officers.

7 GRENFELL TOWER, LONDON

- 7.1 Grenfell Tower was a 24-storey residential tower block in North Kensington, London which was completed in 1974, as part of the first phase of the Lancaster West Estate. Following its most recent refurbishment in 2015/16 it had a total occupancy of 127 flats and 227 bedrooms. It also received new windows and a new ACM cladding system with external thermal insulation during this refurbishment. A major fire seriously damaged the building on 14 June 2017 and at least 72 people were confirmed or presumed dead, a further 70 were injured while 223 escaped. It was the deadliest structural fire in the United Kingdom since the 1988 Piper Alpha disaster and the worst UK residential fire since the Second World War. The fire is currently subject to a public inquiry, police investigation and coroner's inquests.
- 7.2 As previously noted in 6.6, and at the same meeting which by coincidence took place the day after the Grenfell Tower incident, the Scottish Minister took the opportunity to instruct Local Authorities of his expectations to provide a co-ordinated response to Government, irrespective of whether the Local Authority was a stock transfer Authority or not. This was followed by correspondence requesting that all Authorities provide an update on both high rise and low-rise residential

accommodation, particularly focussing on those which may have been over clad or refurbished using an ACM (Aluminium Composite Materials)

- 7.3 Through coordination with the Council's Housing team at the time, there was significant engagement with the relevant Housing Associations within the Scottish Borders area – primarily comprising SBHA, Eildon HA, Waverley HA and Berwickshire HA and others – it was determined that there were no high rise properties meeting the relevant criteria (a habitable floor 18m above ground level) or low-rise properties which had been retrofitted with ACM type cladding.
- 7.4 SBC also undertook a review of non-housing projects, for example, the sports centre building adjacent to Peebles High School which had been fairly recently constructed using a modular cladding system (although different) and determined that the same sort of risk identified in the use of ACM cladding at Grenfell was not applicable to any SBC properties.

8 OPERATIONAL ARRANGEMENTS FOR CAPITAL PROJECT DELIVERY

- 8.1 Capital projects have typically been delivered over recent years using a scalable approach where a project development team is assembled to cover the overall project management and professional service elements followed by the delivery team including a main contractor. In all projects the use of industry standard conditions of contracts and scope of service allow for all parties to be clear about the responsibility for safety at both design and construction stage, including the roles of Principal Designer and Principal Contractor. These are required by controlling legislation such as the Construction (Design and Management) Regulations 2015 which ensures that an industry standard approach to health and safety is adopted.
- 8.2 The development stage of a project is controlled by relevant SBC Officers with skill and experience so that design and specification choices are managed to avoid, manage or mitigate risks. The selection of a main contractor includes a quality assessment within which Health and Safety is a major component. Issues relating to Health and Safety are reported to Officers on projects regularly and are a prerequisite of successful project delivery.
- 8.3 Construction quality during the delivery stage of a project is monitored using site-based procedures and policies typically managed by the main contractor supplemented using Independent Checkers, a Clerk of Works and/or members of the design team as appropriate.
- 8.4 In addition, recent projects such as Broomlands and Langlee Primary Schools have made use of specific digital technology (Multivista) with regular site-based information gathered (Photography/Video/Drone) to ensure that records are kept of the key stages of the construction process.
- 8.5 Any issues identified during the construction stage are dealt with by the delivery team and managed to a successful conclusion

9 OPERATIONAL ARRANGEMENTS FOR PROPERTY MAINTENANCE

- 9.1 SBC's Property and Estates team are responsible for the on-going maintenance and repair of the Council's operational estate using a variety of systems and processes.
- 9.2 As part of a wider restructure within Assets & Infrastructure, the Corporate Landlord model is being introduced in stages. The concept of a Corporate Landlord is that the ownership of an asset and the responsibility for its management and maintenance is transferred from a service department to the Corporate Landlord, in this instance the Property & Estates team within Assets & Infrastructure directorate.
- 9.3 All property and facilities information is currently held in a central (HQ only) system called Technology Forge. This will shortly be upgraded (by CGI) to a cloud-based solution called TF Cloud which will allow remote access and updating of this data as required to provide a more flexible and agile solution. This could potentially include allowing access to the data by trusted partners, for example, when undertaking PAT testing of electrical equipment or fire alarms within schools meaning that there is no 'double handling' of this information by Officers. TF Cloud is used a by several Local Authorities in Scotland who have all previously transitioned from Technology Forge.
- 9.4 All properties are subject to a regular survey and inspection regime which ensures that a detailed condition survey is undertaken at maximum five-year periods. Some properties, such as the school estate, are undertaken on a more regular basis due to the requirement to report a 'Core Facts Summary' to Scottish Government on an annual basis, which includes data on condition, suitability and sufficiency (capacity).
- 9.5 Secondly, there is an on-going programme of (revenue) activities, at a variety of frequencies, that ensures that all planned and cyclical programmes of work, in relation to the overall hard facilities management of the property, are undertaken. This can include PAT (electrical) testing, asbestos inspections, water and legionella testing, heating and gas installations, and every aspect which requires regular inspections.
- 9.6 Beyond the planned and cyclical works, and because of finite revenue funding through the Property Maintenance fund, Property Officers primarily direct and prioritise reactive revenue resources to the following areas:
1. Emergency response and repairs
 2. Health and Safety related matters
 3. Wind and Watertight
- 9.7 Changes are also currently being implemented in the Council's reactive property maintenance arrangements and a new external supply chain framework will be implemented during 2019.

10 DRINKING WATER / LEAD TESTING PROGRAMME

- 10.1 Subsequent to a request received from the Drinking Water Quality Regulator for Scotland (DWQR) regarding the presence of lead in drinking water in schools, SBC commenced a programme of water sampling initially within all our schools built before 1970 which totalled 54 education sites.
- 10.2 The use of lead pipework was effectively banned in 1969 and therefore those sites deemed to be higher risk – those built before 1970 - have been prioritised initially but the intention is to undertake testing across all sites, irrespective of age and irrespective of end use - not just schools
- 10.3 The Drinking Water Quality Regulator for Scotland (DWQR) exists to ensure that drinking water in Scotland is safe to drink. The current UK drinking water quality standards state that the level of lead in any water supply must not exceed 10µg/l (parts per billion). This came into force in December 2013 after the previous standard of 25µg/l was tightened from a previous level of 50µg/l and therefore the direction of travel to reduce lead levels is evident.
- 10.4 Although only drinking water outlets were required to be assessed, it is not considered reasonable to assume that water was only being ingested from specific sinks and that others, such as in classrooms or toilet WHB's, would also be potentially used by pupils or indeed staff. A decision was taken therefore to sample and test all outlets within the 54 initial sites.
- 10.5 This work has been undertaken in conjunction with our water supplier (Anglian Water) using an approved methodology requiring multiple samples to be taken at various times including stagnation periods, with secondary sampling being undertaken where required. Advice as to next steps is also provided as part of the reporting.
- 10.6 Sampling commenced on 16 October 2018 with the first phase being complete mid-December 2018. These initial results identified 12 sites with elevated results from specific outlets that would require secondary sampling which was undertaken between mid-December 2018 and mid-January 2019. The final report was received 30 January 2019 which highlighted 3 primary schools still with marginally elevated results, those schools being Trinity, St Boswells & Ednam. The specific findings for each site are as follows:

10.7 Trinity Primary School

Header tank within attic space which serves only the staff W.C. within the school kitchen was found to be lead lined with a lead pipe outlet which then connected to copper pipe. This tank was immediately isolated by a plumber as a result of the report and supporting advice. Work is scheduled during the upcoming Easter break to drain, dismantle & remove the water tank and to replace with a smaller plastic tank.

10.8 **St Boswells Primary School**

A single outlet located within a P5/6 classroom sink was found to have elevated levels however a further survey of school found that all internal pipework was of a good standard and therefore the problem had to relate to an external section of public (i.e. Scottish Water network) pipework causing the raised levels. The advice is that the pipe from the Springfield Terrace lane stopcock to the school's stopcock be replaced to eliminate this likely source of lead. This work is currently being costed at present and will be undertaken as soon as possible with assistance from Scottish Water where necessary.

10.9 **Ednam Primary School**

Both the initial and secondary survey of the school found that while the internal pipework was generally of an acceptable standard with no header tank present, the school continued to yield elevated lead levels of circa 30µg/l at several outlets. The advice was to replace the affected pipework immediately and therefore the decision was taken to provide the school with bottled drinking water, and subsequently decant the pupils (approx. 45no.) to the nearby Broomlands Primary School for the duration while remedial works are undertaken. A rapid response group was formed, and this decision was taken jointly between the Education and Property teams within an hour of the report being made available to SBC.

10.10 The remedial works are currently being costed and will progressed as soon as possible. In addition, fixed electrical testing has been undertaken while the school is vacated with no further works being necessary – it had originally been anticipated that an electrical upgrade would be required in the 20/21 timeframe.

10.11 Officers will also use the opportunity while having vacant possession of the property to undertake some minor asbestos removal works (the presence of which was known and there is a well-established protocol for dealing with such matters) which will be undertaken in the coming weeks along with some accelerated internal refurbishment works in conjunction with the Education capital block allocations.

10.12 The testing programme will continue across them remainder of the school estate and other sites, with appropriate remedial action being taken immediately any concerns are identified.

11 SCOTTISH GOVERNMENT BUILDING STANDARDS COMPLIANCE AND FIRE SAFETY CONSULTATION

11.1 In the wake of the Grenfell Tower fire in London and the prior Oxbgangs Primary School collapse in Edinburgh in January 2016, a Ministerial Working Group (MWG) was set up to oversee a review of building and fire safety regulatory frameworks for Scotland's buildings.

11.2 The focus of the MWG was on safety in high rise domestic buildings and other actions around fire and safety advice, and the adequacy of current fire and building regulatory frameworks.

- 11.3 Following on from this two expert review panels were established to consider relevant aspects of the Scottish building standards system:
- a) A Review Panel on Building Standards (Fire Safety) in Scotland, which looked at functional standards and associated guidance for building work in Scotland. In June 2018, it concluded that while the structure of mandatory standards should be retained, the status and limitations of the guidance needed to be made clearer.
 - b) A Review Panel on Building Standards Compliance and Enforcement examined the current operation of the building standards system, including its strengths, weaknesses and potential changes that could be introduced to address the identified weaknesses.

- 11.4 The recommendations of those two panels form the basis of a consultation managed by the Scottish Government's Building Standards Division. The consultation was live during August and September 2018, with views collected via an online survey and supporting face to face consultation events. In total 222 survey responses were received, and 246 individuals attended the events.

The consultation findings were analysed by Pye Tait Consulting and were presented in a report which Scottish Government published in late December 2018.

Scottish Borders Council's Building Standards Team (part of Regulatory Services) provided a response to the consultation which was included in the initial report.

- 11.5 The consultation garnered a generally positive response, with most respondents being in favour of the proposals. In response to the consultation there is a generally optimism with a majority in favour of the proposals, demonstrated through the high levels of agreement with most of the consultation questions. Key areas of uncertainty and concern centre around whether Construction, Design and Management (CDM), Health and Safety, Construction Compliance and Notification Plan (CCNP) or other legislation and regulations meet the requirements of the new proposals.
- 11.6 Other areas relate to the practicality of implementing aspects of the proposal, for example, the resourcing of further Local Authority verification capabilities or the risk of losing local expertise through the generation of a central hub.
- 11.7 Concerns were primarily focused on the resourcing, both in financial and personnel terms, and the impact of the proposal without a robust enforcement capability that has legislative reinforcement. These are also key themes from the face-to-face consultation events. Enforcement is an issue that is deemed to have ramifications for aspects of other proposals within the consultation. Three quarters of respondents and the vast majority consulted in face-to-face events agreed that the enforcement capabilities are insufficient. Without a greater level of deterrence, perceptions are that for private developers "Cash is King" with the

priority being the bottom line and in public projects that political pressure could impact the quality of verification due to conflicting interests. Nearly all of those consulted deemed that a more proactive approach in enforcement was required and that this should be driven at the national level.

- 11.8 Resourcing was identified as a key concern for Local Authorities, and there were indications, anecdotally at least, they were deemed to be overstretched by all stakeholder groups. In many cases, affirmative responses to proposals were caveated with a need for increased resourcing, with a recognition that long-term support is required i.e. not just for the period it remains relevant. The introduction of a central hub is an area where competing interests seemed to rise in terms of resourcing, responsibility and who would be involved. It was deemed that the introduction of a central hub could reduce vital resources in rural Local Authorities, with preference given to urbanised authorities and the loss of expertise at the local level.

12 CONCLUSIONS / FUTURE PROPOSALS

- 12.1 Scottish Government have recently published interim guidance entitled "Scottish Procurement Construction Policy Note CPN 1/2017" dated 20 July 2017 which sets out to provide interim guidance following the publication of the Independent Inquiry into the Construction of Edinburgh Schools.
- 12.2 The key message is that "contracting authorities engaged in construction must make appropriate arrangements for the independent inspection of construction activities". As such, contracting authorities cannot abdicate responsibility for independent inspections irrespective of the form of procurement or contract being adopted and must maintain a degree of control over the site inspection process.
- 12.3 In response, SBC will reinforce their Clerk of Work capabilities through the continuing use of internal and external resource where appropriate. In addition, Officers propose to amend standard scopes of service for each consultant appointment (architect, engineer etc) to ensure that they (irrespective of procurement route) provide regular written reporting on the qualitative aspects of the construction period.

13 IMPLICATIONS

13.1 Financial

There are no additional revenue costs attached to any of the recommendations contained in this report. Any additional capital costs, for example in amending consultant scopes of service, will be accommodated within agreed capital project budgets.

13.2 Risk and Mitigations

The report sets out the systems and processes that are in place to manage and mitigate risk wherever possible in respect of the Council's operational estate. Officers will continue to address any issues identified

or raised in a responsive manner. There are no adverse impacts as a consequence of this report.

13.3 Equalities

There are no equalities impacts as a consequence of this report.

13.4 Acting Sustainably

There are no adverse impacts as a consequence of this report.

13.5 Carbon Management

There are no adverse impacts as a consequence of this report.

13.6 Rural Proofing

No adverse impacts are anticipated as a consequence of this report.

13.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are anticipated as a consequence of this report

14 CONSULTATION

14.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Martin Joyce

Service Director Assets & Infrastructure Signature

Author(s)

Name	Designation and Contact Number
Martin Joyce	Service Director Assets & Infrastructure

Background Papers: none

Previous Minute Reference: none

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Local government in Scotland

Challenges and performance 2019



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
March 2019

The Accounts Commission

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

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

Our work includes:

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

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

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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Exhibit data

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



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

Audit team

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

Chair's introduction



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

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

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

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

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

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

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

Graham Sharp
Chair of the Accounts Commission

Summary



Key messages

- 1** Councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. Councils are also central to delivering many high-level public sector objectives, such as the integration of health and care services and involving citizens more in decisions about public services.
- 2** These reforms require councils to collaborate with partners, with the third sector and with communities, to think differently about how they deliver and fund services. Thinking differently about services is important to meet the growing and changing needs of their communities in the coming years. New ways of working can lead to increasingly complicated lines of accountability.
- 3** Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile. All councils expect an increase in the proportion of people aged over 65 and almost a third of councils expect an increase in the proportion of children under 15.
- 4** Councils have made good progress in developing medium-term financial planning and continue to manage their funding gaps through savings and use of reserves. All councils increased council tax to the maximum three per cent in 2018/19 and many increased their fees and charges to raise income. Some councils are looking at other options to raise income.
- 5** Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, but national workforce data is insufficient to clearly understand how individual services areas are affected.

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

Recommendations

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

To make effective progress councils should:

- assure themselves that they have adequate leadership and management capacity in place. This should include development arrangements that prepare and support councillors and senior managers to respond to the challenging and changing local and national demands
 - undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands
 - continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change
 - improve data to:
 - help inform the difficult decisions councils have to make
 - support benchmarking, learning and sharing of experience and effective practice with others that will contribute to improving service quality, efficiency and outcomes for communities
 - ensure they have workforce planning that is clear about the workforce needed now and in the future, where the gaps are and what training or other action is needed to fill them. This should be supported by better workforce data
 - be able to demonstrate how spending decisions and priorities have impacted on service delivery and the outcomes of residents, as well as how they are delivering against the national performance framework.
-

About this report

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

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

- The current and future challenges facing councils.
- How councils are responding to these challenges.
- The impact on performance in key service areas and public satisfaction.

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

- [A scrutiny tool](#)  with examples of questions that councillors could ask to help them understand their council's position, scrutinise performance and assist in making difficult decisions. Councillors should feel they fully understand, and are satisfied with, the answers to the questions that are most relevant to them in their role within the council.
- [An online tool](#)  that shows how councils are performing. It is designed to allow councillors, officers and members of the public to better understand how their council is performing compared to others.

4. We draw on a range of sources of evidence for this report. Financial information is taken from the Local Government Financial Circulars,¹ Local Government finance statistics,² the Scottish Government's provisional outturn and budget estimates³ and councils' annual accounts. Performance information is gathered from the Local Government Benchmarking Framework (LGBF),⁴ the National Performance Framework (NPF) indicators⁵ and relevant reports from other scrutiny bodies, such as Education Scotland and the Care Inspectorate.

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

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

- Look at historical trends in financial data using data from 2013/14 where possible. National police and fire services were established in 2013 and so were not included in local government accounts from 2013/14. It is not always possible to use 2013/14 as some information is only available for more recent years.
- Adjusted figures to 2017/18 costs where the report comments on council performance in 2017/18.

Part 1

The context for councils



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

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

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

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

- Withdrawal from the European Union (EU) – At the time of writing this report, it is planned that on 29 March 2019, the UK will leave the EU. As the process is still on-going there is a high level of uncertainty about what this will mean for councils, which makes planning difficult. This is an area which is fast changing and will have a long-term impact on councils.
- Scotland's new financial and social security powers – The 2012 and 2016 Scotland Acts introduced new financial and social security powers. As a result, Scotland's budget is influenced by Scottish ministers' tax decisions and how well the Scottish economy performs compared to the rest of the UK. This means the Scottish budget is likely to become more variable than it has been through the block grant from the UK Government. In its five-year strategy, the Scottish Government estimates that the Scottish budget could vary by up to six per cent by 2022/23.⁶ If the Scottish budget varies, funding to local government through the Scottish Government settlement will also be affected, in particular, services that are not financially protected as Scottish Government priorities.
- Local governance review – In 2018, the Scottish Government and COSLA launched a review of how powers and responsibilities are shared across national and local government and with communities. The aim of the review is to give local communities more say in how public services in their area are run. The Scottish Government and COSLA plan to continue consulting with stakeholders through 2019 as legislation is developed. It is not yet clear how this review will affect councils and how it will affect partnership working with other organisations, such as the NHS.



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

What scenario planning has your council done for events such as EU withdrawal and increasing budget uncertainty?



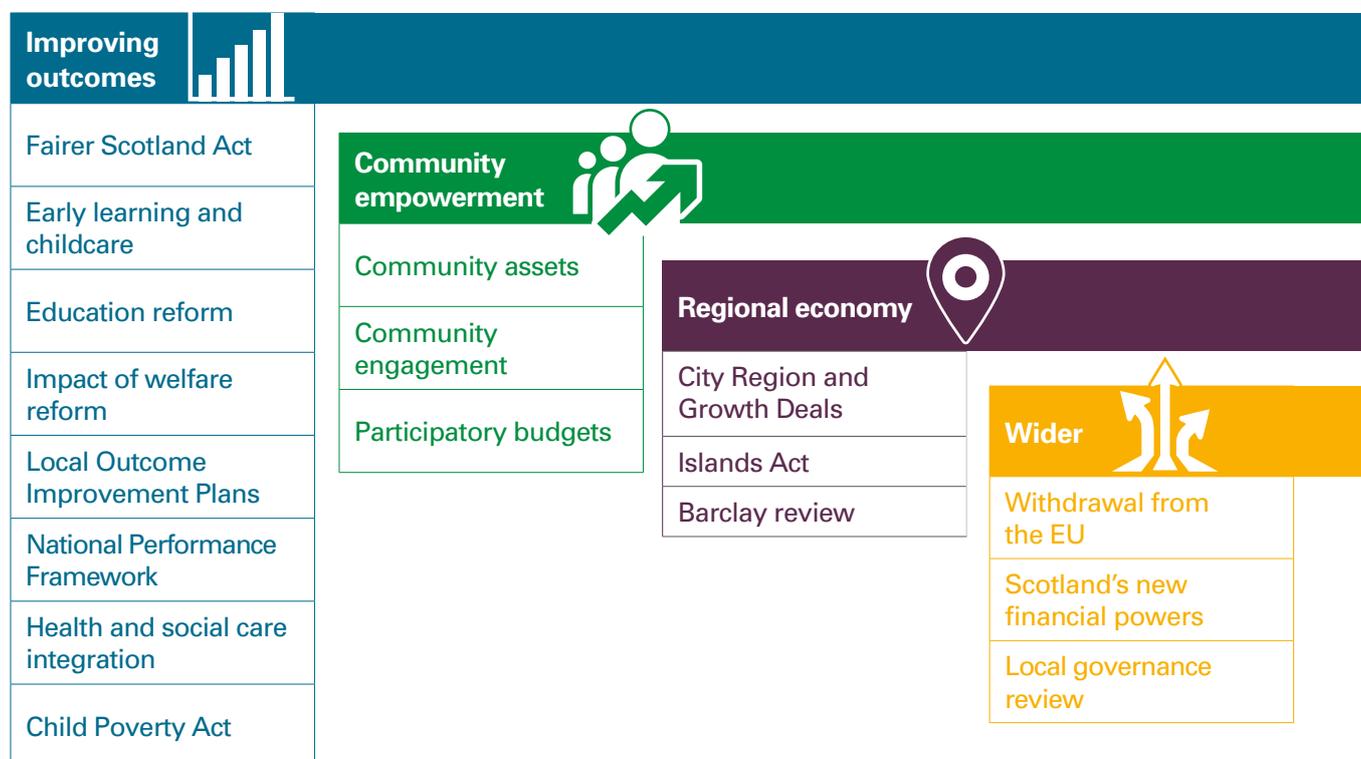
Audit Scotland published a briefing paper on the [EU withdrawal](#)  in October 2018 highlighting the risks including workforce, funding and financial implications.

Audit Scotland has produced a policy briefing on [new financial powers](#) .

Exhibit 1

Current major policy and legislative changes affecting local government

Many of the changes in national policy are interdependent.



Source: Audit Scotland

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

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

- Councillors and senior officers need to have a wide and current understanding of policy issues and how these relate to local priorities and needs, to plan and make complex decisions locally. This can be challenging where capacity is already stretched.
- It is more important than ever for councils to plan for different scenarios in terms of funding and demand for services. This includes finding different ways to deliver services efficiently and effectively.
- There is an increasing need for effective partnership working with other public, private and third-sector organisations and their communities.



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

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

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

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

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

- Delivering 1,140 hours of free childcare to all three-year olds and eligible two-year olds.
- Improving educational outcomes, especially for the most deprived pupils, through the Pupil Equity Fund (extra money to some schools with children from poorer backgrounds) and a commitment to maintain teacher numbers.
- Contributing to the delivery of 50,000 affordable homes including 35,000 for social rent.
- Implementing the requirements of the Fairer Scotland Duty which places a legal responsibility on public bodies in Scotland, including councils, to actively consider how they can reduce inequalities caused by socioeconomic disadvantage, when making strategic decisions.

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

Councils cannot deliver their priorities alone

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

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



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



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

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

Regional economic developments mean more collaborative and partnership working

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

- There are four signed City Region Deals in Scotland, involving 17 councils and various other partners.
- A further six councils are developing two City Region Deals.
- The remaining councils are working on alternative investment proposals, such as Growth Deals and Island Deals.

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

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

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

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

- Community asset transfers – where communities can take responsibility for land and buildings.
- Participation requests – where people can ask to take part in decisions about council services.
- Participatory budgeting – where communities can have a say in how the council should spend public money locally.

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

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



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

Accountability is increasingly complex

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

- Councillors now sit on more boards than before. In our May 2018 report, [Councils' use of arm's-length external organisations](#) (ALEOs) we noted that this can make it difficult for small councils to manage potential conflicts of interest.
- There can be disagreements around shared governance arrangements. In our [Health and social care integration update](#) report we noted that a lack of collaborative leadership and different cultures in councils and health boards were affecting the pace of change.
- Councils still have a responsibility to track performance management and provide scrutiny proportionate to the risk involved. The roles of councillors and officers in overseeing collaborative activities needs to be clear.
- There is a duty to ensure that communities are involved in decision-making processes where appropriate. This may be more difficult to manage with more complex governance structures.

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

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

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

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

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



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

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



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

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

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

Exhibit 2

Funding from Scottish Government to councils

Total revenue funding increased slightly between 2018/19 and 2019/20.

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

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

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

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

- By recognising the £34.5 million as 2018/19 funding the Scottish Government showed an increase in funding to local government of 1.7 per cent in cash terms and 0.2 per cent in real terms compared to 2017/18.⁸
- In the 2019/20 settlement, the 2018/19 total revenue funding figures no longer include the £34.5 million. The settlement makes no reference to this adjustment or that it is included in 2017/18 funding. Taking this adjustment into account, between 2017/18 and 2018/19, the Scottish Government's total revenue funding to councils increased by 1.1 per cent in cash terms but this was a 0.7 per cent decrease in real terms. Our figures now include the £34.5 million as 2017/18 income.

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

National policy initiatives make up an increasing amount of council budgets

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

- The Scottish Government funding that must be spent on specific policy initiatives (specific revenue grants), such as the Pupil Equity Fund, now makes up an increasing proportion of total revenue funding. In 2018/19, this represented 2.8 per cent of total revenue funding and in 2019/20 will increase to five per cent.
- Alongside the specific revenue funding set out in the settlement, several of the Scottish Government's policy initiatives have funding attached to them. Although these are not explicitly ring-fenced, if the council does not meet the objectives it may lose out on the funding. These have grown from 3.8 per cent of total revenue funding in 2018/19 to 7.1 per cent in 2019/20 and are predominantly for education and social care services.

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

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

- Councils must make repayments on their debt. In 2018/19 they budgeted to spend £1.2 billion, ten per cent of their budgeted net revenue expenditure, on debt repayments.
- In December 2018, COSLA made a pay offer for a three-year settlement for 2018/19 to 2020/21. The offer included an increase of 3.5 per cent for 2018/19 (capped at £80,000) and a three per cent increase in each of the following years. Any settlement that is accepted will need to be funded from revenue funds.
- In February 2019, Glasgow City Council approved the settlement of its equal pay claim. It has agreed to make payments of around £548 million (44 per cent of its 2019/20 revenue funding from Scottish Government and council tax) in 2019/20. Our auditors will monitor this as part of the annual audit work.
- In 2019/20, councils can only reduce their allocations to Integration Authorities by 2.2 per cent compared to 2018/19.

31. Social care and education make up a large proportion of councils' budgets. In 2018/19 councils budgeted to spend £3.3 billion on social care and £5.2 billion on education. This includes £2.4 billion on primary and secondary teachers' salaries. Together, this represents 69 per cent of their net revenue expenditure. Although it is possible for councils to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging.



Net revenue expenditure is financed through Scottish Government funding, council tax and the use of reserves.

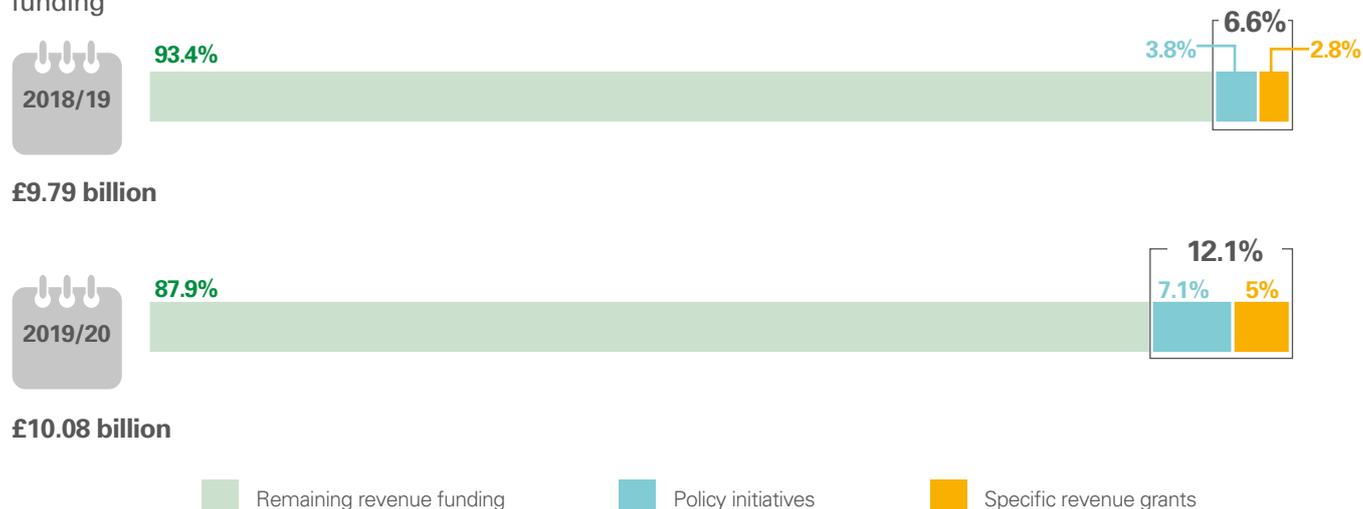
Individual revenue allocation consists of Total revenue funding and assumed council tax contribution.

Exhibit 3

Spend on national priorities in 2018/19 and 2019/20

In 2019/20 councils will spend 12.1 per cent of their revenue funding meeting national priorities.

Total
revenue
funding



Source: Audit Scotland, Local Government finance circular 2/2019, Scottish Budget 2019/20

32. As a result, as we have previously reported, councils have made larger reductions to services other than education and social work. These include economic development, waste management and planning services, which are still important for maintaining the health, safety and wellbeing of residents. Between 2013/14 and 2017/18 spending was reduced as follows:

- planning and development services (28 per cent)
- cultural and related services (14 per cent)
- roads and transport (seven per cent).

33. The Commission recognises that councils cannot be expected to deliver continuous performance improvement across all services in the current financial climate. Councils should set their priorities and invest in line with them. However, it is more difficult to do if increasing amounts of their budgets are protected. There is a risk that these budget reductions will have an impact on the sustainability of services as they are currently delivered. Councils need to continue to seek innovative ways to improve the efficiency of how they deliver all services and be clear about the anticipated impact on performance and service scope.

Some council service areas can expect further funding reductions

34. The Scottish Government's five-year strategy sets out its spending priorities to 2022/23; these are health, police, early learning and childcare, secondary school attainment, higher education and social security. Council services outside

education and early years are not identified as Scottish Government priorities and so will be disproportionately affected by any reductions to the Scottish budget. We calculated that other services outside the Scottish Government's priorities could face between one and 16 per cent real terms reduction to their budgets.⁹

Councils are managing reducing budgets despite local challenges

35. We have previously reported that councils will have their own social and demographic circumstances to manage alongside funding reductions. An ageing population increases demand for social care services, rurality can make it more difficult to deliver services cost-effectively, and deprivation and poverty have wide-ranging impacts which can affect council services. However, the majority of revenue funding is allocated according to the size of the council's population. Other factors are not always as clearly reflected in the funding allocations ([Exhibit 4, page 19](#)). For example:

- Eilean Siar and Argyll and Bute have seen some of the largest reductions in their funding allocations since 2013/14 due to a declining population but are also two of the most rural areas and have growing elderly populations.
- Some of the councils with high levels of deprivation, including Inverclyde, Glasgow and West Dunbartonshire, have also seen higher than average reductions to their core budgets.

36. Medium and long-term scenario planning will help councils understand what the likely implications are for them which will in turn help inform how best to provide services in the future.

Population change is affecting demand for services.

37. Demographic pressures, including an ageing population continue to increase the demands on council services. Over the period 2016 to 2041, ten councils expect an increase in both the over-65 population and the under-15 population. The Improvement Service estimates that, because of changing demographics, demand for services will increase by 2.6 per cent between 2018/19 and 2019/20. This represents an additional £248 million of spend for councils.¹⁰

38. All councils are projected to have an increase in the number of people over 65 by 2041. West Lothian council has a projected 45 per cent increase in the over-65 age group, the highest in Scotland. An ageing population represents a significant challenge for councils especially in delivering social care services:

- The Institute for Fiscal Studies estimates that over the next 15 years, social care funding in the UK will need to increase by 3.9 per cent in real terms each year to meet the needs of an ageing population and more younger adults living with disabilities.¹¹
- The Scottish Government estimates an additional £683 million will be required by 2023/24 to meet additional social care demand.¹²

39. Ten councils are expected to see an increase in the proportion of people aged under 15 during the period 2016 to 2041, while 22 expect a decrease. For example, East Lothian Council expects its under 15-year-old population to increase three times faster than the Scottish average between 2016 and 2026. This increase means the council will need to fund:



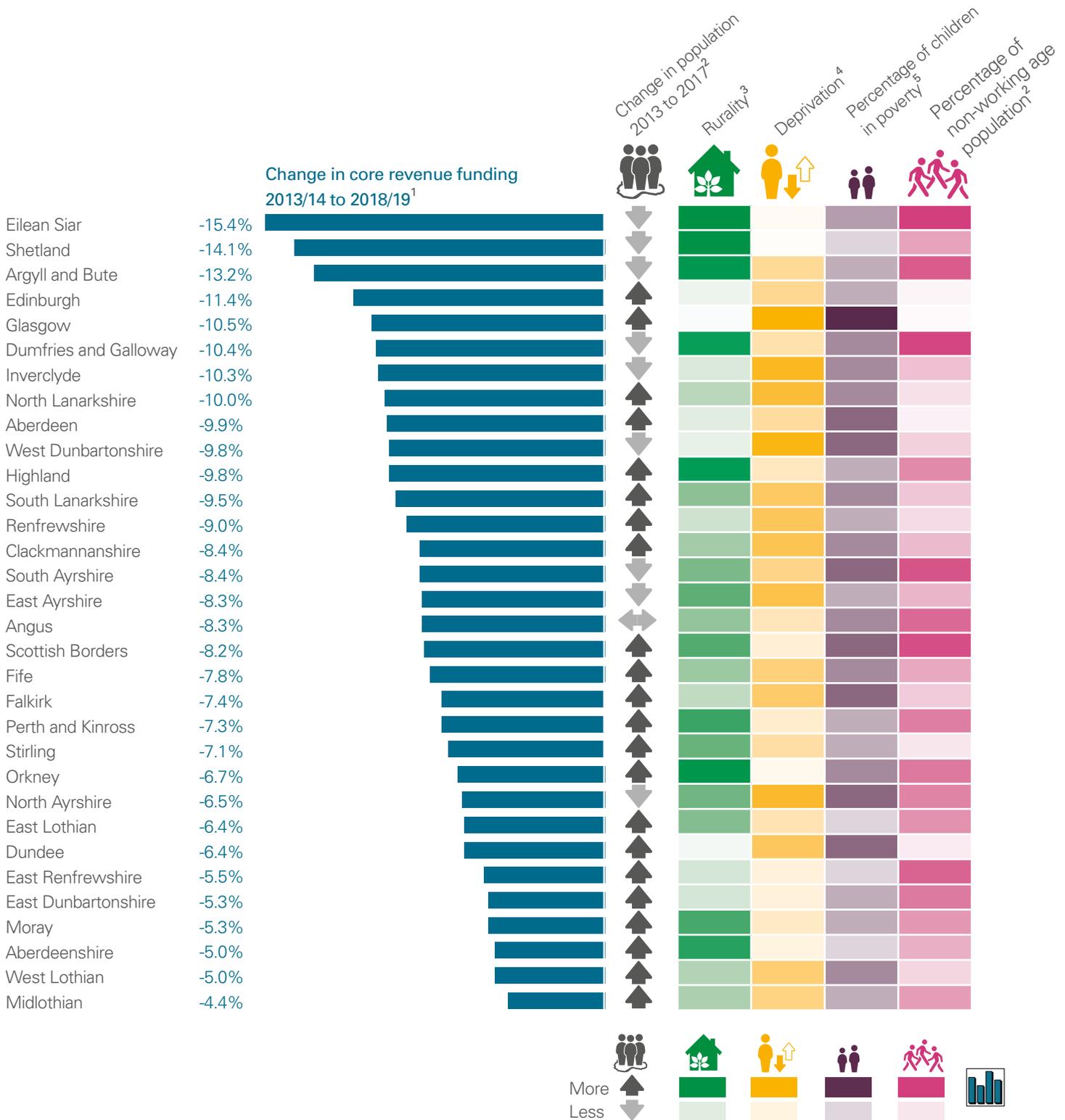
Do you have a clear understanding of the demographic circumstances within your council area?

Do you know how effectively your council uses this information to decide how to provide services in the future?

Exhibit 4

Changes to council core revenue funding in real terms between 2013/14 and 2018/19, illustrated with socio-demographic factors that can impact on service demand and costs

Demographic change, rurality and deprivation will all have implications for council services. The majority of core revenue funding is allocated based on population factors so funding reductions largely follow population change.



Note: The darker the colour the more significant an issue it may be to that council, Rurality can make it more difficult to deliver services cost effectively, an ageing population increases demand for services and deprivation and poverty can have wide ranging impact on residents and councils (Paragraph 41).

Sources: 1. Scottish Government financial circulars 2013, 2014 and 2019. 2. National Records Scotland mid-year population estimates 2013 and 2017. 3. Scottish Government Urban Rural Classification 2016. 4. Scottish Government Index of Multiple Deprivation 2016. 5. Children in families with limited resources across Scotland 2014-16, Scottish Government, 2017.

- the capital cost of building four new primary schools and a secondary school
- the costs of developing the roads and utilities to these developments
- the day-to-day costs of running and staffing the schools.

The number of people living in poverty has increased, putting additional pressure on council services

40. The Scottish Government reports that relative poverty rates are slowly increasing and that since the period 2012 to 2015, there has been a rise in income inequality. Between 2013 and 2016, the top ten per cent of the population in Scotland had 21 per cent more income than the bottom 40 per cent; in 2014 to 2017 this increased to 24 per cent more income.¹³ The Joseph Rowntree Foundation also reported an increase in child poverty rates during this period.¹⁴

41. There are implications for councils from more residents living in poverty, as they are more likely to need support from their council or have difficulty paying their council tax or rent:

- As part of the Child Poverty Act, councils are expected to produce an annual joint report with the NHS on their activities to address child poverty at a local level. It is not clear what resources councils will choose to allocate to their child poverty duties and reporting arrangements, but it may be substantial for those councils with high or growing rates of child poverty.
- Libraries now help people apply for benefits using their computers but a survey by Citizen's Advice found that people from the most deprived areas were less likely to be able to use a computer than those from the least deprived areas. It also found that of people seeking benefits advice, 25 per cent would need help and 27 per cent would not be able to manage at all.¹⁵
- There is also evidence to suggest that individuals' levels of debt have increased, and this could affect councils in council tax collection or rent arrears. The Joseph Rowntree Foundation found that in the UK six per cent of adults in the most deprived areas had council tax debt compared to 0.1 per cent in the least deprived.¹⁶
- Council accounts show that rent arrears have increased by nine per cent between 2016/17 and 2017/18; as councils have different procedures for managing and writing off rent arrears the level varies by council. The National Audit Office (NAO) found that local authorities in England reported higher rent arrears following the introduction of Universal Credit.¹⁷
- Homelessness applications have increased by one per cent between 2016/17 and 2017/18. During this period 17 councils saw an increase in the number of applications. Of those assessed as homeless or threatened with homelessness, 47 per cent had at least one additional support need, such as mental health problems, compared to 34 per cent in 2012/13.¹⁸

Part 2

How councils are responding



42. In [Part 1](#) we described the complex financial, policy and legislative challenges that councils face. Effectively led councils are clear about how these issues impact locally. They also recognise that the financial and demand pressures mean that planning and implementing changes to find efficiencies alone is no longer enough and the redesign of service delivery is needed. [Part 2](#) focuses on some of the main considerations for councils and how they are responding to this need.

Transformational change requires strategic leadership, planning and good governance

43. Councils have worked hard to make efficiency savings. These have mostly focused on service review and improvement activity, property rationalisation, and improvements in back office functions such as human resources, payroll and finance systems. In many councils, these activities are unlikely to be sufficient to address the growing gap between demand and resources, and more fundamental changes are needed.

44. In making more fundamental changes councils have different approaches; many have a transformation programme, although it is not always called this, whereas some integrate service redesign work into mainstream council management and improvement activity. Transformation activity does not have to change everything at once; it can deliver change incrementally.

45. Making change through transformation to the services and functions of the council requires effective leadership and good governance arrangements. Transformation and change initiatives should contribute to the council's strategic and outcome priorities. It should also be a consideration in strategic planning. This includes decisions relating to arrangements such as:

- implementing digital approaches
- financial planning and funding approaches
- working in partnership
- community empowerment activity
- workforce planning and development.

These issues are all linked, and their interdependence needs to be understood by councillors and senior management.



Do you understand how your council's approach to transformational change will improve services and save money?

How will you monitor and scrutinise progress of transformational projects?

What is your council's risk appetite for transformational change? Are risks properly monitored?

Do you know what the financial repercussions will be if your council's transformation activity fails to meet its savings targets?

46. To make good decisions about opportunities and options for change, councils need to ensure that they make effective use of good-quality information and data. This includes benchmarking with other councils and using performance information to identify and understand why performance varies across councils and where this offers opportunities to improve. [Part 3](#) of this report sets out an overview of current performance across councils and some notable variances.

Good transformation is well scoped, addresses the needs of people who use services and should have proportionate governance structures.

47. The aim of transformational change is to improve outcomes for service users by making services to communities more efficient and effective. Transformation requires moving away from established ways of delivering services and this can bring considerable challenges. Successful projects dedicate time at the start to fully understand the issues that need to be addressed. To deliver transformative change, councils should:

- Adopt a holistic approach to service design. Transformation benefits from different departments working together to find the best solutions to improving services.
- Engage with service users and staff from the outset, to make the right decisions about where problems and opportunities lie, and what needs to change.
- Allow time for staff involved in transformation to properly scope and appraise options before committing to savings estimates.

To do this councils will have to consider how to incorporate some flexibility and freedom into their change and improvement arrangements, to allow some of the early thinking and design work to take place. This is difficult when budgets are reducing.

48. Good governance arrangements and effective management are essential in enabling the successful delivery of transformation activity. Councils report that they are adopting some key elements of good governance. Almost all councils have specific planning, decision-making and reporting arrangements in place for transformational or change activities. Over two-thirds show evidence of using options appraisals and around half have a dedicated team of staff to support change and transformation.

49. Good transformation should result in a service that better meets the needs of the people that use it, as well as being more efficient. There is scope for councils and other public bodies to share examples of successful transformation activity and learn from each other. Examples include:

- NHS Highland and partners have adapted homes in the 'FitHome' village in Dalmore to enable residents, who are elderly or have physical disabilities, to live safely and independently. The adaptations include sensor equipment that captures data as residents move around their homes and can be used to predict and prevent events such as falls. The first 14 residents moved into their new homes in Summer 2018.
- Glasgow City Council's family group decision making aims to allow children to remain within their wider family group rather than being taken into care.



Is your council's transformation activity supported by good governance arrangements and robust management?

Do you know if the governance arrangements factor in time needed to ensure projects are properly scoped?

Children and their families are involved in creating a plan to meet the child's needs. There are more than 1,300 children looked after by extended family or close friends, known as Kinship Care, in Glasgow. They are supported by 1,017 Kinship Carers with an annual budget of £8.1 million.

There are examples of digital approaches being used to drive improvement

50. Thirty-one councils are involved in the Digital Office (DO) for Scottish local government, a collaborative organisation created to improve the core digital skills held by council workers, digital leadership, and digital services within councils. All councils play an active role in delivering the projects that the DO runs by taking the lead on projects where their officers have expertise. This approach:

- pools in-demand skills and expertise
- shares best practice amongst councils
- fosters a strong culture of collaborative support.

51. Through the DO, councils are sharing their experience of using digital technology to improve service delivery. Some examples include:

- The E-sgoil programme in Eilean Siar uses technology to allow pupils to access teachers, classes or resources from any school within the council or elsewhere in Scotland. Previously a lack of teachers restricted the range of subjects the council could offer. The programme has been offered to other schools and is being used by some other councils. Comhairle nan Eilean Siar is now considering whether it could raise income by extending the programme's reach to other groups from outside the council area.
- City of Edinburgh Council has been working with a private company on its tram systems, using artificial intelligence to identify potentially hazardous situations and ensure that they are avoided.
- Glasgow City Council used data to change its approach to tracking and allocating school clothing grants in Glasgow. It was able to identify those eligible for a grant by analysing data it had already collected. This allowed them to identify 5,000 families who were entitled to funding but had not previously claimed.



Digital technology:

Technologies used by councils to deliver services and change the way that residents and staff interact with the council.

There are specific challenges that councils need to recognise to successfully deliver digital transformation

52. People increasingly expect to be able to access services online, and digital provides many options for transformation within a council. However, digital approaches will often be only part of the solution. In many cases, digital can improve services and make them more efficient, but more complex or unusual tasks may require other approaches. Digital transformation also has specific features that councils need to consider:

- Not all service users will be able to access digital services. It is often the most vulnerable within society who have the greatest need for council services but who are least able to access them digitally. They include people living in poverty, the elderly, people living in remote rural locations,

and people living with mental and physical disabilities. By enabling digital access to services for those who are able to use them, staff and funding can be redirected to provide other options, such as face to face or telephone contact, for those who struggle to engage through digital platforms or have more complex problems.

- Procurement of digital-enabled projects may be different to other things the council buys; so its existing arrangements may not be appropriate. Councils should understand that potential savings may not be immediately quantifiable, that investing for the future may be necessary, and that 'agile' management (where projects are broken down into small stages and adapted frequently), may be the best option. For this approach, councils need to invest in training staff and leaders.
- Digital projects can bring significant cultural change to councils. Those leading and managing change need to be sensitive to the potential for disruption in the working environment and for individuals in particular roles. Councils need to ensure that their workforce is included and informed at every stage of a digital change programme.
- Digital projects need to be led and staffed by officers with the right skills in the relevant areas. These skills can be difficult to find in the wider workforce and come at a high cost. The DO has been working with councils to develop these skills.
- The failure of digital projects can open a council up to the risk of losing data or of data being accessed and exploited by external groups. The internal mishandling of data could also leave councils vulnerable to being penalised for General Data Protection Regulation non-compliance.

53. Before embarking on digital transformation activity, councils should understand these challenges and the complexity of what they are trying to do. Our [Principles for a digital future](#)  briefing sets out five principles that should be considered when planning and delivering digital programmes. We will be carrying out an audit on digital progress in local government in 2020/21 which will consider councils' digital activity in greater detail.

Good progress has been made with medium-term financial planning

54. The Commission has previously commented on the importance of medium and long-term financial planning, particularly in the context of the increasing financial challenges and wider demands on services.

55. Funding settlements from the Scottish Government to councils continue to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term, given such a significant proportion of their income comes from Scottish Government funding.

56. In 2018/19, councils reported a funding gap of £0.3 billion (two per cent of expenditure), £0.1 billion less than in 2017/18. Councils planned to address this through making savings, using reserves and increasing fees and charges.

57. The need to find and deliver savings is expected to continue. We emphasise the increasing importance of medium and long-term planning to manage these



Does your council have medium and long-term financial planning in place?

financial challenges and to make well-informed decisions which are aligned to council priorities. Medium-term financial planning has been adopted by almost all councils, but less than half have significant long-term plans. Of those councils with longer-term plans, only five consider the impact of population and demand change on their services. The Commission encourages all councils to continue to develop and refine their medium and long-term planning and the use of scenario planning to support both.

Councils are under pressure to find different ways to increase income

All councils increased council tax by the maximum allowable three per cent in 2018/19 for the first time since the council tax freeze was lifted

58. As revenue funding has fallen in real terms, council tax represents an increasingly large proportion of the total funding available to councils, from 16 per cent in 2013/14 to 18 per cent in 2018/19. In the 2017/18 budget, the Scottish Government announced the end of the nine-year council tax freeze, but capped the amount councils could increase it by to three per cent:

- In 2017/18, 24 councils increased their council tax, including 21 that increased rates by the maximum allowed.
- In 2018/19, all councils increased council tax by three per cent.

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

59. In 2017/18, an estimated additional £110 million was raised through council tax reforms, these included a change to higher rate council tax bands and an end to council tax relief on second homes.

Councils have looked for other ways to increase income

60. We reported in our [Local government in Scotland: Financial overview 2017/18](#)  that there is variation in how councils approach increases to charges. Some councils are making increases to all charges, some are making significant increases to certain charges such as commercial waste and some are introducing new charges, for example for garden waste and public toilets.

61. From information provided by auditors, we found that councils had increased 11 types of charges by more than inflation between 2016/17 and 2018/19. The highest increases were in relation to burials. The cost of a burial plot increased by an average of 20 per cent (22 councils responded) and the cost for burial services increased by 12 per cent (23 councils responded).

62. COSLA and some councils are seeking opportunities to raise local taxes.

- City of Edinburgh Council is the first council to propose a transient visitor levy or 'tourist tax' to raise funds to manage and promote tourism in their local area. In February 2019, the council approved plans for a £2 or two per cent per room per night charge which it expects will raise up to £14.6 million.¹⁹ It now requires legislation from the Scottish Government to implement the tax. The Scottish Government committed to a consultation on the tourist tax in January 2019.



Does your council link budgets to plans and outcomes and report on these?

Do you know what options your council is considering to maximise income?

How is your council considering the impact that these changes might have on equalities?

If your council is considering generating commercial income, do you know how it plans to mitigate the risks?

- In the 2019/20 budget the Scottish Government agreed to support an amendment from the Scottish Green Party to the Transport (Scotland) Bill that would give powers to councils to introduce a workplace levy. This means employers would pay the council a tax for any car parking spaces they offered.

Councils are considering development of commercial services, but risks need to be well managed

63. As part of longer-term financial planning, councils are considering how they can develop approaches to generate commercial income, beyond local fees and charges for current services. If councils choose to do this they need to consider; whether they have the skills and staff numbers to deliver it, the impact it may have on the local economy, and how they will mitigate the risks of investing public money in the commercial market.

64. Given that there has been more development of commercial arrangements in England, it is useful to consider the learning from this. Councils in England have experienced very significant reductions in funding (funding to local government has fallen by 49 per cent between 2010/11 and 2017/18) and have used several commercial approaches to support their finances in response.²⁰ The NAO reported that between 2013/14 and 2016/17, there had been a 31 per cent increase in external interest payments and a 16 per cent increase in trading profits.²¹ Some councils have borrowed money to invest in property from which they then earn an income or profit. The UK Government reports that:

- spending on trading services has increased from £323 million in 2014/15 to £2.9 billion in 2017/18
- land and buildings acquisitions increased by 43 per cent in the last year to £4 billion in 2017/18.²²

65. The Chartered Institute of Public Finance and Accountancy (CIPFA) is concerned by the level of borrowing by councils and is producing guidance for those considering this route; it has cautioned councils against:

- becoming dependent on commercial income
- taking out too much debt relative to their total spending
- taking on debt to finance commercial investments, such as shopping malls or office blocks.²³

Good partnership working is critical if councils are to deliver priorities and improved outcomes for communities

66. The Commission has consistently highlighted the increasing importance of good partnership working in the Scottish public sector. Working well with local partners in the public, private and third sectors is becoming increasingly important as councils try to deliver more for less. Given the significance and the potential efficiencies, both financial and non-financial, that collaborative working in the public sector can achieve, this will continue to be an area the Commission will have an interest in over future years.



Does your council consider sharing services in options appraisals and change programmes?

Do you know if there are processes in place in your council to facilitate collaborative working on a local, regional or national basis?

67. Shared services are one potential approach to partnership working. Through our audit work, we have seen only a limited number of examples of councils sharing services. These include:

- East and South Ayrshire work together to deliver roads-related services through the Ayrshire Roads Alliance
- East and West Dunbartonshire share an IT data centre
- Renfrewshire, East Renfrewshire, Inverclyde and West Dunbartonshire are part of a joint emergency planning service.

Although integration authorities have made some improvements they must overcome several significant barriers to speed up change and improve outcomes

68. The Public Bodies (Joint Working) (Scotland) Act 2014 (the Act) established 31 integration authorities (IAs) which are partnerships between NHS boards and councils. They are responsible for directing almost £9 billion for the delivery of adult health and social care, and in some council areas, for other services, such as children’s services. Our report [Health and social care integration](#) and our [Local government in Scotland: Financial overview](#), both published in November 2018, found that although progress has been made there are significant challenges to overcome ([Exhibit 5](#)).



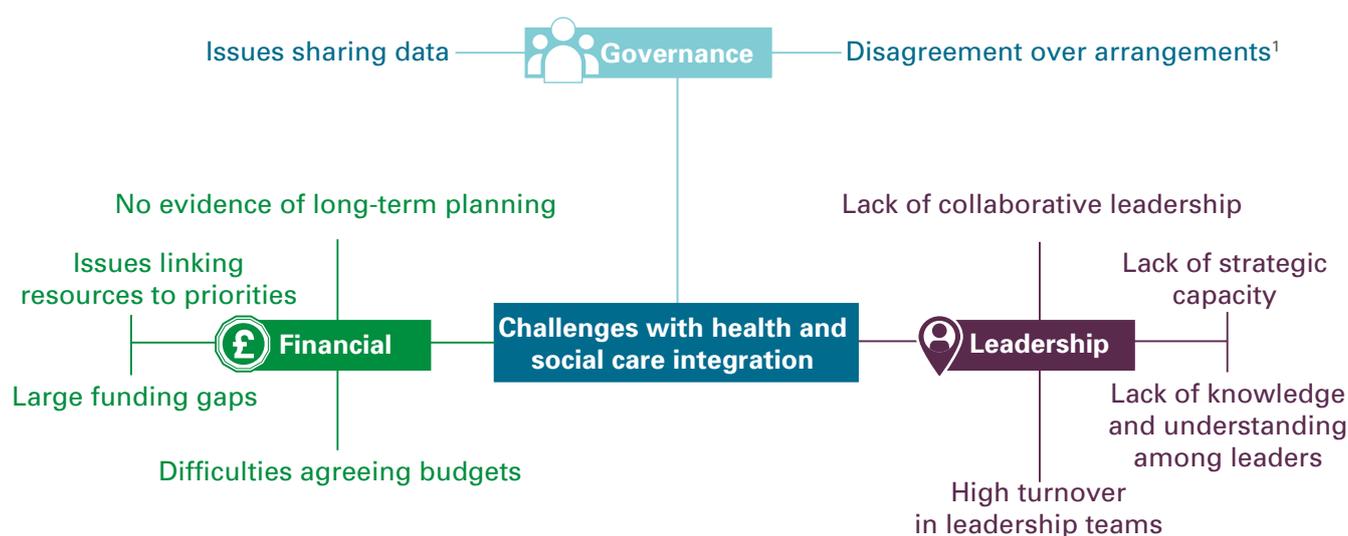
Do you know how your council is ensuring the good governance and financial sustainability of its Integration Authority?

Do you know what your council is doing to ensure that it works with partners to be more open and realistic about changes needed?

Exhibit 5

Challenges to health and social care integration in Scotland

There are significant changes required if integration is going to make a meaningful difference to the people of Scotland.



Note: 1. Disagreements are often due to differing views on responsibility, especially about who is responsible for service performance and quality of care and when accountability for a decision rests with individuals who are no longer responsible for taking them.

Source: [Health and social care: update on progress](#), Audit Scotland, November 2018

69. Performance of IAs in terms of the outcomes experienced by patients is discussed further in [Part 3 \(paragraphs 114–118\)](#).

The Community Empowerment Act fundamentally changes the relationship between council and communities

70. Councils are committed to community empowerment and most are beginning to implement their arrangements at a local level. Effective use of community empowerment can contribute to change and transformation by generating ideas and by involving communities in the difficult decisions that need to be made about priorities and options.

71. Our work shows that some councils:

- have well-established arrangements in place to empower communities ([Case study 1](#))
- are providing training to elected members and officers to enhance their knowledge of community empowerment
- are working to develop community capacity, including providing information and training to communities on how to deliver a service and support through the community asset transfer process.

Case study 1

East Ayrshire Council's 'Vibrant Communities' approach

The Vibrant Communities approach is to work 'with people' rather than 'for people'. It focuses on two areas:

- Early intervention and prevention – acting as soon as possible to tackle problems for children, families and vulnerable people.
- Sustainable communities – empowering and enabling communities to get more involved where they live.

Communities discuss their local needs and priorities and then agree actions to improve their local area. Since 2014, the council has supported 19 communities to develop and implement community action plans through their Vibrant Communities approach. Community workers support community representatives in developing and implementing their plans. Once the plans are established community representative groups monitor progress.

Vibrant Communities has a dedicated community asset transfer team to offer legal, planning and business advice, and advise on alternative funding streams for communities applying for an asset transfer.

Sources: [Best Value Assurance Report: East Ayrshire](#) , Accounts Commission, May 2018, East Ayrshire Council



Audit Scotland produced a briefing paper in April 2018

[What is integration](#) 



Does your council engage with communities on decisions about services, budget proposals and priorities?

Are you clear on what community empowerment involves what it means for your council?

What is your council doing to implement community empowerment arrangements at a local level?

Does the Local Outcome Improvement Plan focus on areas where the Community Planning Partnership can make the biggest impact?

Do you know what your council is doing to reach out to 'seldom heard' and disadvantaged groups?

72. While we have seen examples of good progress, some councils still need to do more to meet their obligations under the Act and ensure communities are empowered by building their capacity further.

73. The Act also places a duty on each Community Planning Partnership (CPP) to develop a local outcomes improvement plan (LOIP). LOIPs set out local outcomes that the CPP will prioritise for improvement. Audit Scotland, the Improvement Service and NHS Health Scotland conducted a review of LOIPs in 2018. We found that:

- the scale and scope of LOIPs varies across Scotland, however progress is being made against the expectations of the Act and associated guidance
- LOIPs need to be more focused on areas where the CPP can make the biggest impact
- there are genuine attempts to enhance community engagement and participation
- there is a lack of clarity around how CPPs are reaching those who are under-represented in council decisions, or the most disadvantaged communities.

Councils are engaging with communities but there is less evidence of successful engagement with people from deprived areas

74. Consultation with communities continues to take place mostly through citizens' panels, residents' surveys and council webpages. Our auditors reported that 26 councils involve communities in decisions about services, budget proposals and priorities and nine councils had either a dedicated team or staff member to support community engagement. Some examples of good practice include:

- Argyll and Bute Council carries out an annual consultation exercise on its budget for the coming financial year. It collates and analyses responses and publicly reports the impact of residents' feedback on decisions.
- East Lothian Council has established six local area partnerships to enable community engagement for the CPP. Each partnership is chaired by a member of the community and is made up of elected members, local bodies, interest groups and residents. Locality plans for each area partnership outline their priorities for improvement and help focus budgets around local priorities.

75. The Scottish Household Survey results suggest that councils are less successful in engaging with people from deprived areas. The percentage of all people surveyed who felt they could influence local decisions was 23 per cent in both 2016 and 2017, whereas for people living in deprived areas the figure was 21 per cent in 2016 and 19 per cent in 2017.

Although councils are responding to the requirements of the Act, they need to do more

76. Participatory budgeting is part of the Community Empowerment Act. It gives residents the opportunity to vote on how local money is spent and to have a say on issues important to them. Councils benefit from a better understanding of their residents' needs and communities feel more engaged and empowered. Dumfries and Galloway Council used its participatory budgeting exercise to focus on reducing inequality ([Case study 2, page 36](#)). Councils should also consider



The Community Empowerment Act (Scotland) 2015 requires that councils ensure communities are actively involved in deciding how public services are planned and provided and seeks to empower community bodies through transferring ownership of land and buildings.

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



What is your council doing to ensure that one per cent of revenue budgets is allocated through participatory budgeting by 2020/21?

whether their approach to participatory budgeting is inclusive of a range of groups within their area, including disadvantaged and hard-to-reach groups, and the impact on improving outcomes.

Case study 2

Dumfries and Galloway Council's tackling poverty participatory budgeting exercise



Dumfries and Galloway Council allocated £240,000 from its Tackling Poverty fund towards a participatory budgeting exercise, 0.08 per cent of its total revenue funding. Sixty-three projects from across the region progressed to public voting events. Successful projects were focused on alleviating different aspects of poverty. Examples of successful projects included provision of:

- emergency power payments, sanitary products and essential toiletries (low income and financial poverty)
- school holiday breakfast and lunch clubs for low income families (food poverty)
- transport for access to services and activities (fuel poverty, rurality and isolation)
- ICT learning activities for those who require access to benefits and who are seeking employment (access to information and educational activities/opportunities).

The council evaluated the project and used feedback to identify how the process could be improved in the future, such as increasing the number of voting events and improving communications to build awareness and generate interest.

Sources: [Best Value Assurance Report: Dumfries and Galloway Council](#) , Accounts Commission, November 2018. *Participatory Budgeting Evaluation Report*, Dumfries and Galloway Council, 2018

77. We are aware of 13 councils that have held participatory budgeting exercises; however, they remain small in scale. COSLA is supporting councils' work towards the Scottish Government's target of allocating one per cent of revenue budgets to participatory budgeting by 2020/21. For example, Dundee City Council held a participatory budgeting exercise in 2017/18 where 11,000 people voted on which priority projects should be allocated a share of £1.2 million (0.3 per cent of the council's £343 million revenue funding). Communities, existing representative groups and elected members were involved in the selection of projects and the council held a community conference to shape ideas. Feedback on the exercise was positive and the council will use learning to shape future exercises.

78. The Accounts Commission has a continuing interest in community empowerment, and will consider the pace and level of progress in future Best Value work and performance audits.

Workforce reductions have changed how councils are structured and the skills available, but the quality of workforce planning is inconsistent

79. Councils spend a substantial part of their revenue budgets on their staff. They directly employ around 243,000 people, around 197,500 full-time equivalent (FTE) staff. This is 48 per cent of the public-sector workforce, meaning councils are the largest employer in the Scottish public sector. Reducing the workforce is one of the main ways councils have made savings. For example, in Dumfries and Galloway the council saved £60 million in the past five years partly through reducing its workforce by 11.3 per cent.²⁴ Councils need to do more to ensure they understand in detail the profile and capacity of the management and workforce they currently have and need in the future. This is fundamental for being able to effectively respond to the challenging context and deliver effective change.

80. The Scottish Government reports quarterly on total local government staff and every year on social workers and teacher numbers.

- Between September 2017 and September 2018, there has been a small decrease, 0.2 per cent, in FTE staff numbers within councils. Since 2013, staff numbers have fallen by almost 5,000, a decrease of two per cent.²⁵
- In the past five years there has been a 0.1 per cent reduction in social workers and a 1.6 per cent increase in teachers compared to a two per cent reduction for total council workforce.

Therefore, teachers and social workers now make up an increasing proportion of council employees, 29 per cent in 2017 compared to 27 per cent in 2013.

The quality of workforce planning varies across councils

81. The Commission believes that integrated workforce planning is essential for robust medium and long-term planning and effective transformation. This should include an analysis of what the council will need in the future, where the gaps lie and how to address them, either through training, recruitment, restructuring current resources, shared arrangements with other organisations, or procuring specialist skills.

82. Workforce planning is an area where progress is mixed across councils. Glasgow City, as an example, has a coordinated approach to workforce planning. Each service has a workforce plan which forecasts its requirements. Quarterly updates are collated centrally to identify gaps and surpluses which are then used to develop budgeting and resourcing plans including redeployment and retraining opportunities. However, there are other councils where it is not clear what the workforce will look like in terms of numbers and skills in the medium or long term.

Councils need to plan to ensure they have the staff, skills and leaders to deliver change, but there is no national data on workforce by service

83. Effective leadership is fundamental to the successful implementation of change in a complex and changing policy landscape. Councils need to ensure they have the best possible political and management leadership. This means ensuring there is appropriate training and development to support both councillors and management. For senior management this also means building the best strategic team possible and ensuring there is enough capacity to lead change and wider responsibilities. The Commission considers that this means recruitment



What is your council doing to ensure that it has the right capacity, skills and leadership in its workforce?

What training does your council make available to officers and councillors to ensure they have the skills to deliver services in the future?

to chief executive posts should include open competition to secure the best possible pool of candidates. Unless there is a clear rationale, which should be articulated in public council papers, key senior management positions, such as director and head of service level posts, should also be advertised externally.

84. There is a lack of national data on workforce by service. This makes it difficult to be able to determine what is needed in terms of skills or training for staff across Scotland, how services have been affected by the overall reduction in workforce and to inform benchmarking and sharing good practice. Other available data indicates reductions in some services, for example:

- The Royal Institute of Town Planners report a 23 per cent reduction in the planning workforce in Scotland from 2009 to 2016.²⁶
- The Society of Chief Officers of Environmental Health in Scotland report that the number of professionally and technically qualified environmental health staff has decreased by 12 per cent from 2016 to 2018.²⁷
- The number of librarians has fallen by 22 per cent and the number of library staff by seven per cent between 2014 and 2018.²⁸

85. Councils continue to report staff shortages in key service areas:

- Two-thirds of councils reported a shortfall in mental health officers, the additional hours needed per week to make up this shortfall is equivalent to 41 full-time officers.²⁹
- Care Inspectorate reports for Eilean Siar and Renfrewshire observed the continued difficulties in recruitment and retention of social care workers and the impact this has on services.

86. The UK's withdrawal from the EU could exacerbate problems of staff shortages as it could result in a loss of non-UK EU nationals from the workforce or difficulty recruiting from Europe. The Scottish Government estimates that there are 9,830 non-UK EU nationals working in social care in Scotland, 5.6 per cent of the workforce.

87. Councils are competing with other organisations for the same skills, for example digital, project management, planning and engineering expertise. Difficulties with recruitment and retention are compounded by an ageing workforce within councils and with a smaller working age population to recruit from. Also, many of the reductions in the workforce are from those approaching retirement, meaning that their skills and experience are lost to the organisation. For example, in Dumfries and Galloway Council 44 per cent of staff are over 50 years old.

88. Councils need to ensure there is sufficient training for their staff to allow them to respond to the changing and more pressured environment. There is no national data on skills training programmes; however, in our BVAR reports we have highlighted how some councils have approached this:

- In West Dunbartonshire Council, staff have a skills passport which sets out mandatory learning for staff at various career milestones. This allows them to plan for their ongoing development and encourages continuous learning.



Does the training you are offered meet your needs? If not, do you know who to speak to?

Does your council have an organisation-wide workforce plan? Does it contain information about the numbers, costs and skills of the actual and desired workforce?

- Dumfries and Galloway Council's 'Grow your Own' scheme retrain staff in areas where there are recruitment issues. As a result, it has been successful in filling teacher vacancies.

Councils should consider the impact of change on their staff

89. Savings programmes and staff reductions mean some uncertainty for council staff. Unless managed well, this could have an impact on the morale of the workforce and individual staff's wellbeing. Surveys carried out by Unison found that in 2018:

- 75 per cent of Environmental Health and 70 per cent of Trading Standards employees interviewed reported that morale in their organisation was low
- 90 per cent and 78 per cent respectively said that workload was higher than five years ago.³⁰

90. Councils should be aware of the impact savings programmes are having on their workforce and put measures in place to address any issues. Many councils do this through staff surveys. Common findings from staff surveys indicated people not feeling valued for what they do, not being asked for their views on change and feeling that working for the council had worsened in recent years due to workload.

91. The average number of sickness days for non-teaching staff has increased from 10.9 days in 2016/17 to 11.4 days in 2017/18. There is significant variation among councils, from an average of 16.8 days in Clackmannanshire to 8.4 days in East Ayrshire. For teachers, the average number of sickness days has fallen slightly from 6.1 days in 2016/17 to 5.9 days in 2017/18, varying from 9.1 days in Clackmannanshire to 4.2 days in East Ayrshire.

92. We have calculated in previous reports that if councils reduced sickness absence they could improve their productivity. If councils with higher rates of sickness absence levels reduced these in line with the top eight performing councils, they would gain the equivalent of 619 non-teaching staff across Scotland, and 248 teaching staff.



Do you know how your council is ensuring changes to staff numbers and working practices do not have a negative impact on morale and wellbeing?

Part 3

Council performance and the impact on communities



Councils understand the challenges facing their communities, but resources need to be better linked to their vision and priorities

93. Our audit work shows that councils continue to clearly set out their strategic priorities and plans. Councils understand the local context of their communities and have a strategic focus on improving social inequality, particularly in areas of high deprivation.

94. Over half of councils clearly link their budget setting to their strategic priorities or plans. This should be evident in all councils. More also needs to be done to demonstrate how spending is linked to outcomes and performance. A positive example that contributes to clearer links is evident at North Ayrshire Council. Officers include information on what outcomes could be achieved for each level of investment when presenting strategic investment options. This allows councillors to consider whether the impact on the council's priorities would be significant enough to warrant the investment.

Councils are focused on performance management and improvement

95. Our Best Value assurance reports to date indicate councils have improved their approaches to managing performance and improvement. Good performance management should link to the council's strategic priorities and be able to demonstrate a link between spend and outcomes.

96. A good council is self-aware, understands its own performance and uses that to make improvements. Our auditors reported evidence of self-evaluation in 14 councils in their 2017/18 Annual Audit Reports. For example, North Lanarkshire Council reviewed its position against the Best Value characteristics and the recommendations in previous Best Value assurance reports to help develop its rolling programme of reviews. Many councils have structured self-evaluation programmes. These can include corporate level and service level assessment tools, for example in West Lothian Council all services complete a bespoke assessment model and attend an officer-led scrutiny panel once in a three-year cycle to provide challenge to the service and promote improvement.

Councils need to show they are delivering against their high-level outcomes

97. As part of setting its *2018 Statutory Performance Information Direction* [\(↓\)](#), the Commission reviewed performance information available on council websites. It found that:

- Auditors in 20 councils concluded that performance information was satisfactory.
- 90 per cent of councils published an annual performance report and 80 per cent published service level performance information.



Does your council clearly link its budget setting to its strategic priorities and plans?

Are you assured that performance reporting by your council is accurate and accessible?

Can your council demonstrate progress in delivering its key outcome priorities?

- There are large amounts of performance information online, however websites could be easier to navigate, and the information was sometimes out of date. Councils may also want to consider whether having fewer, but better focused, performance indicators would allow them to demonstrate performance against their key priorities more clearly and effectively to the public.
- While 90 per cent of councils report performance against their priorities, few outlined progress against outcomes.

98. It is important that councils clearly report their performance to local citizens and the community. Good performance reporting includes clearly stating how performance and spend are linked to the council's priorities; local indicators which demonstrate quality of service; public satisfaction levels; and an overall assessment of the council's performance against outcomes.

Most national indicators have improved or been maintained but performance varies between councils.

Despite funding reductions, councils have maintained performance against several national indicators

99. The National Performance Framework measures progress across 81 indicators, although some of these are still in development and some do not have the data to allow trend analysis. We have selected 16 of the available indicators, these show that many outcomes have improved across Scotland in the last five years ([Exhibit 6, page 36](#)). However, there has been less progress with health outcomes.

100. Many of the NPF indicators are not available at a local level but the Improvement Service has developed a Community Planning Outcomes Profile (CPOP) tool which tracks performance against a set of identified measures at a CPP level. There is a helpful interactive tool on the [Improvement Service website](#)  which allows communities and councils to drill into the data and to compare performance between CPPs, councils and over time. Analysis of the CPOP data shows that the majority of outcome measures have improved over the last five years.

101. There are limitations with the availability of both the NPF and CPOP data. Better data would allow councils to understand differences in demand and performance, report how well they are delivering against their outcomes and enable more informed decisions.

Since 2010/11 performance against most Local Government Benchmarking Framework indicators has been maintained or improved

102. The Local Government Benchmarking Framework (LGBF) is produced by the Improvement Service in partnership with councils. Since 2010/11 it has produced comparative performance information for councils to help them improve. The LGBF contains over 70 indicators covering a broad range of service areas. In previous years and in our BVARs we report on a sample of eight measures to give an indication of council performance.³¹ Over the past seven years performance for these indicators has improved slightly or remained stable ([Exhibit 7, page 37](#)). This year, the LGBF reports that across all indicators there is some evidence that performance improvement is slowing down for the first time since 2010/11.³²



Does your council make use of LGBF data to consider where and how it might make improvements to service delivery?

Have you considered what lessons your council can learn from other councils who are delivering services well?

Exhibit 6

Changes in performance measures for Scotland's outcomes between 2013 and 2017

Performance against many outcome measures has improved but there has been less progress with health outcomes.

Children, young people and education	Percentage of settings providing funded early learning childcare achieving good or better across all themes	-0.5%	
	Proportion of adults aged 16-64 with low or no qualifications (SCQF level 4 or below)	-1.8%	
Satisfaction	Percentage of adults who rate their neighbourhood as a very good place to live	2%	
	Percentage of respondents who are fairly or very satisfied with the quality of local services (local health services, local schools and public transport)	-8.2%	
	Percentage of people who agree with the statement 'I can influence decisions affecting my local area'	0.7%	
	Percentage of households who report being either 'very satisfied' or 'fairly satisfied' with their house or flat	2%	
Culture and leisure	Percentage of adults who have participated in a cultural activity in the last 12 months	-0.2%	
	Proportion of adults making one or more visits to the outdoors per week	6%	
Environment	Percentage of energy consumption which is renewable energy	7.1%	
	Household waste (million tonnes)	4.2%	
Fair work and business	The total number of private sector enterprises in Scotland per 10,000 adults	8%	
	Percentage of workers earning less than the living wage	0.1%	
	The difference between male and female full-time earnings, expressed as a percentage of male full-time hourly earnings	-3.4%	
Health	Average Mental Wellbeing Score ¹	-0.2%	
	Percentage of adults with two or more health risk behaviours (current smoker, harmful drinking, low physical activity, obesity)	1%	
	Proportion of adults usually travelling to work by public or active transport	-0.6%	
	European Age Standardised mortality rates per 100,000 for people under 75 in Scotland	-2.8%	

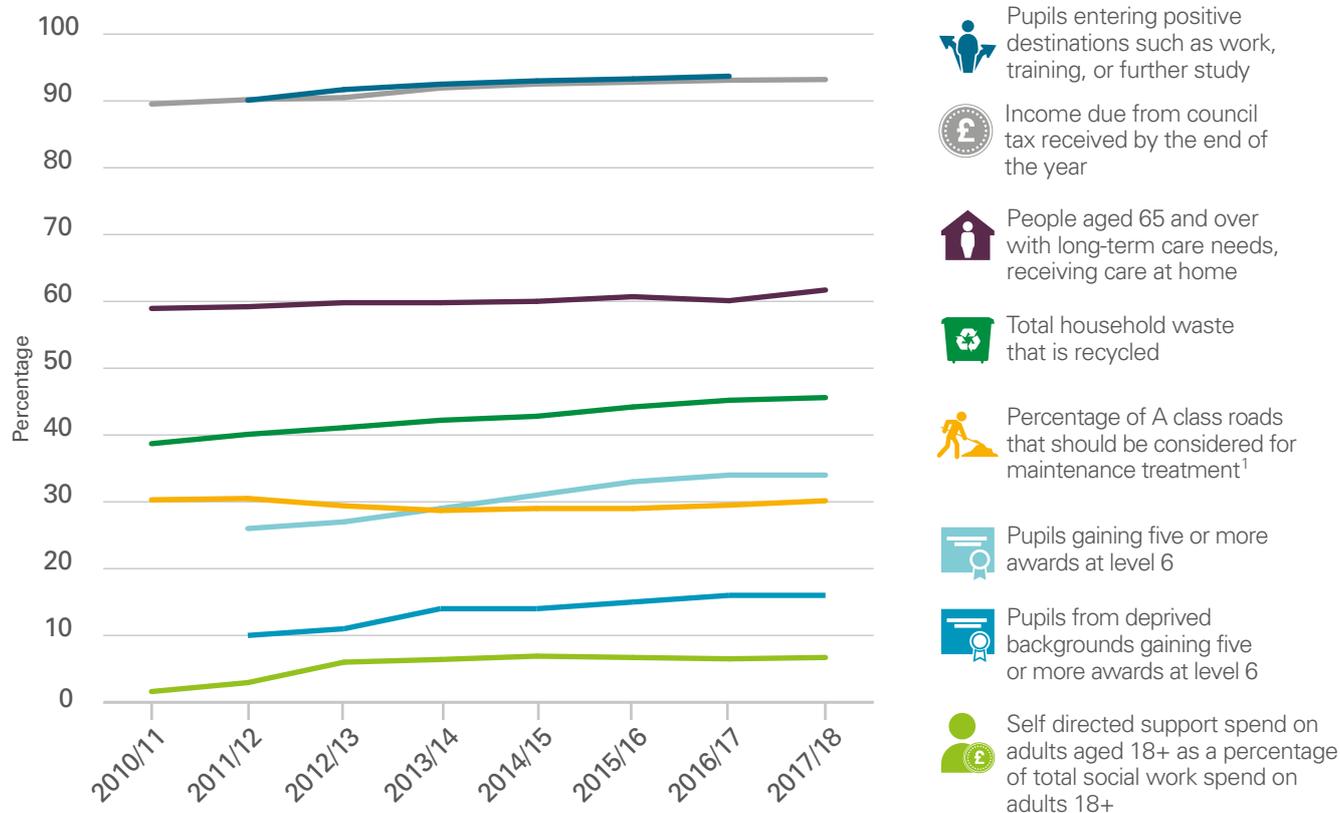
Note: 1. Warwick-Edinburgh Mental Wellbeing Score.

Source: National Performance Framework

Exhibit 7

Performance against selected indicators, 2010/11 to 2017/18

Performance has been maintained or improved.



Note: 1. Roads maintenance is measured in two-year time periods therefore 2009-11 is reported in 2010-11.

Source: Local Government Benchmarking Framework, 2017/18



103. We have also analysed council spending against indicators to see the impact that funding reductions have had on performance at a national level. This shows that since 2010/11 most services have been maintained or improved despite reducing budgets ([Exhibit 8, pages 38-39](#)). However, in the past year the data shows that some services are beginning to spend more or have had a decline in performance, for example, the number of library visits has fallen by eight per cent.

Performance variation is expected as councils have different local priorities, but it can also provide opportunities for identifying efficiencies.

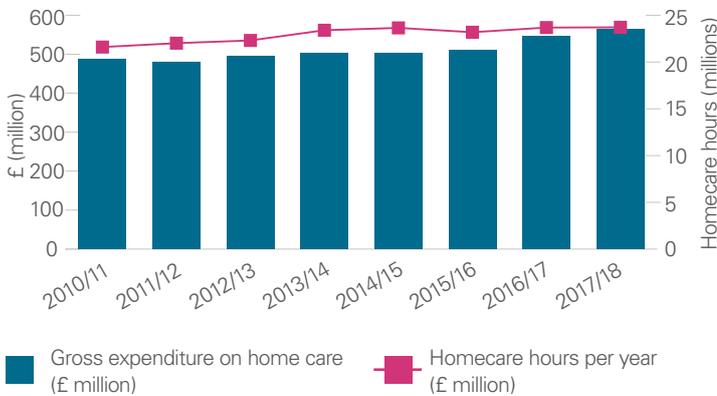
104. The Accounts Commission is clear that 'It is for councils to make choices in where they focus their improvement work, but they need to be able to show how they have arrived at such choices'.³³ As such performance against the indicators will vary depending on both local factors and policy decisions.

105. Councils should use the LGBF and other benchmarking tools to understand where councils with similar circumstances are performing better or spending less to provide the same service. [Exhibit 9 \(page 40\)](#) shows that there is a wide variation in both performance and unit costs between councils. There could be several reasons behind this, but it provides an opportunity to share learning and experiences to improve services.

Exhibit 8

Performance and spend in key areas, 2010/11 to 2017/18

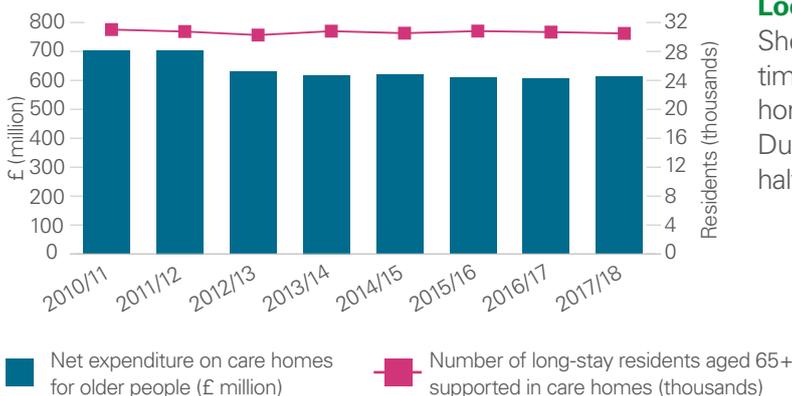
There has been a significant increase in expenditure on home care, while the number of hours provided has increased at a lower rate.



Local variations

Clackmannanshire, Perth and Kinross and Stirling councils have the lowest costs per hour of homecare. The island councils have higher cost per hour of homecare than other councils. Midlothian Council's costs are higher than other mainland councils.

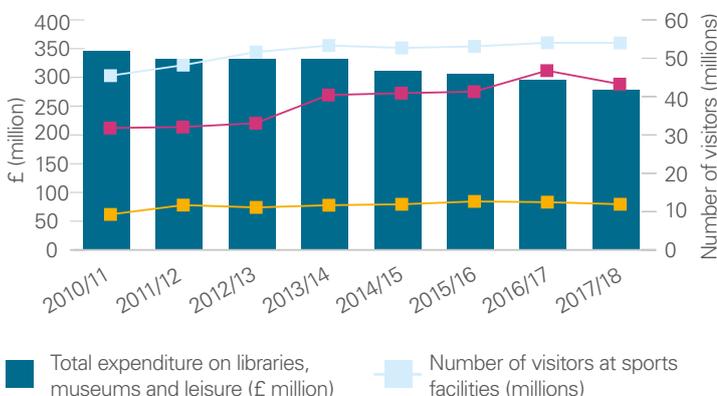
Spending on residential care and the number of residents has stayed relatively constant in recent years.¹



Local variations

Shetland Islands Council spends more than three times the Scottish average per week on their care home residents, £1,349 compared to £386; while Dumfries and Galloway Council spends just over half of the Scottish average (£195).

Spending on culture and leisure continues to fall but visitor numbers to sports facilities, museums, and libraries all decreased in 2017/18.



Local variations

The City of Edinburgh Council had the highest number of library visits in 2017/18 and some of the lowest costs per visit. Glasgow City Council had the highest number of museum visitors and average costs per museum visit.



Exhibit 8 (continued)

Performance and spend in key areas, 2010/11 to 2017/18

Spend on roads has reduced since 2010/11, although it has remained relatively stable in recent years. The percentage of roads classified as needing maintenance increased slightly between 2016/17 and 2017/18.²

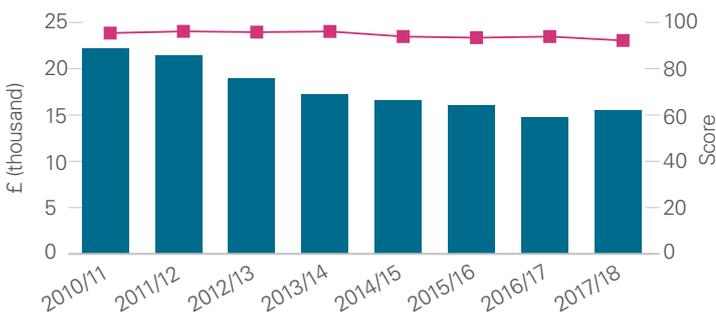


Local variations

Dundee City Council has the lowest percentage of roads in need of maintenance and is in the top 25 per cent of cost of roads per km. Argyll and Bute Council has the most roads in need of maintenance and is in the bottom 25 per cent for cost of roads per km.³

■ Cost of maintenance per kilometre of roads (£ thousand) ■ Percentage of A class roads that should be considered for maintenance treatment ■ Percentage of B class roads that should be considered for maintenance treatment

For the first time since 2010/11 expenditure on street cleaning increased, by six per cent, but the cleanliness score continues to fall slightly.



Local variations

In 2017/18, Glasgow City Council spent the most per 1,000 of population on street cleaning, more than double the Scottish average, but had one of the worst street cleanliness scores. Scottish Borders Council has one of the highest street cleanliness scores and spends roughly two-thirds the Scottish average.

■ Net cost of street cleaning per 1,000 population (£ thousand) ■ Street cleanliness score



Notes:

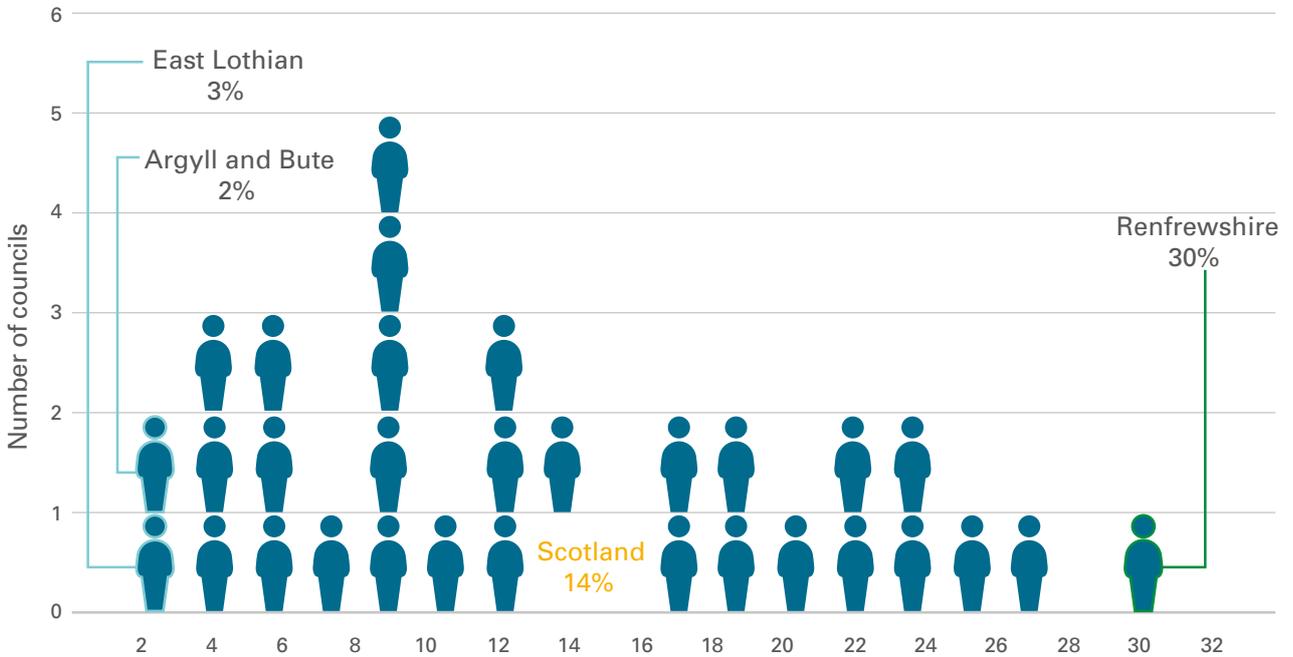
- 2010/11 and 2011/12 expenditure includes support costs so is not directly comparable to later years.
- The percentage of roads that should be considered for maintenance treatment indicator is measured over two-year periods, for example 2009-11 is plotted as 2010/11.
- The cost of roads per km includes both revenue and capital expenditure.

Source: Audit Scotland; and Local Government Benchmarking Framework 2017/18, Improvement Service

Exhibit 9

Variation between councils 2017/18

The percentage of unemployed people helped into work by a council employment scheme varied from two per cent in Argyll and Bute to 30 per cent in Renfrewshire.



Percentage of unemployed people assisted into work from council operated or funded employability programmes

Note: There is no data for employability in Shetland in 2017/18.

The cost of council tax collection is significantly higher in the island councils.



Note: Scotland figures are the Scottish average.

Source: Local Government Benchmarking Framework 2017/18



- The percentage of unemployed people helped into work through a council operated or funded employability programme ranged from two per cent in Argyll and Bute to 30 per cent in Renfrewshire. We calculated that if all councils could increase their number to the Scottish average of 14 per cent, an additional 3,500 people would have been helped into employment in 2017/18.
- The cost of council tax collection is significantly higher in the island councils; it costs £27 per property to collect council tax in Eilean Siar and £17 per property in Orkney Island compared to the Scottish average of £7. Clackmannanshire and Fife councils spend less than £3 per premise to collect council tax. We calculated that if the 16 mainland councils who spend more than the Scottish average reduced costs to that level they would save £1.7 million and if the Eilean Siar and Orkney reduced their costs to those of Shetland Islands, they would save £209,000 and £179,000 respectively.

Education performance has improved since 2011, but progress slowed in 2017/18 and the attainment gap between the most and least deprived pupils has widened in the last year

106. Education is the largest area of council spend, and the focus of considerable national policy attention. In 2017/18, councils spent £3.9 billion on schools, and a further £0.4 billion on pre-schools. This is a one per cent and three per cent respective real terms increase on the previous year. Spending on schools has reduced by two per cent since 2011/12, but has been increasing since 2015/16, when the Scottish Government introduced its Scottish Attainment Challenge.³⁴

107. Nationally pupil attainment has been improving. Across Scotland, there has been a 16 per cent improvement in average tariff score since 2011/12. However, 2017/18 data shows that:

- For the first time there has been no change in the percentage of pupils gaining five or more awards at level 6 and the proportion of pupils gaining five or more awards at level 5 has increased at a slower rate than previous years.
- The gap between average tariff scores of the most deprived pupils and the least deprived pupils increased from 2016/17 to 2017/18. In 2017/18, pupils from the most deprived areas saw a 1.1 per cent reduction in their tariff scores while those in the least deprived saw a 0.9 per cent increase. This increased the gap between the most and least deprived by three per cent since 2016/17.³⁵

108. Performance in exams is not the only way to measure attainment. The LGBF also reports on the percentage of 16 to 19 year-olds in work, training or learning which has increased year on year since first measured in 2015/16.

Some councils have done well to improve attainment

109. We reported last year that there is variation in education performance that cannot be explained by deprivation. This is still the case. This year we have considered how councils' performance has changed since 2011/12. All councils have improved their performance despite a reduction in spend. But some councils have improved considerably faster than others and the gap between the best and worst performing council has widened ([Exhibit 10, page 42](#)):



Average Tariff Score

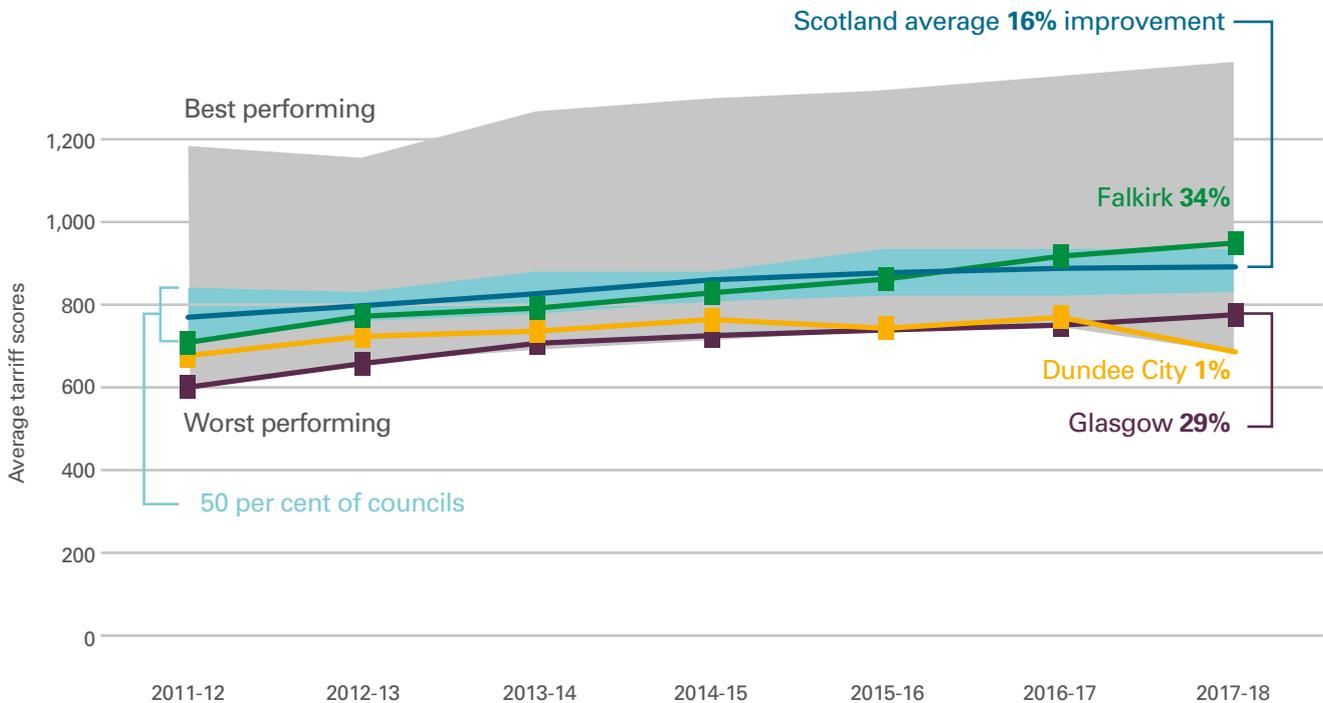
Is an overall measure of secondary attainment, taking account of all qualifications a pupil earns from age 14 until leaving school.

Tariff scores strongly reflect the total number of subjects studied which may not reflect curriculum decisions taken by the council.

Exhibit 10

Improvement in average tariff score 2011/12 to 2017/18

All councils have seen an improvement to their overall tariff scores despite reducing budgets but the gap between best and worst performing has increased.



Note: As leaver information is not available when the LGBF publishes its data, the LGBF uses data based on the year pupils are expected to leave school rather than the actual year they left. This means there are some small differences between it and data published by the Scottish Government later in the year.

Source: Local Government Benchmarking Framework 2017/18



- Falkirk Council’s attainment has improved by 34 per cent since 2011/12. It is now in the top quartile for attainment, whereas in 2011/12 it was in the bottom quartile.
- Glasgow City Council has seen a 29 per cent improvement in their tariff scores although it remains in the bottom quartile.
- Dundee City Council has seen only a one per cent improvement in its tariff scores since 2011/12. It had a ten per cent drop in tariff score in 2016/17 which affected the overall trend. It has been in the bottom quartile since 2011/12.

110. The reasons behind why Glasgow and Falkirk have seen big improvements in attainment and Dundee has not, cannot be explained simply by the amount spent on education nor levels of deprivation:

- Dundee City Council spends more than the Scottish average per secondary pupil while Falkirk and Glasgow spend less.
- Both Dundee and Glasgow City councils have reduced their spend per secondary pupil by five per cent since 2011/12, a bigger reduction than the

Scottish average of one per cent. Falkirk Council has reduced spend per pupil by one per cent.

- All three councils have high levels of children living in families with limited resources compared to the Scottish average of 20 per cent. Dundee City and Falkirk have similar levels, 26 per cent and 27 per cent respectively. Forty-one per cent of children in Glasgow live in families with limited resources.^{36, 37}
- Dundee City Council reports that the drop in tariff scores in 2017/18 is due primarily to a higher than usual number of children leaving school at S4 in 2015/16.

111. This variation provides an opportunity for councils such as Glasgow and Falkirk to share what has helped them make these improvements. Our Best Value work, engagement with scrutiny partners and 2014 report on [School education](#)  suggest that the leadership and culture of the organisations have a part to play:

- We highlighted in our 2015 Best Value report on [Falkirk Council](#)  that it had good performance management arrangements and a strong improvement culture embedded in its education department.
- Our [Best Value Assurance Report: Glasgow City Council](#)  reported that targeted actions have helped improve attainment through the Glasgow Improvement Challenge. The Care Inspectorate and Education Scotland's 2017 inspection of young people's services in Glasgow found that 'strong leadership is driving an ambitious vision to improve life chances for all children and young people in Glasgow'.³⁸
- During engagement with scrutiny partners for Dundee City Council, Education Scotland highlighted that the council will need to move from incremental to transformational change to improve attainment.³⁹ In its 2018 inspection of Dundee's Attainment Challenge progress, Education Scotland found that strong leadership and higher aspirations are beginning to improve the pace of change. It also highlighted strong use of data and collaboration with Dundee University to help understand the pupils' needs and improve attainment.⁴⁰

112. In February 2019, Education Scotland rated Renfrewshire Council excellent in its inspection of the Scottish Attainment Challenge. It found that highly effective leadership and governance and evidence-based interventions had led to significant year-on-year improvements in closing the gap between attainment of the most and least deprived pupils.

113. We will be carrying out an audit on educational outcomes in 2019/20 which will consider the reasons for variation in attainment.

There is evidence that spending reductions and increasing demand are impacting on some services

Social care services continue to struggle to meet demand

114. Adult social care remains one of the largest areas of spend for councils and the demand for services will continue to increase as the population ages. Older



Do you know the impact of spending reductions on the services your council provides?

people in need of support are either cared for in their home by visiting care workers or in a residential care home. This care is given by a range of different providers. In 2017:

- Most care home residents were cared for by the private sector, 80 per cent, while the NHS and councils cared for 11 per cent of residents and the third sector nine per cent.⁴¹
- The private sector also provided most homecare hours, 42 per cent, councils provided 41 per cent, the third sector six per cent and a mixture of providers 11 per cent.⁴²

115. We continue to see signs that services are struggling to meet the demand for care. We reported in December 2018, that there has not yet been enough progress to address the scale of challenges with social work in Scotland and there are some outstanding areas where action is needed. In 2017/18, the number of hours of personal care at home is at the highest level since 2010/11. Between 2016/17 and 2017/18, councils have spent more on both home care and residential care, this has increased at a faster rate than the people who are cared for. This is in part due to those receiving care having increasing levels of need, as well as the payment of the living wage and overnight allowances to social care workers.

- Total spending on homecare has increased by 3.1 per cent despite only a 0.1 per cent increase in the number of hours of homecare.
- Net spending on residential care homes increased by 1.2 per cent despite a 0.6 per cent reduction in the number of residents.

116. Both satisfaction indicators in the LGBF data show a substantial drop in satisfaction with social care services. Eighty per cent of adults who receive care are satisfied with it and feel it improves or maintains their quality of life. This is down from 84 and 85 per cent respectively and is the lowest since it was first recorded in 2014/15.

117. We reported last year that local inspections raised concerns about the ability of the City of Edinburgh and Scottish Borders councils to meet the demand from older people and the quality of care provided. A progress review of the City of Edinburgh Council's services for older people found that limited progress had been made towards improving the outcomes for many older people. They and their carers were unable to get help even when their needs were critical, and often had to wait lengthy periods for the care they needed. In April 2018, there were 1,500 people in the community waiting for an assessment, waiting an average of 50 days.

118. The Care Inspectorate has also carried out follow-up inspections of Eilean Siar and Aberdeen City Councils and a full inspection of Renfrewshire Council's adult services. It found that progress has been made but observed issues around staff recruitment and retention in Eilean Siar and Renfrewshire and the capacity of care services in Aberdeen.



How is your council adjusting to meet changing demands for care services?

How is this reflected in the performance data?

Public satisfaction is falling

119. The Scottish Household Survey reported that in 2017 public satisfaction has fallen for another year:

- 52 per cent of adults were satisfied with three public services – local health, schools and transport. This is the lowest since first measured in 2007 (57 per cent) and a reduction of four per cent since 2016.
- Satisfaction amongst schools had dropped from 79 per cent in 2007 to 70 per cent in 2017.
- Satisfaction with service users was higher than the whole population, people who had children at local schools reported 87 per cent satisfaction.

120. Less than half of councils have published a residents' or citizens' survey between 2016 and 2018. Of these, five reported a reduction in satisfaction levels compared to previous years. In their surveys many councils asked satisfaction questions about specific services or aspects of service delivery. The most frequent service-specific surveys were in relation to social care, schools and education, housing, building standards and planning, children and families services and school meals. Overall, the picture varies significantly with both increases and decreases in satisfaction levels being reported for the same service across the country.

Some councils are not meeting their statutory duties in terms of homelessness.

121. The number of homeless applications increased for the first time in nine years in 2017/18, from 34,570 households in 2016/17 to 34,972 households in 2017/18. Councils have a statutory duty to provide temporary and settled accommodation to households assessed as homeless. However, some councils have been unable to meet this obligation.

- The Scottish Housing Regulator reported in March 2018 that Glasgow City Council had failed to offer temporary or emergency accommodation to 40 per cent of the 5,377 applications it had for assistance in 2016/17. It had also provided settled accommodation to just over half of the households it had a duty to provide to.⁴³
- The Local Government and Communities Committee took evidence from the Legal Services Agency who reported up to ten cases a week where households had approached them for legal help with councils who had been unable to offer temporary accommodation.⁴⁴

122. When providing accommodation, councils must ensure that households with children or a pregnant woman do not stay in unsuitable accommodation for more than seven days. In 2017/18, there were 400 cases where the household stayed longer than this time, 280 of these were in Edinburgh, 65 in West Lothian and 20 in East Dunbartonshire.

123. Councils use temporary accommodation when a permanent home is not immediately available. Temporary accommodation is more expensive for councils to provide, impacts on existing housing stock and is not the best place for people to stay long term. However, there has been an increase in the use of temporary accommodation in recent years. In 2017/18:



Do you know what your council is doing to understand how satisfaction with different services is changing?



Is your council meeting its statutory duty to provide temporary and settled accommodation to households assessed as homeless?

- there were 10,933 households in temporary accommodation, one per cent more than in 2016/17 and 6,615 children, nine per cent more than 2016/17
- the average time spent in temporary accommodation is 204 days for families and 161 for households without children
- over 13 per cent of households in temporary accommodation spent more than a year there. In Shetland, the average time spent in temporary accommodation was over a year.

124. Homelessness is a complex problem that is often the symptom of a range of different challenges. Shelter believes that the increase in homeless applications is due to the impact of welfare reform, a lack of affordable housing, an increase in people with complex needs who do not receive the support they need, and insufficient and inconsistent prevention work.⁴⁵ The Scottish Government has an objective to end homelessness, this will require a multi-agency approach. We will be reporting further on affordable housing in 2019/20 and will consider homelessness as part of the scope of this audit.

Endnotes



- 1 Local Government Finance Circulars are letters from the Scottish Government to councils. We use the letters which set out the annual funding settlement. All circulars can be found on the Scottish Government's website: <https://www.gov.scot/publications/local-government-finance-circulars-index/>.
- 2 Local Government Finance Statistics are annual statistics on council spend from returns from councils. We have not audited the information in them. They can be found on the Scottish Government's website: <https://www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/PubScottishLGFStats>.
- 3 Provisional outturn and budget estimates contain initial outturn and budget information provided by councils. We have not audited the information in them. They can be found on the Scottish Government's website: <https://www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBESStats>.
- 4 The LGBF is published by the Improvement Service and contains over 70 cost and performance indicators for local government. It can be found here: <http://www.improvementservice.org.uk/benchmarking/explore-the-data.html>.
- 5 National Performance Framework indicators are used to measure progress against the NPF. They can be found here <https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance>.
- 6 Scotland's Fiscal Outlook, Scottish Government, May 2018.
- 7 The 2018 National Performance Framework is set out at: <https://nationalperformance.gov.scot/>
- 8 [*Local government in Scotland: Financial overview 2017/18*](#) , Audit Scotland, November 2018.
- 9 [*Scotland's new financial powers briefing paper*](#) , Audit Scotland, October 2018.
- 10 Projected cost pressures for Scottish local government, Improvement Service, 2018.
- 11 *Securing the future of health and social care to the 2030s*, Institute of Fiscal Studies, May 2018.
- 12 *Health and Social care medium term financial framework*, Scottish Government, October 2018.
- 13 *Poverty and inequality in Scotland: 2014-2017*, Scottish Government, March 2018.
- 14 *Poverty in Scotland 2018*, Joseph Rowntree Foundation.
- 15 Citizens Advice, *Disconnected*, 2018.
- 16 UK Poverty 2018, Joseph Rowntree Foundation.
- 17 *Rolling out Universal Credit*, Comptroller and Auditor General, HC 1123, June 2018.
- 18 *Homelessness in Scotland 2017-18*, Scottish Government.
- 19 City of Edinburgh, Council papers, 7 February 2019.
- 20 *Financial sustainability of local authorities 2018*, Comptroller and Auditor General, HC 834, March 2018.
- 21 Ibid.
- 22 Local Authority Capital Expenditure and Receipts, England: 2017-18 Final Outturn, Ministry of Housing, Communities and Local Government.
- 23 Statement from Rob Whiteman and Richard Paver on borrowing to invest, CIPFA, October 2018.
- 24 *Workforce strategy and metrics update 2018*, Dumfries and Galloway Council, November 2018.

- 25 These figures do not include staff who are employed by arm's-length external organisations.
- 26 Royal Institute of Town Planners written submission to Local Government and Communities Committee, 2018.
- 27 Data provided by Society of Chief Officers of Environmental Health, 2019.
- 28 Public library statistics, CIPFA, 2014 and 2017/18.
- 29 [Social work in Scotland - Impact report](#) , Account Commission, December 2018.
- 30 *Tipping point*, Unison, November 2018 and *Trading safety*, Unison, May 2018. Both are reports on surveys carried out by UNISON of their members. For environmental health workers, members from 21 councils responded, for trading standards members from 29 councils. The overall number of respondents is not stated.
- 31 The full range of indicators includes unit cost and public satisfaction. These are available on the improvement services website: www.improvementservice.org.uk/benchmarking.
- 32 *National benchmarking overview report 2017-18*, LGBF, 2019.
- 33 [Accounts Commission Strategy and annual action plan 2018-23](#) , Accounts Commission, June 2018.
- 34 LGBF included educational attainment information for the first time in 2011/12.
- 35 As leaver information is not available when the LGBF publishes its data, the LGBF uses data based on the year pupils are expected to leave school rather than the actual year they left. This means there are some small differences between it and data published by the Scottish Government later in the year.
- 36 *Children in families with limited resources across Scotland 2014-2016*, The Scottish Government.
- 37 The Scottish Government, through its Attainment Challenge provides additional funding to the councils it defined as having the highest concentration of deprivation. Glasgow and Dundee are challenge authorities. The other authorities are Clackmannanshire, East Ayrshire, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire and West Dunbartonshire.
- 38 Joint inspection of services for children and young people in Glasgow, May 2017.
- 39 [Dundee City Council Local Scrutiny Plan 2018/19](#) , Audit Scotland, April 2018.
- 40 *How well is Dundee City Council improving learning, raising attainment and closing the poverty-related attainment gap?* Education Scotland, June 2018.
- 41 Care home census for adults in Scotland, 2018, NHS Scotland.
- 42 Social Care Services, Scotland, 2017, Scottish Government.
- 43 Scottish Housing Regulator, March 2018.
- 44 Local government and communities committee, Report on homelessness, February 2018.
- 45 Briefing for Scottish Government debate on ending homelessness together, Shelter, November 2018.

Local government in Scotland Challenges and performance 2019

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Local government in Scotland: Challenges and performance 2019

ACCOUNTS COMMISSION 

Key messages

- 1** Councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. Councils are also central to delivering many high-level public sector objectives, such as the integration of health and care services and involving citizens more in decisions about public services.
- 2** These reforms require councils to collaborate with partners, with the third sector and with communities, to think differently about how they deliver and fund services. Thinking differently about services is important to meet the growing and changing needs of their communities in the coming years. New ways of working can lead to increasingly complicated lines of accountability.
- 3** Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile. All councils expect an increase in the proportion of people aged over 65 and almost a third of councils expect an increase in the proportion of children under 15.
- 4** Councils have made good progress in developing medium-term financial planning and continue to manage their funding gaps through savings and use of reserves. All councils increased council tax to the maximum three per cent in 2018/19 and many increased their fees and charges to raise income. Some councils are looking at other options to raise income.

- 5 Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, but national workforce data is insufficient to clearly understand how individual services areas are affected.
- 6 Despite reducing funding and increasing demands, across local government most performance indicators are improving or being maintained, although some service areas show more strain. There remains performance variation among councils that cannot be readily explained by differences in context or spend. Better use of data and benchmarking could lead to further improvement and efficiencies.

Recommendations

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

- assure themselves that they have adequate leadership and management capacity in place. This should include development arrangements that prepare and support councillors and senior managers to respond to the challenging and changing local and national demands
- undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands
- continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change

- improve data to:
 - help inform the difficult decisions councils have to make
 - support benchmarking, learning and sharing of experience and effective practice with others that will contribute to improving service quality, efficiency and outcomes for communities.
 - ensure they have workforce planning that is clear about the workforce needed now and in the future, where the gaps are and what training or other action is needed to fill them. This should be supported by better workforce data.
 - be able to demonstrate how spending decisions and priorities have impacted on service delivery and the outcomes of residents, as well as how they are delivering against the national performance framework.
-

Scrutiny tool checklist for councillors

This scrutiny tool captures a number of potential questions for councillors and relates to our report *Local government in Scotland: Challenges and performance 2019* [\(download icon\)](#). It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's position and to scrutinise performance.

How well informed am I?		
Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Factors affecting demand for services and council funding		
Have you considered how policy and legislative change will affect how your council operates?		
What scenario planning has your council put in place for events such as EU withdrawal and increasing budget uncertainty?		
Do you have a clear understanding of the demographic circumstances within your council area? Do you know how effectively your council uses this information to decide how to provide services in the future?		
Governance and accountability		
Do you know if your council's governance and accountability structures are fit for purpose, given increasingly complex ways of working?		
If you sit on a board, do you fully understand your responsibilities to that board and the council?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Transformational change		
Do you understand how your council's approach to transformational change will improve services, benefit users and save money?		
How will you monitor and scrutinise progress of transformational projects?		
What is your council's risk appetite for transformational change? Are risks properly monitored?		
Do you know what the financial repercussions will be if your council's transformation activity fails to meet its savings targets?		
Is your council's transformation activity supported by good governance arrangements and robust management?		
Do you know if the governance arrangements factor in time needed to ensure projects are properly scoped?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Financial planning		
Does your council have medium and long-term financial planning in place?		
Does your council link budgets to plans and outcomes and report on these?		
Generating income		
Do you know what options your council is considering to maximise income?		
How is your council considering the impact that these changes might have on equalities?		
If your council is considering generating commercial income, do you know how it plans to mitigate the risks?		
Partnership working		
Does your councils consider sharing services in options appraisals and change programmes?		
Do you know if there are processes in place in your council to facilitate collaborative working on a local, regional or national basis?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Integrated joint boards		
Do you know how your council is ensuring the good governance and financial sustainability of its Integration Authority?		
Do you know what your council is doing to ensure that it works with partners to be more open and realistic about changes needed?		
Community empowerment		
Does your council engage with communities in decisions about services, budget proposals and priorities?		
Are you clear what community empowerment involves and what it means for your council?		
What is your council doing to implement community empowerment arrangements at a local level?		
Does the Local Outcome Improvement Plan focus on areas where the Community Planning Partnership can make the biggest impact?		
Do you know what your council is doing to reach out to 'seldom heard' and disadvantaged groups?		
What is your council doing to ensure that one per cent of revenue budgets is allocated through participatory budgeting by 2020/21?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Workforce		
What is your council doing to ensure that it has the right capacity, skills and leadership in its workforce?		
What training does your council make available to officers and councillors to ensure that they have the skills to deliver services in the future?		
Does the training you are offered meet your needs? If not, do you know who to speak to?		
Does your council have an organisation-wide workforce plan? Does it contain information about the numbers, costs and skills of the actual and desired workforce?		
Do you know how your council is ensuring that changes to staff numbers and working practices do not have a negative impact on morale and wellbeing?		
Strategic priorities and performance reporting		
Does your council clearly link its budget setting to its strategic priorities and plans?		
Are you assured that performance reporting by your council is accurate and accessible?		
Can your council demonstrate progress in delivering its key outcome priorities?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Service performance		
Does your council make use of the Local Government Benchmarking Framework data to consider where and how it might make improvements to service delivery?		
Have you considered what lessons you can learn from other councils who are delivering services well?		
Do you know the impact of spending reductions on the services your council provides?		
Page 85 How is your council adjusting to meet changing demands for care services? How is this reflected in the performance data?		
Do you know what your council is doing to ensure that it understands how satisfaction with different services is changing?		
Is your council meeting its statutory duty to provide temporary and settled accommodation to households assessed as homeless?		



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INTERNAL AUDIT WORK TO MARCH 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny 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.**
- 1.2 The work Internal Audit has carried out in the period from 24 February to 31 March 2019 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of 4 Final Internal Audit Reports have been issued. There were 0 recommendations made associated with the reports.
- 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.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 1.5 Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for the Councils' Heads of Internal Audit, is shown in Appendix 2 to this report.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 24 February to 31 March 2019 associated with the delivery of the approved Internal Audit Annual Plan 2018/19; and**
 - b) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2018/19 was approved by the Audit and Scrutiny Committee on 19 March 2018. Internal Audit has carried out the following work in the period from 24 February to 31 March 2019 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.
- 3.2 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.3 Internal Audit issued final assurance reports on the following subjects:
- Asset Registers
 - Corporate Transformation
 - Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)
 - Revenues (Council Tax & NDR)
- 3.4 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and 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.

The definitions for Internal Audit assurance categories are as follows:

Level	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.

Internal Audit Consultancy and Other Work

- 3.5 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- a) Provide independent challenge of the evidence to support improvement arising from the Joint Older People Services inspection.
 - b) Engagement in the design and development of the Public Protection Unit to support improvement as a critical friend.
 - c) Engagement in the initial meeting of Corporate Landlord Model / Capital Programme Board to provide internal challenge and quality assurance on the programme involving major change.

Recommendations

- 3.6 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:

High: 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.

Medium: 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.

Low: 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 attention of senior management.

Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.7 The table below summarises the number of Internal Audit recommendations made during 2018/19:

	2018/19 Number of Recs
High	0
Medium	0
Low	0
Sub-total reported this period	0
Previously reported	4
Total	4
Recommendations agreed with action plan	4
Not agreed; risk accepted	0
Total	4

4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2018

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2018 is attached at Appendix 2 for information.
- 4.3 In particular, the Audit and Scrutiny Committee may wish to note that:
- 4.3.1 The Group considers learning and development needs and procures training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training courses;
- 4.3.2 Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment against the Public Sector Internal Audit Standards (PSIAS); and
- 4.3.3 Sub-groups are in place to deliver specific remits e.g. the Computer Audit Sub-Group (CASG) and the Counter Fraud Sub-Group (SLAIG).
- 4.4 The Chief Officer Audit and Risk has been a member of its Management Committee for many years, including Chair 2014-2016, and attends quarterly meetings. One of the Senior Internal Auditors is a member of CASG, and the Corporate Fraud and Compliance Officer is a member of SLAIG; thus attend those Sub-Group regular meetings.

- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government to reinforce the important statutory role of internal audit. It is important that the Audit and Scrutiny Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 Financial

There are no costs attached to any of the recommendations in this report.

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." Specifically as "a contribution to the Council's corporate management of risk."
- (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 2018/19 and at the start of each audit engagement, 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, and effective management of risks.

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 Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 The Corporate Management Team, the Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council, and the Communications team have been consulted on this report and any comments received have been incorporated into the final report.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 11 March 2019

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Asset Registers</p> <p>No: 009/011</p> <p>Date issued: 3 May 2019</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of this assurance audit was to review the systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver the Council's strategies, plans and priorities.</p> <p>The fixed assets module within Business World ERP system has not been deployed as an Asset Register. Technology Forge system will continue to be used to record the details of individual assets, and to calculate depreciation.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • There was evidence that the Business World ERP system and Technology Forge system were reconciled on a regular basis. • There was evidence that spend within Business World ERP system was reviewed to ensure that all capital spend is identified and accounted for appropriately. • We identified evidence that gives assurance that assets are regularly inspected for condition and existence, and that any obsolescence or impairment is reflected in the Asset Register, and in the items carrying value in the accounts. • There was evidence that the accounting policy described in the Council's published accounts was being applied consistently and that assumptions about the estimated lives of assets were reasonable. <p>We consider that we are able to provide comprehensive assurance. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Internal Audit is aware of upcoming changes to the Technology Forge system and will review this during 2019/20 as part of our work on ICT Business Systems.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation</p> <p>No: 010/016</p> <p>Date issued: 3 May 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the new governance and accountability arrangements of the revised Corporate Transformation Programme structure; processes for benefit identification (financial and other); tracking and realisation (return on investment and value for money); evaluation of outcomes and lessons learned including a series of Gateway Reviews.</p> <p>The Corporate Transformation Programme is designed to help achieve Council Corporate Priorities and is critical in supporting the delivery of significant savings set out in the Council's 5-year Revenue Financial Plan.</p> <p>The financial and other benefit realisation from Change and Improvement Projects are monitored on a weekly basis by Corporate Management Team and through the Council's Financial Plan and associated monitoring to Executive Committee at the same meeting as the quarterly performance reports. The latter includes a high level summary of the business change programmes and projects, including significant highlights, as well as periodic case studies to demonstrate return on investment.</p> <p>Risk management is applied at both programme and individual project level, and risks are subject to regular review.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement such as the transition from paper-based claims to using Business World ERP system for all employees within Workforce Transformation, and further alignment of Workforce, Business and Financial Planning processes. These are included in Management Action Plans and therefore we have made no recommendations.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Gateway reviews:</p> <ul style="list-style-type: none"> o Workforce Transformation – Business Travel / Staff Travel Costs o Workforce Transformation – Overtime Costs o Corporate Landlord Model <p>Internal Audit will continue to act as a 'critical friend' in these areas as part of our planned work in 2019/20 on the Corporate Transformation Programme and other Internal Audit reviews where they relate to these areas.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>No: 073/002</p> <p>Date issued: 7 May 2019</p> <p>Level of Assurance for the specific areas tested:</p> <ul style="list-style-type: none"> • Procure to Pay – Substantial with exception of GL07 Limited • Sales to Cash – Substantial • Payroll – Comprehensive • Record to Report – Substantial • System Roles / User Access – Limited • Systems Documentation and Training Materials post “go live” – Substantial 	<p>This Business World ERP System Key Internal Controls review was an integration of 4 audits as part of our Financial Governance assurance work included within our Internal Audit Annual Plan 2018/19 relating to the workstreams: Procure to Pay; Sales to Cash; Payroll; and Record to Report.</p> <p>The Council replaced older legacy systems in April 2017 with an integrated Enterprise Resource Planning solution, Business World, for HR, Finance and Procurement processes designed to reduce redundancy in processing and data handling. Business World is one of the cornerstones by which the Council seeks to continue to achieve transformational change in the way that it operates. The complexity of the new system and the recent upgrade in January 2019 has been assessed as high inherent risk requiring frequent Internal Audit reviews over the next few years including other functionality as it is rolled out.</p> <p>The purpose of the review was to test the end to end processes and internal controls in place which are intended to:</p> <ul style="list-style-type: none"> • ensure complete and accurate processing of transactions with suppliers and customers; • ensure complete and accurate processing of payments to current and former employees; and • record transactions and payments in an appropriate manner for the purposes of budgetary control and financial reporting. <p>This audit was intended to satisfy three objectives: to provide Management with assurance on the operation of the Business World system; to contribute towards the production of the Internal Audit annual assurance opinion; and to supplement the work undertaken by Audit Scotland in the external audit process.</p> <p>We tested processes and internal controls in place during the period April 2018 to February 2019 in order to confirm that controls continue to operate as previously assessed and to review any changes to processes or controls in recognition of the ongoing Business World (BW) work being delivered by CGI.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Internal Audit will continue to monitor and review progress in 2019/20 with the 3 remaining recommendations which are in work progress to address risks, issues and concerns.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(cont'd)</p>	<p>The BW Masterfile records (Supplier, Customer, Employee) contain financial and personal data and it is essential that any changes to Masterfile records in terms of creation, amendment or deletion are tightly controlled and restrictions around access are applied. Substantive testing of these indicated that Masterfile amendments were processed by officers authorised to undertake those tasks and those changes are generally supported by appropriate documentation.</p> <p>Our review of Audit trails of amendments made to Masterfile records in BW for Procure to Pay and Sales to Cash continues to reveal some limitations in their usefulness; these were incomplete for a number of items in our sample testing. Management have agreed to consider how appropriate evidence is available in every case in order that the audit trail is meaningful and captures relevant information to ensure unintended, inaccurate or fraudulent changes are detected.</p> <p>The testing of P2P transactional processing evidences that valid transactions are being accurately and correctly recorded. In respect of the continued use of GL07 payment process for both non-invoice payments to individuals and invoice payments that have been authorised in sub-systems for which no interface with Business World exists, there is an Action Plan in place to help address the known control risks with relevant Services, and we will continue to monitor progress in this area.</p> <p>The testing of Sales invoices indicates that the time taken to raise these has improved, and the narrative supplied on credit notes is more detailed allowing appropriate authorisations to be made. Both are improvements from the previous year's audit.</p> <p>The testing of Payroll transactions, to determine appropriate authorisation and notification, relevant supporting documentation, and monthly reconciliations (where appropriate), highlighted no issues or areas of concern.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(cont'd)</p>	<p>We consider that sufficient functionality currently exists within the Record to Report module and further roll out of Financial Information Centre to assist Service Managers with budget monitoring and forecasting and moving to self-service will help to further achieve objectives.</p> <p>Role separation within BW has been designed and implemented to provide an appropriate separation of duties to ensure officers have appropriate and correct permissions to carry out their tasks. As it is not easy to ascertain that the configuration of the role profiles fully ensures this in every instance there is a risk that fraud or error might occur in the event that an officer has inappropriate or conflicting permissions. A role review is currently underway but until this role review is completed we can only give limited assurance in this area.</p> <p>The Council's Financial Regulations were updated to reflect the implementation of BW system and approved in November 2018. The associated Financial Policies and Procedures require review and updating to ensure they reflect current practices thus enabling roles and responsibilities to be appropriately discharged. This is work in progress.</p> <p>Our 2017/18 Internal Audit report on Business World ERP System Key Controls dated 4 May 2018 consisted of 18 recommendations (8 Medium Risk; 10 Low Risk). Our follow up review of previous recommendations from 2017/18 shows that 15 of these are now completed and we have been able to evidence improvements made, or action plans put in place to address issues and concerns. The outstanding recommendations relate to: (R2R) the bank reconciliation module in BW (Medium Risk); (R2R) suspense account error transaction report (Low risk); and (All modules) audit trails (Medium Risk), all of which are work in progress. We made no further recommendations.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Revenues (Council Tax and Non Domestic Rates)</p> <p>No: 084/012</p> <p>Date issued: 3 May 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the application of and key controls relating to Council Tax and Non-Domestic Rates (NDR) exemptions, discounts, and reliefs including review periods.</p> <p>The opportunity was taken to combine the audit assurance work with an evaluation of fraud prevention controls and detection in liaison with the Corporate Fraud & Compliance Officer.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Samples tested were accurate and consistent with the award of appropriate discounts, exemptions and relief for Council Tax and NDR accounts. • There have been further improvements in the completion of history sheets for Council Tax and NDR accounts. <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement, such as planned account reviews, a programme for updating policies and procedures to ensure they remain fit for purpose, and further counter fraud compliance work, as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.</p> <p>Management actions are either underway or planned, thus we have made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy and accepted the findings of this report, and will ensure that the Management actions outlined are progressed.

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ANNUAL REPORT FROM THE CHAIR – 2018

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2018.
- 1.4 SLACIAG has two sub-groups whose work is also reflected in this report.
- The Computer Audit Sub-Group (CASG) and,
 - The Scottish Local Authorities Investigators' Group (SLAIG).

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2018

- 2.1 We held our AGM in June 2018. The Chair Andrea McMahon completed her two year term of office and was succeeded by the Vice-Chair Eilidh Mackay until March 2020. The AGM was delayed from March 2018 due to the "Beast from the East" bringing extreme weather conditions and leading to the rare cancellation of a scheduled meeting.
- 2.2 During 2018 we invited the Chairs of both CASG and SLAIG to join the SLACIAG Management Committee to benefit from their sectoral expertise and support our joined up inclusive approach. The SLACIAG Constitution was amended to reflect this change.
- 2.3 During the year our Constitution underwent a number of other minor changes and remains under review to ensure it is fit for purpose going forward.
- 2.4 SLACIAG usually meets four times in year but due to the adverse weather conditions referred to at section 2.1 met three times during 2018. Business coverage was as follows:

SLACIAG MEETINGS 2018		
Date	Host	Topics / Speakers
March 2018	South Lanarkshire Council, Hamilton	<ul style="list-style-type: none"> Cancelled due to adverse weather
June 2018	Perth & Kinross Council, Perth	<ul style="list-style-type: none"> Health & Social Care Integration with speakers from Scottish Government & NHS. Training Proposal – IT and Contract Management workshops (including contribution from CIPFA representative). PSIAS External Quality Assessment (EQA) – debrief and next steps. Exchange of experience – fraud.
September 2018	Fife Council, Cupar	<ul style="list-style-type: none"> PSIAS External Quality Assessment (EQA) – update. Counter Fraud with speakers from Audit Scotland. Best Value Assurance Reports with speaker from Audit Scotland. Exchange of Experience – fraud.
November 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> Agile Projects with speaker from ISACA. Care Inspectorate speaker. SLACIAG Conference 2019 – planning. Consultation on new Audit Scotland publication “How Councils Work: Managing risk through internal controls” with a speaker from Audit Scotland.

2.5 All of the meetings continue to be well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing as we continue a period of significant change across Local Government and for Internal Audit. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams, particularly through CASG and SLAIG, as well as Heads of Internal Audit.

2.6 There is a continuing healthy interest in supporting various working groups (e.g. training and PSIAS External Quality Assessment) and the Management Committee. However at the AGM in June 2018 there were no nominations or volunteers for the position of Vice-Chair. Also due to a lack of volunteers the Secretary (Paul Doak, North Ayrshire Council) and Treasurer (Kevin O’Kane, Stirling Council) agreed to remain in office.

2.7 The Management Committee from June 2018 is as follows:

SLACIAG MANAGEMENT COMMITTEE 2018		
Eilidh Mackay	East Ayrshire Council	Chair SLACIAG
Paul Doak	North Ayrshire Council	Secretary SLACIAG
Kevin O’Kane	Stirling Council	Treasurer SLACIAG
Andrea McMahan	Renfrewshire Council	former Chair SLACIAG
Jill Stacey	Scottish Borders Council / Midlothian Council	former Chair SLACIAG
Colin McDougall	West Dunbartonshire Council	SLACIAG member
Francis Scott	Glasgow City Council	SLACIAG member
Jackie Clark	Perth & Kinross Council	SLACIAG member
Pamela Redpath	Dundee City Council	SLACIAG member
Crawford McIntyre	Shetland Islands Council	SLACIAG member (retired 2018)

Paul Macaskill	Western Isles	SLACIAG member (appointed to Committee on retirement of Crawford McIntyre)
Peter Moore	East Lothian Council	Chair CASG
Barry Moncur	East Dunbartonshire Council	Chair SLAIG

- 2.8 March 2018 marked the first PSIAS deadline for completion of External Quality Assessments (EQAs), an exercise to be completed at least 5 yearly. Most members participated in a SLACIAG peer review approach. Learning from that first EQA process informs the peer review approach going forward.
- 2.9 At the AGM In June 2018 the Treasurer presented the draft annual accounts which were approved for audit. The Group’s healthy financial position allowed the subscription rates to be held at the current level for another year and will allow a variety of training opportunities to be promoted as well as subsidised delegate fees for the 2019 conference to allow maximum attendance.
- 2.10 At the June 2018 meeting a discussion of training proposals around IT and Contract Management has informed planning for our 2019 Conference. The SLACIAG Conference is held every two years, in June. The next conference is scheduled for 13-14 June 2019 and will be held at Dumfries House, Cumnock.
- 2.11 The SLACIAG Management Committee meets twice each year and during 2018 met in June and December. The Chair represents SLACIAG at meetings of the CIPFA Scotland Branch Executive Committee.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group with business as follows:

CASG MEETINGS 2018		
Date	Host	Topics / Speakers
March 2018	East Renfrewshire Council	<ul style="list-style-type: none"> • Cyber Essentials presentation by Scottish Canals including carrying out an in-house “phishing” exercise • SEEMIS audit carried out by Fife Council • GDPR update presented by Glasgow City Council
August 2018	South Ayrshire Council	<ul style="list-style-type: none"> • Information security presentation from the Digital Office • Training proposals – Digital Change and Contract Management • Public Contracts Scotland presentation
November 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • GDPR update speaker from Information Commissioners Office • Group discussion cover common systems register and internal audit coverage • Duplicate payment testing carried out by Falkirk Council • Starters and leavers audit carried out by South Lanarkshire Council

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

- 4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum and there is regular engagement with the Crown Office and Procurator Fiscal Service (COPFS). The absence of statutory offences and the reliance on common law offences continues to be of concern and representation on this issue has been made to the Scottish Government to consider legislative powers similar to those available to Local Authorities in England.
- 4.2 West Dunbartonshire Council concluded Pilot initiatives with the DWP in relation to joint working in relation to council tax reduction scheme (CTRS) fraud. Joint working is now available to all local authorities, this having commenced in November 2018.
- 4.3 Inter authority benchmarking has been developed by Renfrewshire Council.
- 4.4 The Group has heard from speakers on various topics of interest as follows:

SLAIG MEETINGS 2018		
Date	Host	Topics / Speakers
22/02/2018	CIPFA	Ricky Hutton Police Scotland, Scottish Social Security Agency
31/05/2018	CIPFA	Information Commissioner, Skills Development Scotland, Food Standards Agency
12/09/2018	CIPFA	Police Scotland, Barry Moncur East Dunbartonshire
29/11/2018	CIPFA	Ricky Hutton Police Scotland, OSCR, Cabinet Office

5. SUMMARY

- 5.1 In summary, SLACIAG has had another successful year, and I believe that, individually and collectively, this professional network helps to reinforce the important statutory role of internal audit.
- 5.2 Firstly, I would like to take this opportunity to thank the Committee and all Group members for their strong support and contributions during my first year as Chair, and for the high levels of attendance at the quarterly meetings. The network relies on contributions from every one of us. The group considered the final draft of this report, and agreed minor changes, at our AGM in March 2019.
- 5.3 Secondly, I would particularly like to thank those colleagues who have remained as office bearers beyond their expected term and look forward to colleagues volunteering for current office-bearer vacancies (Vice-Chair) and for future opportunities to ensure the continued strength of our network.
- 5.4 Thirdly, I would like to thank those Councils who hosted our meetings during the year and all of the speakers who gave up time in their busy schedules to contribute to our learning and exchange of experience.
- 5.5 Finally, I would like to note the contributions of Crawford McIntyre, Shetland Islands Council, who retired at the end of 2018, for his longstanding and active contribution to the Management Committee and to Olwen Sinclair, Orkney Islands Council, who took up a new job opportunity in year, for her support to the group over many years. They will both be missed.

Eilidh Mackay B.A. (Hons), CPFA
Chair of SLACIAG
5 April 2019

RISK MANAGEMENT ANNUAL REPORT 2018/19
Report by Chief Officer Audit & Risk
AUDIT AND SCRUTINY COMMITTEE
13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to provide Members with an overview of Scottish Borders Council's responsibilities in respect of risk management and an update on the risk management activity during 2018/19.**
- 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. Compliance with the principles of sound Corporate Governance requires the Council to adopt a coherent approach to the management of risks that it faces every day. Better and more assured risk management will bring many benefits to the Council and the people it serves.
- 1.3 Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks to the achievement of the Council's objectives. Internal Audit is required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk. Part of the Audit and Scrutiny Committee's role (Audit function) is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 1.4 In 2018, a revised Risk Management Policy statement and a 3-year Risk Management Strategy were endorsed by this Committee and approved by the Council to continue to refine its approach to managing risks with a focus on quality of reporting to enable sufficient Senior Management monitoring and oversight. This is the first annual report on progress to be presented to the Audit and Scrutiny Committee.
- 1.5 The Council continues to refine its approach to Risk Management and embed these key aspects into the management practices of the Council, as shown within this report which outlines progress made during 2018/19.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee**
- a) Acknowledges that it is satisfied with the arrangements for managing risks at the Council to ensure their on-going effectiveness in support of the Council's risk management policy and strategy; and**
 - b) Considers whether any further action is required.**

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 (approved by Council, June 2018). 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 Roles and Responsibilities are set out within the Council's Risk Management Policy. Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks that potentially endanger or have a detrimental effect upon the achievement of the Council's objectives and its people, property, reputation and financial stability whether through core service delivery or through a programme of change.
- 3.3 Management continue to be advised and supported by corporate support resources to fulfil their responsibilities for managing risk. The Risk Management support team schedule and facilitate risk reviews with Senior Managers / Risk Owners using established guidelines, toolkits and practices, and maintain an overview of risk management across the Council to ensure systems of identification, evaluation and management of key risks facing the Council continue to be robust.
- 3.4 Internal Audit is required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk, and to make recommendations designed to improve the management and mitigation of risks, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
- 3.5 Part of the Audit and Scrutiny Committee's role (Audit function) is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 3.6 The risk management landscape is dynamic and as the Council, in common with other local authorities, increasingly moves towards partnerships and alternative delivery models, the spectrum of risks that the Council is exposed to also increases.
- 3.7 In 2018, a revised Risk Management Policy statement and a 3-year Risk Management Strategy were endorsed by this Committee and approved by the Council. Refinements to the Council's approach to managing risks include a focus on ensuring that risk management reporting is of a high quality so that decisions can be taken with full clarity of the risks involved. Quality reporting will also ensure sufficient monitoring and oversight is provided by Senior Management to allow them to fulfil their risk management role, as detailed in the Risk Management Policy 2018.
- 3.8 The other key change in focus for the Risk Management Strategy 2018, which sets out the arrangements for applying the risk management policy in practice, is to ensure that those contracted to deliver services on behalf of the Council and through partnership arrangements have robust risk management framework in place. It is essential that the Council recognises that outsourcing services through contracts and commissioned services does not remove the statutory obligation and therefore the consequences of any failure of these arrangements.

4 RISK MANAGEMENT ACTIVITY 2018/19

- 4.1 The Council has a standard risk management process with risk registers at Corporate and Service levels uploaded to Pentana, the Council's performance management system. Risk registers have been developed for all Service areas. Risks are formally reviewed with the Risk Owner and the relevant Management Team on a quarterly basis, and Pentana system is updated to reflect this. The Corporate Risk Officer (to November 2018) / the Risk Management support team (from February 2019) advised and supported Management to fulfil their responsibilities for managing risk. Staffing changes briefly resulted in a backlog of Corporate and Service risk register reviews due to a lack of capacity, however this has now been addressed.
- 4.2 In addition to the Corporate and Service risk reviews detailed above, facilitated Risk workshops have also taken place to develop risk registers as requested relating to projects and programmes, and joint working and partnership arrangements. For example, Tweedbank Programme Board and Older Peoples Strategy.
- 4.3 During 2018/19 various Service Directors representing the diverse range of Council services have made presentations to the Audit and Scrutiny Committee at each of their meetings on the strategic risks facing their respective Services and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within Services. This approach has provided the opportunity to the Elected and External Members of the Committee as part of their oversight remit to gain a fuller understanding of how Management are discharging their risk management responsibilities in practice and to enable them to hold Management to account on the application of the Risk Management Policy.
- 4.4 Liaison with Internal Audit on an on-going basis to ensure that risk is considered in every assurance audit and risk reviews take account of improvements arising from audit work continues to take place.
- 4.5 Improved Pentana system functionality has provided the opportunity for Service Managers to monitor their Business Plan Actions, Performance Indicators, Risks and Audit Actions through dedicated portals, creating a valuable management information tool that needs to be fully exploited to its best use. Activity will continue to look at ways in which digital solutions can be used to achieve this, including further developing the use of Portals in Pentana system.
- 4.6 The Council recognises that outsourcing services through contracts and commissioned services does not remove the statutory obligation and therefore the consequences of any failure of these arrangements. The CMT agreed to establish an officer Contract Management Framework Working Group to devise a Contract Management Framework, as previously recommended by Internal Audit to enhance contract monitoring and review systems. The Group met monthly from March 2018 and the Corporate Risk Officer led one of the eight workstreams to develop a contract risk assessment process as part of the Contract Management Framework.
- 4.7 Risk management advisory and support services were provided to SB Cares, Live Borders, and the Scottish Borders Health and Social Care Integration Joint Board using the same systematic approach as part of their respective business or strategic planning processes.

- 4.8 The Corporate Risk Officer (to November 2018) commented on the Risk and Mitigations section of Committee reports, a new role described in the revised Risk Management Policy 2018, to ensure that decision makers are cognisant of the risks associated with the proposals/decisions to be taken. This has proved to be very successful with positive feedback from report authors. It also further embeds risk management practice into the Council's decision making methodology. The Chief Officer Audit & Risk is a mandatory consultee for all Committee reports which provides the opportunity to check that full risk information is provided.
- 4.9 The Corporate Risk Officer once again reviewed the Risk Management training course for Managers in April 2018 to refresh the content and keep it relevant to the dynamic environment faced by the Council, and delivered two training events during 2018/19, one in June and one in September 2018, attended by 18 delegates in total. There was an increased focus on risk management within programmes, projects and decision making. 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 plan/programme/project/strategy/decision making; 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.
- 4.10 Risk Management Guidelines, Templates and Prompt Lists were updated during 2018, to ensure their continued relevant and effectiveness, and published on the Intranet for Managers to use.

Conclusion

- 4.11 The above demonstrates that the management of risks is being embedded and is recognised as an essential part of management practice above and beyond the business planning remit. It is becoming an essential part of decision making and should help to ensure that decisions are taken and risks are fully understood. Risk management is moving away from solely being a process to being an essential part of management activities which is the key objective of the Corporate Risk Management Policy.

5 RISK MANAGEMENT NEXT STEPS 2019/20

- 5.1 Refinements will continue on the most effective way for Managers to undertake risk management activity in future, building on the foundation of existing risk management arrangements and adding value by aligning risk management to the business planning and performance management processes. The Risk Management support team will continue to support Senior Management to embed a risk management culture into the day to day operation of the Council and its decision making and Risk Owners to fulfil their role to systematically identify, analyse, evaluate, control and monitor risks to deliver the Risk Management Strategy and apply Risk Management policy in practice.
- 5.2 Whilst the Corporate risk register and all Service risk registers held in Pentana system are reviewed on a quarterly basis, there is still a gap in linking them to the business plans and the business planning process. If a risk is to be treated further, then mitigating actions should be identified and assigned to the relevant risk within this system so Managers have an overview of all KPI's, actions and risks in one place. If the Risk Management framework and strategy is to work to full efficacy then the use of Pentana system should be encouraged (enforced) for all Services. This will require ongoing engagement with Risk Owners.

- 5.3 Risk Management update reports will be developed using the Pentana system and rolled out to ensure appropriate oversight and understanding of the Corporate and Service risks by CMT and Service Directors / Managers on at least a quarterly basis.
- 5.4 The options for the delivery of the corporate Risk Management training courses will be evaluated as will appropriate training on the Pentana system to support Risk Owners to self-serve. Training will be provided in 2019 on a regular basis to ensure that all relevant Risk Owners have the skills and competency to fulfil their roles.
- 5.5 Reviews of the Council's Risk Management Policy and Strategy will be carried out to check if any updates are required arising from staff changes or refinements in the approach. Any significant changes will be brought to the Audit and Scrutiny Committee for approval.
- 5.6 Elected Members are encouraged to seek out the Risk and Mitigations section of Committee reports that they are asked to approve. Challenge is welcomed to ensure that the Elected Members are satisfied that the risks to the decisions they are being asked to make are fully considered and mitigated appropriately.

6 IMPLICATIONS

6.1 Financial

There are no financial implications as a direct result of the report. The corporate staff resource costs involved are contained within budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

6.2 Risk and Mitigations

The report sets to assure the Audit and Scrutiny Committee that the Council is undertaking its risk management responsibilities adequately. It also allows the Committee to fulfil their remit as set out in the revised Risk Management Policy.

6.3 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.

6.4 Acting Sustainably

No direct economic, social or environmental issues with this report.

6.5 Carbon Management

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

6.6 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.

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 Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.
- 7.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this report and any comments received have been incorporated in the final 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
Rachel Wigmore	Business Support Officer Tel 01835 826614

Background Papers: Scottish Borders Council's Corporate Risk Management Policy Statement and Corporate Risk Management Strategy

Previous Minute Reference: Audit and Scrutiny Committee 14 May 2018

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

Contact us at Rachel Wigmore, rwigmore@scotborders.gov.uk

COUNTER FRAUD ANNUAL REPORT 2018/19

Report by Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Audit and Scrutiny Committee with details of the Council's counter fraud responsibilities and an update on the fraud prevention, detection and investigation activity during the year to 31 March 2019.**
- 1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud and Compliance Officer. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 1.4 In 2018, a revised Counter Fraud Policy statement and a 3-year Counter Fraud Strategy were endorsed by this Committee and approved by the Council to continue to refine its approach to tackling fraud with a focus on prevention and detection and promotion of anti-fraud culture across the Council, taking account of reducing resources. This is the first annual report on progress to be presented to the Audit and Scrutiny Committee.
- 1.5 Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the results in the Annual Fraud Report 2018/19 contained herein.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - (a) Considers the counter fraud work undertaken in support of the Council's counter fraud policy and strategy; and**
 - (b) Notes the content of the Counter Fraud Annual Report 2018/19 that outlines the outcomes.**

3 BACKGROUND

- 3.1 The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft or corruption. The Council's Counter Fraud Policy states the roles and responsibilities in tackling fraud; the primary responsibility for the prevention, detection and investigation of fraud rests with Management
- 3.2 Establishing a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by Corporate Management Team and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 3.3 The Corporate Fraud Steering Group, which has representatives from across the Council's Services, agrees and monitors the implementation of counter fraud improvement actions, supported by the Corporate Fraud and Compliance Officer within the Audit & Risk service, the post-holder being an Accredited Counter Fraud Specialist.
- 3.4 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.
- 3.5 Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud vulnerabilities and to monitor counter fraud strategy, actions and resources.
- 3.6 Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.
- 3.7 In 2018, a revised Counter Fraud Policy statement and a 3-year Counter Fraud Strategy was endorsed by this Committee and approved by the Council. Refinements to the Council's approach to tackling fraud include a focus on enhancing fraud prevention and detection to improve its resilience to the threat of fraud and corruption.

4 COUNTER FRAUD ACTIVITY 2018/19

- 4.1 The Corporate Fraud and Compliance Officer, following the approval of the revised Counter Fraud Policy statement and Counter Fraud Strategy in June 2018, delivered Fraud Awareness training for Service Managers and carried out targeted Fraud Vulnerability Assessments using a new methodology and toolkit with 134 Service Managers during the course of the year. This included Directorates and Services of Assets & Infrastructure, Customer & Communities, Regulatory Services, Finance IT & Procurement, and Human Resources. In addition, the Fraud Awareness training was delivered to Managers within SB Cares as part of the Council's support services provision to the adult social care ALEO. The Fraud Awareness training session is now part of the HR training programme with regular sessions throughout the year.
- 4.2 A suite of on-line training modules covering Fraud Awareness, The Bribery Act and Anti-Money Laundering have been promoted for staff within relevant Service areas. Fraud Awareness is mandatory for new members of staff. The uptake of these modules is as follows:-

<u>Resource</u>	<u>Total</u>	<u>2018/19</u>
An Introduction to the Bribery Act 2010	60	34
Anti-Money Laundering	36	20
Fraud Awareness	601	240

- 4.3 The Corporate Fraud and Compliance Officer liaised with Internal Audit on an on-going basis to ensure fraud risk is considered in every assurance audit. Further to this, the opportunity was taken to combine a counter fraud controls assessment with audit assurance work on Licensing, Revenues (Council Tax and Business Rates) and also counter fraud compliance work with audit assurance work on Business World ERP System Key Internal Controls relating to payroll and pension payments.
- 4.4 The Corporate Fraud and Compliance Officer produced a report, presented by the Chief Financial Officer, which compared the findings in relation the Accounts Commission report (March 2018) on a significant fraud at Dundee City Council in 2016/17 with the processes, procedures and practices at Scottish Borders Council to provide assurance.
- 4.5 A Fraud Response Plan has been written by the Corporate Fraud and Compliance Officer to standardise the Council's response when fraud is suspected and to assist Managers to know what options are available to them and how an investigation should be conducted.
- 4.6 The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 536 Police Scotland address checks in 2018/19, broadly equivalent in number to previous years. This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018.
- 4.7 The Corporate Fraud and Compliance Officer has dealt with enquiries from the Council's website page or the anonymous telephone reporting line which are available to staff or the public for whistleblowing purposes, though the number of incidents reported is still low.
- 4.8 The Corporate Fraud and Compliance Officer is a member of the Scottish Local Authority Investigators Group (SLAIG) and represents Scottish Borders Council at SLAIG's quarterly meetings, therefore sharing best practice across Councils and the wider public sector and ensuring knowledge of emerging fraud risks and issues is up to date.
- 4.9 The Counter Fraud Steering Group held bi-annual meetings to consider and agree counter fraud improvement actions to be led by the Corporate Fraud and Compliance Officer and to monitor their implementation. This forum is chaired by the Chief Officer Audit & Risk. Any lessons learned from identified incidents shared across Councils were discussed and actions agreed as appropriate.
- 4.10 The Corporate Fraud Steering Group previously agreed, having achieved the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)', to adopt the Scottish Government's Counter Fraud Maturity Model as a means of self-assessment. Diagram A illustrates the Council's current self-assessment against the Counter Fraud Maturity Model based on the counter fraud activity during the year.

5 COUNTER FRAUD NEXT STEPS 2019/20

- 5.1 The Corporate Fraud & Compliance Officer will deliver Fraud Awareness Training for Service Managers and carry out targeted Fraud Vulnerability Assessments using a new methodology and toolkit for the remaining Directorates and Services including Social Care, Children & Young People.
- 5.2 The introduction of new functionality within the Business World ERP System has allowed a more systematic approach to checking fraud. A set of automated continuous compliance checks will be developed.
- 5.3 A review will be undertaken of associated policies, procedures and guidelines across the Council to ensure their continued relevance and effectiveness. (The Counter Fraud Strategy states: "As a minimum the policy framework will include: Counter Fraud Policy; Whistleblowing Policy; Anti Money Laundering Policy; Anti-Bribery & Corruption Policy; Gifts & Hospitality Policy and register; Conflict of Interest Policy and register; Codes of Conduct and Ethics; Information Security Policy; and Cyber Security Policy.")
- 5.4 Plans will be put in place to develop a central corporate record of Gifts and Hospitalities and Register of Interests. In the meantime, the current departmental process will be refreshed and managers will be asked to undertake a review.
- 5.5 The Council will continue to participate in the National Fraud Initiative (NFI) which is a series of bi-annual exercises run by the Cabinet Office and Audit Scotland to identify or prevent fraud and error by matching electronic data held by public bodies. Participating bodies are required to investigate data discrepancies within a timescale and report back on any savings.
- 5.6 The Fraud Response Plan will be publicised to Managers to assist them to know what options are available to them and how an investigation should be conducted.

6 ANNUAL FRAUD REPORT 2018/10

- 6.1 All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no frauds greater than £5,000 during 2018/19. Though this is an important performance indicator of how effective the Council's fraud prevention and detection measures are, this report includes all known frauds.
- 6.2 There were 15 investigations concluded in 2018/19 none of which identified any serious fraud or resulted in a prosecution.
- 6.3 Email phishing attempts continue though the number of attempts are not recorded; however, senders are routinely blocked and reported to the Council's IT suppliers CGI.
- 6.4 An investigation into direct payments to a Social Work client was completed; it was found that there had been no harm to the client and no financial loss to the Council but there had been a deception and proper procedure had not been followed. New processes have been introduced and a subsequent audit found these processes to be satisfactory.
- 6.5 There was a joint investigation between SBC and NHS Counter Fraud Services on a case relating to concerns over grants issued by both organisations to a third party charitable organisation. These concerns were answered and no further action was required.

7 IMPLICATIONS

7.1 Financial

Having effective internal control systems designed to prevent and detect fraud contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. This includes the operational costs of resourcing the Corporate Fraud & Compliance Officer (1 FTE) within the Audit & Risk service. Any additional costs arising from enhanced fraud risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

7.2 Risk and Mitigations

- (a) There is a risk that Managers are not aware of fraud issues or, due to competing demands on resources, do not engage with fraud prevention.
- The steps in the Counter Fraud Maturity Model should raise awareness across the organisation.
 - The requirement to carry out Fraud Vulnerability Assessments will continue to be promoted with Senior Managers across all service areas.
- (b) There is a risk that frauds will not be detected.
- Members need assurance that controls are adequate to detect fraudulent activity. If significant amounts of fraud or error are not found but the fraud detection measures have been utilised properly, this gives assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.
- (c) There is a risk that Managers will not take action against staff when fraud is suspected or identified for fear of criticism or reputational damage to their Service or the Council.
- Managers must have confidence in the investigation process and successful investigations should be communicated.
 - A Fraud Response Plan has been developed and will be publicised so that Managers are informed about what steps are appropriate if fraud is suspected.
- (d) There is a reputational risk for the Council if its internal control, risk management and governance arrangements are assessed by external audit and inspection bodies as inadequate.
- The Counter Fraud Annual Report is evidence that fraud risks have been identified and are being mitigated.

7.3 Equalities

Equalities and diversities matters are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation.

7.4 Acting Sustainably

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

7.5 Carbon Management

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

7.6 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.

7.7 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.

8 CONSULTATION

- 8.1 The Corporate Fraud Steering Group has been consulted on this report and any comments received have been incorporated in the final report.
- 8.2 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.
- 8.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this report and any comments received have been incorporated in the final report.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

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Gary Smith	Counter Fraud and Compliance Officer Tel: 01835 826573

Background Papers: Scottish Borders Council's Counter Fraud Policy Statement and Counter Fraud Strategy

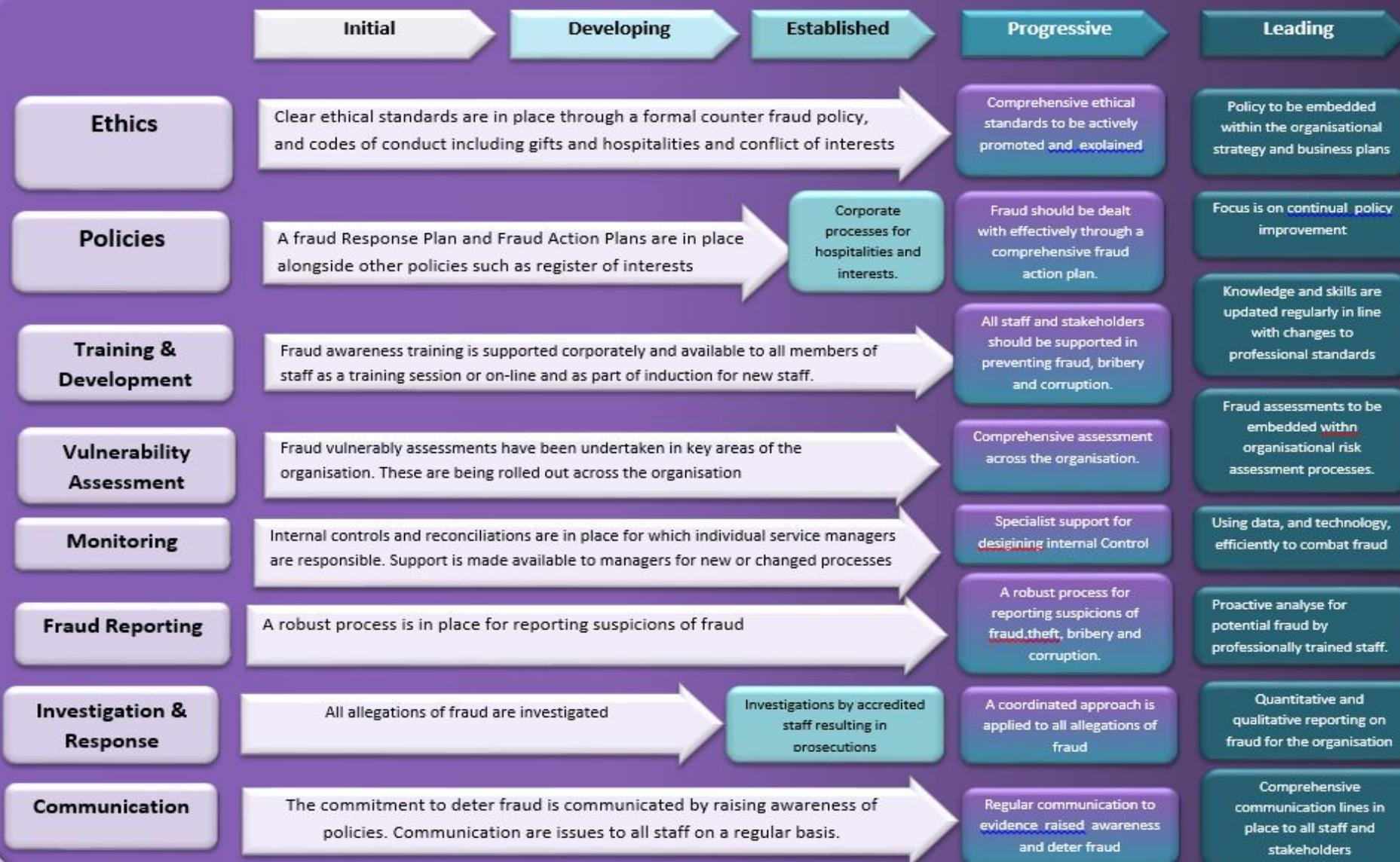
Previous Minute Reference: Audit and Scrutiny Committee 14 May 2018

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Diagram A

Scottish Borders Council's Progress on the Counter Fraud Maturity Model 2018/19



based on Scottish Government counter fraud maturity model 2015

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INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2018/19
Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE
13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Audit and Scrutiny Committee the Internal Audit Annual Assurance Report for the year to 31 March 2019 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Council's overall control environment.**
- 1.2 In support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance, and the Public Sector Internal Audit Standards (PSIAS) which require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement.
- 1.3 The Remit of the Audit and Scrutiny Committee indicates that it should ensure an adequate framework of internal control, risk management and governance throughout the Council.
- 1.4 To meet the requirements of the PSIAS the Internal Audit Annual Assurance Report 2018/19, at Appendix 1, includes the annual Internal Audit opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.
- 1.5 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.
- 1.6 The Internal Audit Annual Assurance Report 2018/19 has been used to inform the Chief Executive's Annual Governance Statement 2018/19.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Considers the Internal Audit Annual Assurance Report 2018/19 (Appendix 1) and provides any commentary thereon.**
 - b) Agrees that the Internal Audit Annual Assurance Report 2018/19 be published on the Council's website.**

3 BACKGROUND

3.1 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

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

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

3.2 The Remit and Terms of Reference of the Audit and Scrutiny Committee indicate that it should:

- Ensure adequate framework of internal control, risk management and governance throughout the Council
- Encourage propriety and probity throughout the Council
- Assist in accountability to stakeholders

4 INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2018/19

4.1 The Internal Audit Annual Assurance Report 2018/19, at Appendix 1, includes the Chief Officer Audit & Risk's independent and objective opinion regarding the adequacy and effectiveness of the Council's governance, risk management and internal controls, provides details of the Internal Audit activity that supports the opinion and of the performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.

4.2 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.

4.3 Internal Audit reports during the year confirm improvements in internal controls, governance, and risk management through Management-initiated improvements complemented by the implementation of audit recommendations. The most significant of these improved controls related to the Business World ERP system. Further improvements in internal controls, governance, and risk management have been agreed by Management as highlighted in Internal Audit reports during the year.

4.4 The Internal Audit Annual Assurance Report 2018/19 provides assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council's Corporate Plan and has been used to inform the Chief Executive's Annual Governance Statement 2018/19.

4.5 The annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) in 2018/19 demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, and the Standards in the PSIAS.

5 IMPLICATIONS

5.1 Financial

- (a) It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit during 2018/19 through improved internal controls and governance arrangements.
- (b) The net cost (projected outturn at January 2019) of the Internal Audit service was £254k (2017/18 £234k). The majority of service expenditure relates to staff costs (99%) for resources comprising Chief Officer Audit & Risk (50% allocation), Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors.

5.2 Risk and Mitigations

- (a) Internal Audit provides assurance to Corporate Management and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls, governance and risk management within the Council, highlights good practice and recommends improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and range and breadth of audit areas for inclusion within the plan. There is effective liaison between Internal Audit and the Risk Management support team on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
- (b) Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of Audit recommendations.
- (c) It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.
- (d) Delivery of the Internal Audit services in conformance with the PSIAS 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.

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

There are no direct carbon emissions impacts 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 to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 As the Chief Officer Audit & Risk is required to give an independent opinion on the Council's governance, risk management and internal controls, full consultation on Appendix 1 is not appropriate.
- 6.2 The Corporate Management Team has been advised to take into account the work of Internal Audit and the independent opinion on the adequacy and effectiveness of the Council's governance, risk management and internal controls when completing the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2018/19.
- 6.3 The Corporate Management Team, the Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this cover report and any comments received have been incorporated.

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

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 14 May 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Chief Officer Audit & Risk's Annual Report and Opinion 2018/19**1 Introduction**

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line of defence, is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.
- 1.4 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:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations.
 - 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 performance information are accurate and reliable.
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."
- 1.6 This Annual Report provides the annual internal audit opinion and summarises the work carried out by Internal Audit during the year to 31 March 2019 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan. The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

2 Opinion on the systems of Internal Control and Governance

- 2.1 My opinion is that, based on our reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.
- 2.2 Internal Audit reports during the year confirm improvements in internal controls, governance, and risk management through Management-initiated improvements complemented by the implementation of audit recommendations. The most significant of these improved controls related to the Business World ERP system.
- 2.3 Reasonable assurance can be provided on the adequacy of the internal controls and governance arrangements in place. There is adequate awareness and observation of the Council's Local Code of Corporate Governance (approved June 2018) and key governance documents including Scheme of Administration (approved November 2017; amended June 2018), Procedural Standing Orders (approved June 2017), Scheme of Delegation (approved March 2018), Financial Regulations (approved November 2018), Procurement and Contract Standing Orders (approved July 2017) and Codes of Conduct for Councillors and for Employees. The policies, procedures and guidelines associated with Financial Regulations need to be reviewed, updated and developed, as appropriate, to reflect changes arising from the implementation of the Business World ERP system.
- 2.4 The Chief Officer Audit & Risk facilitates the annual review of the Council's governance arrangements against its Local Code of Corporate Governance (Local Code) carried out by a self-evaluation working group of officers from across the Council's services. This is part of the process to produce the Annual Governance Statement.
- 2.5 Further improvements in internal controls, governance, and risk management have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

3 Internal Audit Annual Plan 2018/19 Delivery

- 3.1 The following table shows the analysis of audit days and numbers by audit theme:

	Plan days 2018/19	Actual days 2018/19	Plan Nos. 2018/19	Actual Nos. 2018/19
Corporate Governance	165	141	6	6
Financial Governance	175	152	7	7
IT Governance	65	35	2	1
Internal Controls	105	94	5	4
Asset Management	75	72	4	4
Legislative and other Compliance	40	45	3	3
Consultancy and Advice	70	109		
Other	75	65		
SBC Total	770	713	27	25
Non-SBC	85	88	3	3
Total	855	801	30	28

- 3.2 The level of Actual Audit days was slightly lower than plan (94%). This performance can be attributed to extraordinary staff sickness absence during the first half of the year, and a staff leaver in the fourth quarter of the year thus reducing overall output despite greater than planned direct audit productivity from the Internal Audit team resources that were available during the year.

3.3 The allocation of audit plan days is not an exact science and some of the audit scopes have been carried out using less than planned days and some using more. The most significant variations are as follows:

- Corporate Governance: The second element of the planned assurance audit on Performance Management relating to KPIs of Corporate Priorities was not carried due to resource capacity in fourth quarter, though assurance will be gained from the Best Value Assurance Review of the Council that is underway.
- Financial Governance: The planned assurance audit on Financial Policy Framework was included within the Financial Planning assurance audit.
- ICT Governance: The full scope of the planned assurance audit on ICT Contract Management has been deferred to 2019/20 Audit Plan in agreement with Senior Management; aspects of the ICT outsource contract with CGI was covered as part of Consultancy work on request by CMT Review of Business Case Objectives.
- Asset Management: The full scope of the planned assurance audit on Winter Service has been deferred to 2019/20 Audit Plan to align with the phasing of the Winter Service Review in agreement with Senior Management and will be carried out as part of Consultancy work.
- Consultancy: engagement in the Contract Management Working Group and the Business Objectives Evaluation utilised significant resources.

3.4 This has not affected the assurance that Internal Audit is able to give.

3.5 The wide range of Internal Audit work performed during the year is listed below:

Corporate Governance Audits

3.6 To provide assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate objectives and priorities within the Council's Corporate Plan, reviews included:

- Corporate Governance (Assessment of progress on implementation of Improvement action plans, Annual Evaluation against Local Code of Corporate Governance, support the recruitment process to appoint external members to Audit and Scrutiny Committee (Audit business) and support for the Committee's learning and development).
- Information Governance (Review of the framework including roles and responsibilities, policy development and implementation, and assess compliance with the General Data Protection Regulation (GDPR) which came into force May 2018; and to provide annual assurance to the Senior Information Risk Owner and Data Protection Officer).
- Performance Management (Validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework).
- Corporate Transformation Programme (continual audit approach to influence the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned).
- Workforce Planning (Review of approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives).
- Resilience Planning (Review the approach to emergency and business continuity planning, including risk assessments, early warning systems, resilient communities initiative, post incident reviews and lessons learned).

Financial Governance Audits

3.7 To provide assurance on the internal financial controls in place and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, reviews included:

- Financial Planning Processes incorporating Financial Policy Framework (Review of the systems and procedures for preparing, monitoring and controlling the budget including efficiency savings to provide the foundation for sound internal financial control, to deliver the financial strategy, and to ensure plans and priorities match available resources including the roles and responsibilities of budget holders, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines).
- Business World ERP System Key Controls incorporating Payroll, Sales to Cash, Procure to Pay, and Record to Report system process (Assess key controls of the Business World system for Payroll, Sales to Cash, and Procure to Pay processes and core General Ledger and Management Reporting (Record to Report), assess System Access, test sample of transactions from various data sets to determine if expected improved internal financial controls are being achieved).
- Revenues – Council Tax and Non Domestic Rates (Assess the application and key controls regarding Council Tax and Non Domestic Rates exemptions and discounts, including review periods, policies, discretionary relief and disabled persons relief).

ICT Governance Audits

3.8 To provide assurances that computer systems are secure, reliable and conform to nationally agreed standards, reviews included:

- ICT Security Controls (Assess the adequacy of ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change/incident/problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them. Review of PSN compliance and Cyber Essentials requirements).

Internal Controls Audits

3.9 To provide assurances in relation to a range of the Council's internal controls in areas identified by Management, reviews included:

- Schools – Earlston HS, Eyemouth HS, Kelso HS, Melrose PS, Greenlaw PS and Eddleston PS (Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools, including evaluation of the systems in place to set and monitor budgets devolved to head teachers to ensure adherence to DSM standards and practices).
- Licensing (Review of New Licensing Policy Statement (requirement of law reviewed every 5 years), due to be in place by November 2018 to check that the Council is following best practice through its policies and procedures).
- Adult Social Care Services (Review of internal financial controls and governance arrangements regarding Self Directed Support to ensure national policy objectives are being met and public funds are safeguarded).
- Protective Services (Review the change in business practices and ways of working following the restructure within Environmental Health and Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed).

Asset Management Audits

- 3.10 To provide assurances that Council assets are safeguarded and properly accounted for, and used economically, efficiently and effectively, reviews included:
- Asset Registers (Review of systems, processes and controls that are in place 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).
 - Capital Investment (Assess progress with implementation of identified improvement actions to ensure compliance with established good practice by Accounts Commission - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme and capital plan projects, including transformation achieved through the Corporate Landlord Model).
 - Private Sector Landlord Registration (Assess the end to end procedures and practices for private sector landlord registration to ensure that statutory obligations are met and risks are appropriately managed).
 - Passenger Transport (Analyse and assess current processes for Passenger Transport to identify the approach which represents best value, review procurement practices for compliance and consider options for improvement).

Legislative and Other Compliance Audits

- 3.11 To test compliance with the terms of the funders' service level agreements or legislative requirements, reviews included:
- Selkirk Conservation Area Regeneration Scheme (Review Selkirk CARS as part of programme compliance and evaluation requirements of the external funders' requirements including audit).
 - EU Funded Programmes - LEADER and European Maritime and Fisheries Fund (Annual audits of the LEADER and EMFF Programmes under the terms of the respective Service Level Agreements and legislative compliance including an assessment of compliance with the requirements of the respective SLAs and the relevant EC Regulations).

Consultancy Work

- 3.12 The most significant piece of consultancy work related to the engagement in the design, development and delivery of a Contract Management Framework by the Contract Management Working Group, which will be the key mechanism that facilitates the monitoring and assurance of third party service providers.
- 3.13 On request by Corporate Management Team, Internal Audit examined and evaluated at a high level the objectives, benefits and expected outputs from the original business case for each outsourcing agreement (Live Borders; SB Cares; CGI), determined whether or not these have been achieved, and provided some evidence associated with that assessment.
- 3.14 In its 'critical friend' role, Internal Audit provided internal challenge and advice to Managers through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, Business World ERP Project Board, and Digital Customer Steering Group.
- 3.15 During the year Internal Audit responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance. One significant activity was attendance at Schools Business Managers Meeting and visits to Eyemouth and Berwickshire Primary Schools Clusters to provide information and assistance regarding Petty Cash policy and procedures and an overview of associated Council Financial policies.

- 3.16 Internal Audit considered and applied National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies. This adds value to the Council by influencing and offering ways to enhance the governance and internal control environment in alignment to the Council's strategic priorities.
- 3.17 Provided independent challenge of the evidence to support improvement arising from the Joint Older People Services inspection, and engaged in the design and development of the Public Protection Unit to support improvement as a 'critical friend'.

Other Work

- 3.18 Internal Audit responded to specific control issues highlighted by Managers during the year by incorporating those aspects within specific audit scopes or performing Contingency Audits approved by the Chief Officer Audit & Risk.
- 3.19 Work was carried out regarding the Carbon Reduction Programme to ensure that the Council's submission to the Department of Energy and Climate Change for carbon emissions was delivered on time; that updates to the Evidence Pack regarding the Council's structure, organisation and estate are maintained; and that progress continues with the Council's Energy Efficiency Schemes. No direction has yet been received on the future of the Carbon Reduction Commitment Programme; this current phase ends in March 2019.
- 3.20 Resources were deployed in the delivery of the Follow-up work to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance. The following table highlights the current position (Source: Pentana performance system as at 22 April 2019) with regards to Internal Audit recommendations arising from current and previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2018/19	4	2	1	1
2017/18	42	32	9	1
2016/17	10	9	1	0
2015/16	21	21	0	0
2014/15	34	30	3	1

- 3.21 In collaboration with the Corporate Fraud and Compliance Officer, Internal Audit evaluated fraud prevention controls and detection processes on an on-going basis to ensure fraud risk is considered in every audit, and provided intelligence via data sharing requests from Police Scotland as part of the wider assurance framework on counter fraud and crime controls.

Non SBC Work

- 3.22 The Council's Internal Audit service provided independent assurance on the overall risk management, internal control and corporate governance processes for SB Cares (the Council's adult social care ALEO), Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. Separate annual audit assurance opinions are reported to their respective Senior Management and Boards, based on the work delivered in accordance with Annual Audit Plans that have been approved by their respective Senior Management and Boards.
- 3.23 Approval was given in November 2018 to continue with Shared Internal Audit Services between Midlothian and Scottish Borders Councils after a 12-month pilot demonstrated positive outcomes including the sharing of expertise and knowledge, and the identification and assessment of best practice across both organisations.

4 Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
 - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; and Communicating the Acceptance of Risks).
- 4.2 An internal self-assessment of Internal Audit practices against the Standards was carried out in 2018/19, as required by the PSIAS, taking into account the progress with implementation of improvement actions arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Programme.
- 4.3 The 2018/19 self-assessment against the PSIAS carried out in January 2019 has indicated that Internal Audit either 'Fully Conforms' or 'Generally Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The one minor housekeeping matter in the current Quality Assurance and Improvement Programme is: Review of working papers needs to be evidenced, consistently. This improvement action is in progress.
- 4.4 The Public Sector Internal Audit Standards (PSIAS) requires the self-assessment to be subject to an External Quality Assessment (EQA) every five years, by appropriately qualified and independent reviewers. To achieve this, an 'EQA Peer Review Framework' was developed by the Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG). Scottish Borders Council had its EQA Peer Review by Renfrewshire Council in October 2015. SLACIAG has refined its 'EQA Peer Review Framework' based on lessons learned and a programme for the second phase is being finalised, with Scottish Borders Council's EQA Peer Review expected sometime during 2020 to meet the requirements.

Jill Stacey BA(Hons) ACMA CGMA
Chief Officer Audit & Risk
23 April 2019

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ANNUAL GOVERNANCE STATEMENT 2018/19

Report by Chief Executive

AUDIT AND SCRUTINY COMMITTEE

13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 This report proposes that the Audit and Scrutiny Committee considers and approves the Annual Governance Statement that will be published in the Council's Statement of Accounts 2018/19.**
- 1.2 The CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code of Corporate Governance, and prepare a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.
- 1.3 Part of the Audit and Scrutiny Committee's remit (Audit function) is to assess the effectiveness of internal controls, risk management, and governance arrangements.
- 1.4 The Annual Governance Statement 2018/19 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion.
- 1.5 In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Considers the details of the Annual Governance Statement 2018/19 at Appendix 1, and acknowledges the actions identified by Management to improve internal controls and governance arrangements; and**
 - b) Approves that it be published in the Council's Statement of Accounts 2018/19.**

3 BACKGROUND

- 3.1 Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2 The Council approved a revised Local Code of Corporate Governance on 28 June 2018, on recommendation by this Committee, consistent with the principles and requirements of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) which helps to ensure proper arrangements continue to be in place to meet these responsibilities.
- 3.3 Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.
- 3.4 The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 3.5 Part of the Audit and Scrutiny Committee's remit (Audit function) is to assess the effectiveness of internal controls, risk management, and governance arrangements in place. This includes to 'Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives'¹.

4 ANNUAL GOVERNANCE STATEMENT 2018/19

- 4.1 In February and March 2019 the officer Governance Self-Assessment Working Group (the 'Group') undertook the annual self-assessment of the effectiveness of internal control and governance arrangements and compliance against the Local Code for the year ended 31 March 2019. The Chief Officer Audit & Risk led on this process as part of HIA² role to be champion for sound governance.
- 4.2 The Group has considered examples of evidence such as systems, processes and documentation to demonstrate compliance with the Framework's seven core principles of good governance, supporting principles and a range of specific requirements as set out in the Local Code. The Group has evaluated progress with implementation of actions regarding previously identified improvement areas of governance.
- 4.3 The Annual Governance Statement 2018/19 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion.
- 4.4 In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound. The Annual Governance Statement 2018/19 is informed by the self-assessment of compliance against the Local Code by the officer Governance Self-Assessment Working Group, the work of Internal Audit, External Audit and Inspection agencies, and by Executive / Service Directors' assurance statements.

¹ CIPFA guidance note for local authorities 'Audit Committees' (2013)

² CIPFA 'the role of the head of internal audit in public service organisations' (2010)
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5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from this report.

5.2 Risk and Mitigations

The Annual Governance Statement 2018/19 details areas where additional work would further enhance the internal control environment, or improve risk management, and corporate governance arrangements. The review of the Local Code of Corporate Governance will ensure that internal controls, risk management and other governance arrangements are improved through the implementation of that framework.

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

Core principle of good governance "C. Defining outcomes in terms of sustainable economic, social, and environmental benefits" is included within the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). The officer Governance Self-Assessment Working Group considered examples of evidence such as systems, processes and documentation to demonstrate local compliance with all the Framework's seven core principles of good governance, supporting principles and a range of specific requirements.

5.5 Carbon Management

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

5.6 Rural Proofing

This report does not relate to a 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 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 engaged in the governance annual assurance process 2018/19 and has been consulted on this report and any comments received have been incorporated.

6.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this report and any comments received have been incorporated.

Approved by

Chief Executive, Tracey Logan

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers: CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'; Scottish Borders Council Local Code of Corporate Governance
Previous Minute Reference: Audit and Scrutiny Committee 14 May 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Annual Governance Statement 2018/19

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2019, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Scottish Borders Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

The system can only provide reasonable and not absolute assurance of effectiveness.

Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (Spring 2016) (the 'Framework') is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The 'Framework' defines the seven core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Revisions were required to the Council's Local Code of Corporate Governance during 2016/17 to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the 'Framework' and the supporting guidance notes for Scottish authorities (November 2016). This was approved by Council on 24 August 2017 on recommendation by Audit and Scrutiny Committee in June 2017 and a copy of the Local Code of Corporate Governance was published on the Council's website.

The Governance Framework

The Council's Local Code of Corporate Governance sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The key elements of the Council's governance arrangements as set out in the Local Code include:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in procedural standing orders, scheme of administration, scheme of delegation, and financial regulations which are regularly reviewed and revised where appropriate.

Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. An annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties is provided to the Council by the Chief Social Work Officer (CSWO). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc.

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

Unless confidential, decisions made by Council, the Executive Committee or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users, for example via Citizen Space. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Community Planning Partnership (of which the Council is a partner) has a Community Plan approved November 2017 (the Local Outcomes Improvement Plan (LOIP)) underpinned by 5 Locality Plans which are being developed through Area Partnerships for approval in 2018. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the new Corporate Plan 2018-2023 approved February 2018 which suggests where individuals, families, businesses, partners and communities can "play their part" to improve outcomes for the Scottish Borders #YourPart.

Asset management planning (which is under development) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. The Council has put arrangements in place to comply with key elements of the Community Empowerment Act.

Equalities as well as environmental and rural implications are considered during the decision making process to promote fair access to services.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals, by way of the compulsory sections of the Committee report.

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Corporate Plan.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The corporate management structure consists of the Chief Executive and nine Executive/Service Directors. The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process in place during the year but subject to review and change.

The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

The Elected Members Development Programme includes the comprehensive Induction programme which is periodically supplemented by additional training and an annual programme of learning and development and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

F. Managing risks and performance through robust internal control and strong public financial management

The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Audit and Scrutiny Committee (Scrutiny function) for reviewing policy decisions.

The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.

The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively.

A Medium Term Financial Strategy, and associated Risk Register, and plans for revenue (5-year) and capital (10-year) based on corporate priorities are developed, led by the Corporate Management Team, and presented for approval by Council in February each year, along with the Corporate Transformation Programme proposals.

Revenue and Capital Budget Monitoring reports are presented to the Executive Committee on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The independent and objective audit opinion of the Chief Officer Audit & Risk (Chief Audit Executive) within the Internal Audit Annual Assurance Report 2018/19 states that the systems of internal control, risk management and governance arrangements are operating satisfactorily, reasonable assurance can be provided on their adequacy, and further improvements have been agreed by Management. This is based on work carried out by an in-house team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement. The Audit and Scrutiny Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council carries out an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Scrutiny Committee whose Audit role includes high level oversight of the Council's governance, risk management, and internal control arrangements.

The review was informed by the work of an officer Governance Self-Assessment Working Group which undertook an annual self-assessment against the Council's Local Code of Corporate Governance consistent with the principles and recommendations of the 'Framework'. This group has responsibility for monitoring compliance with the Local Code and making recommendations to ensure continuous improvement of the systems in place.

The review was also informed by assurances from: the Executive / Service Directors, who have responsibility for the development and maintenance of the governance environment within their Directorates and Services and who in turn identify actions to improve governance at a strategic level; the Chief Officer Audit & Risk's annual assurance report on the work of Internal Audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance; and comments made by External Auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2018/19 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective, and are consistent with the principles and recommendations of the 'Framework'.

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where further improvement in governance arrangements can be made to enhance compliance with the Council's Local Code of Corporate Governance:

- 1) In response to unprecedented challenges, expectations and opportunities, commence a more ambitious change and transformation programme (Fit for 2024) through a consistent approach to enable delivery of efficient and effective services to customers in a sustainable way, collaboration with communities and other partners, optimised utilisation of assets across localities, digitally-led process improvement, and focus on delivering positive outcomes.
- 2) Continue to ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's Corporate Plan and priorities thus managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available.
- 3) Realise full benefits arising from the implementation of the Corporate Landlord Model to review strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future and reduce the Council's property footprint.
- 4) Continue to monitor the contract performance outcomes of strategic external service providers in particular in light of the changing landscape for the public sector.
- 5) The ongoing implementation of the Performance Management Framework which will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
- 6) The ongoing implementation of the Business World ERP system to maximise use of its functionality, specified in Solution Design Documents, and ongoing review of policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations and of the HR procedures and guidelines associated with the implementation of the new Business World ERP System. Alignment with other computer-based systems and automation of routine processes.
- 7) Consolidation and refinement of procedures and practices to ensure comprehensive data and information management across the Council and within each Service in all relevant aspects of service delivery to ensure ongoing compliance with legislation and regulations.
- 8) Review of the Complaints Handling Procedure to ensure consistency of approach across the Council for dealing with complaints including raising staff awareness of customer care to fully utilise customer information and improve services through Digital Customer Access.

These actions to enhance the governance arrangements in 2019/20 will be driven and monitored by the Corporate Management Team supported by Directorate Management Teams on a regular basis in order to inform the next annual review. Internal Audit work planned in 2019/20 is designed to test improvements and compliance.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects.

Tracey Logan
Chief Executive
mm 2019

Councillor Shona Haslam
Leader of the Council
mm 2019

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