Public Document Pack

AUDIT AND SCRUTINY COMMITTEE
MONDAY, 14 FEBRUARY 2022

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held VIA MICROSOFT TEAMS

on MONDAY, 14 FEBRUARY 2022 at 10.15 am

J. J. WILKINSON,
Clerk to the Council,

7 February 2022

BUSINESS		
1.	**Apologies for Absence.**	
2.	**Order of Business.**	
3.	**Declarations of Interest**	
4.	**Minute.** (Pages 3 - 8) Consider Minute of Meeting of the Audit and Scrutiny Committee held on 13 January 2022 to be approved and signed by the Chairman. (Copy attached.)	5 mins
AUDIT BUSINESS		
5.	**Audit Business Action Tracker** (Pages 9 - 10) Consider and note progress made on the Action Tracker. (Copy attached.)	5 mins
6.	**Treasury Management and Investment Strategy 2022-23** (Pages 11 - 66) Consider Report by Director Finance and Corporate Governance. (Copy attached.)	10 mins
7.	**Best Value Action Plan Update** (Pages 67 - 82) Consider presentation of the Best Value Audit Implementation Action Plan. (Copy attached.)	15 mins
8.	**Counter Fraud Controls Assessment 2021-22** (Pages 83 - 88) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
9.	**Internal Audit Work to January 2022** (Pages 89 - 102) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
10.	**Accounts Commission Report 'Community Empowerment: Covid-19 Update'** (Pages 103 - 106) Consider Report by Chief Officer Audit and Risk. (Copy attached.)	10 mins

11.	**Accounts Commission and Auditor General 'Social Care Briefing'** (Pages 107 - 130) Consider briefing prepared by Audit Scotland. (Copy attached.)	10 mins
12.	**Any Other Audit Items Previously Circulated.**	
13.	**Any Other Audit Items which the Chairman Decides are Urgent.**	
	SCRUTINY BUSINESS	
14.	**Scrutiny Business Action Sheet** (Pages 131 - 134) Consider and note progress made on the Action Tracker. (Copy attached.)	5 mins
15.	**Any Other Scrutiny Items Previously Circulated.**	
16.	**Any Other Scrutiny Items which the Chairman Decides are Urgent.**	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**

2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors S. Bell (Chairman), H. Anderson, J. A. Fullarton, J. Greenwell, N. Richards (Vice-Chairman), E. Robson, H. Scott, E. Thornton-Nicol, S. Scott, Mr M Middlemiss and Ms H Barnett

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Please direct any enquiries to William Mohieddeen, Democratic Services Officer
Tel: 01835 826504; Email: william.mohieddeen@scotborders.gov.uk

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SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held via Microsoft Teams on Thursday, 13 January 2022 at 10.15 am

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Present:- Councillors S. Bell (Chairman), H. Anderson, J. Fullarton, J. Greenwell, N. Richards, E. Robson, H. Scott, S. Scott, and E. Thornton-Nicol

In Attendance:- Chief Officer Roads, Network Manager, Team Leader – Road Assets Team, Chief Officer Audit and Risk, Clerk to the Council, Democratic Services Officer (W. Mohieddeen).

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1. **MINUTE.**
There had been circulated copies of the Minute of the Meeting held on 9 December 2021.

DECISION
AGREED to approve the Minute for signature by the Chairman

2. **SCRUTINY BUSINESS ACTION SHEET**

2.1 With reference to paragraph 2 of the Minute of 9 December 2021, there had been circulated copies of the Scrutiny Business Action Sheet. The Clerk to the Council advised that actions had been added from the Meeting held on 9 December 2021 including a review of Festival Funding. With regard to Rural Proofing, the Clerk to the Council was due to follow up on this action with the Director Resilient Communities. Communications Officers were to attend the Meeting of the Committee to be held on 14 March 2022 to allow Members to have a discussion about a programme of communication in regard to climate change, including waste and recycling. With regard to the Teviot Day Service action from the Meeting held on 30 November 2021, the Chairman advised that he had written to the Director Social Work & Practice who had confirmed that the two actions had been carried out. With regard to Responsible Dog Ownership, Members considered that the action was to determine how dog waste was processed and that a short notification may only have been required. Mr Hedley advised that dog waste could be co-mingled in general waste so long as it was not more than 5% of the total waste collected. It was not practical to have special uplifts of dog waste for separate processing. Members agreed that this action would now be closed.

2.2 The Chief Officer Audit and Risk referred to action 1 (a) from the Meeting held on 29 June 2021, regarding the proposed review of the Income Management Policy, advising that this Policy had recently been reviewed and approved at the Executive Committee meeting held on 17 August 2021. With regard to the benchmarking of charges, these had been related to the Fees and Charges approved by Council in February/March each year as part of budget setting. The Chairman responded that the understanding was that for the 2022-23 budget, work on benchmarking fees was ongoing. The Chief Officer Audit and Risk advised that findings from internal audit reviews would reference the Income Management Policy as part of wider policy. Members agreed that this review be removed.

2.3 The Clerk to the Council advised that with regard to the proposed review of the Management and Maintenance of Public Halls, which would focus on the community contribution e.g. through management committees, public halls were still affected by Covid-19 restrictions. The Clerk to the Council was liaising with the Director Strategic Commissioning & Partnerships on the most appropriate way to bring this forward to

Members. Public transport and communities action was to be addressed in the 14 March 2022 Meeting of the Committee. The action regarding the Jedburgh Contact Centre and Library from the Meeting held on 25 November 2019 was to be addressed by the Director Resilient Communities. In response to a question from the Chairman enquiring whether the action regarding Jedburgh Contact Centre and Library was out of date, the Clerk to the Council advised that an update on the action would be brought to the next Meeting of the Committee.

2.4 With regard to the action from 24 October 2019 on Community Access to Schools, the Chairman advised that he had had constructive discussions with the Director Education and Lifelong Learning with regards to the policy aspect of this issue. The Chairman advised that the use and booking of schools by community groups was the result of historic practices in different areas so was complex. On a wider policy point, reference had been made over the years to "community schools" but that had different meanings in different contexts. Referring to community facilities within schools rather than community schools may be the way forward. Determining which schools would have facilities available for use by community groups may be best taken forward as part of the Place Making conversations with communities. Not every school would be made available in this way as there could be other facilities already available within communities or schools in towns could be close together. The Chairman had agreed with the Clerk to the Council that the Committee return to the issue with a scrutiny discussion organised to address community access to schools facilitated by a brief report outlining the issues which would allow Members to express their views on what was meant by community access to schools and how this could best be taken forward.

DECISION
AGREED that:
(a) the actions regarding the Teviot Day Service petition were now complete;
(b) the Responsible Dog Ownership Strategy review action could now be marked as complete;
(c) the Income Management Policy would be removed from the Work Programme as the Policy had recently been updated and the benchmarking of charges was undertaken as part of preparation of the Fees & Charges paper for the annual budget;
(d) there would be a discussion at a future meeting of Audit & Scrutiny on the use of school facilities by community groups and how this could be taken forward through the Place Making discussions.

3. **ROADS AND INFRASTRUCTURE SERVICES PERFORMANCE**

3.1 There had been circulated copies of the Report by the Director Infrastructure and Environment which set out how Scottish Borders Council resourced its Roads and Infrastructure service; the level of service that resource enabled and how this level of service performance compared against others. The report was presented by the Chief Officer Roads, Mr Hedley, who advised that the Roads and Infrastructure service was located within the Infrastructure and Environment Department and consisted of SBc Contracts, Infrastructure, Engineering, Roads Operations, Fleet Services and the Parks and Environment team. Scottish Borders Council resourced roads services using a mix of revenue and capital funding. Prior to that, road maintenance was predominantly funded through revenue with the capital budget primarily funding improvements to the road network. Regular inspection of Scottish Borders Council's adopted road network and associated assets was undertaken in accordance with the Council's Standards on Carriageway/Footway & Footpath Safety Inspections contained in Appendix 4 of the Report. Mr Hedley highlighted further complications affecting roads including winter weather conditions not being conducive to carrying out permanent or significant repairs due to the presence of water on the road surface and throughout the various layers of road construction. The Infrastructure team determined any activities which the Council undertook on the road network and would instruct SBc Contracts or the Roads Operations teams accordingly. As part of their remit they would also monitor and report on performance and benchmarking activity. In 2021, the spending per kilometre was the third highest of the family group of comparable local authorities with characteristics and challenges common to rural regions defined by the Local Government Benchmarking Framework (LGBF). Over the last three years, Scottish Borders Council had overlaid 29 kilometres of carriageways, surface dressed 157 kilometres of the network and undertaken permanent patching repairs to approximately 140,000 square metres of the network. Over the same period, the Council had undertaken £1.285 million of semi-permanent repairs to rural (C and D-class) network roads using jet patching. It was estimated that £1.865 million of reactive patching works was undertaken in the same timeline. Potholes were significantly the largest category of customer enquiry for the service. Customer enquiry numbers may have been found to fluctuate depending on the severity of winter weather. The Roads service had purchased a second jet patching machine and staff were trialling a permanent system of repairs with a JCB Pothole Pro. It was expected that the JCB Pothole Pro would be received in early 2022. The number of insurance claims received due to vehicle damage caused by roads had been declining; however the number of claims settled where the Council agreed it had been at fault had been increasing. As part of Fit for 2024, the Service had initiated a third-party review during 2021 which was scheduled for report in early 2022. To become more effective and efficient the service aimed to increase the use of digital initiatives to improve service provision. As part of the report, the contribution of suppliers, supporters and partners were recognised, particularly in response to the impact of Storm Arwen. Mr Hedley thanked all the staff within the Service for their work over the recent Christmas period and during the Covid pandemic.

3.2 In response to questioning from Members, the Network Manager, Mr Young, advised that any additional winter spend over budget was recorded each year by the Finance section but a harsher winter than normal would not normally be eligible for the Bellwin scheme unless there was an extreme weather event such as in 2001 when airlifts were required to outlying areas due to the amount of snow across an extended period. The Team Leader, Roads Asset Team, Mr Scott confirmed that the strategic importance of a route was based on classification, but traffic counts were also carried out by teams at various times. Mr Young advised that a high priority was given for edge lining, however the right conditions were needed and that this would be difficult to undertake in winter months. Lining on A and B-roads was undertaken by external contractors through a procurement exercise which took account of value and quality. Forward visibility was also taken into account when cutting grass verges on higher use roads as well as at junctions. With regards to the contribution of fleet to climate change, the Fleet Manager, Mr Naylor, was reviewing the current fleet and its usage. Any new non-fossil fuel vehicles coming on stream would also need sufficient infrastructure (EV points). The service expected to begin moving away from fossil fuel vehicles from 2025, but fossil fuel vehicles would still be purchased at the moment if they would be at end of life by 2030. Mr Young advised that road lining was often undertaken by an external contractor and adding 'slow' markings would have added considerably to the operation and cost, so these markings were to be carried out separately by the Council. The SBC sign workshop was particularly busy over summer when there were a lot of resurfacing schemes which generated ad hoc signage requirements and production. Where generic signs were needed then these could be bought in bulk from external workshops to help relieve the pressure on the in-house workshop. Assessment had been undertaken on the utilisation of a gully-emptying programme to help address water on roads. There were 2 gully emptier machines, located at Newtown and Hawick, and further work was planned using external suppliers for Tweeddale and the outlying areas of Berwickshire. In lesser classification rural roads, a gully inventory would allow for a better understanding of the conditions of gullies and technology was helping identify the levels of silt. Mr Hedley confirmed that the use of new technology was being investigated on an ongoing basis which could provide more intelligent information on the condition of the infrastructure and how it was performing. Mr Young advised that legislation covered the reinstatement work of the utilities companies. The Council had one Public Utility Inspector covering all public utility works across the Borders to ensure they were keeping up with obligations.

Problems arose when the reinstatement works failed after a period of time, often out-with the legislative framework. Regular meetings took place with utilities companies and where their contractors did not perform to SBC standards these were investigates and, if appropriate, corrective measures undertaken. In one recent case, this had resulted in a contractor being removed from utility companies list for in the Borders. However, it all came down to the Code of Practice to which the utility companies signed up. While the Code of Practice was very rigorous on the type of repair that was required (temporary and permanent), it also depended on the type of road and the amount of traffic using it. As soon as a cut was made in any road, there would be weakness and water would ingress at one point. Discussions were due to take place with the new Roads Commissioner on this matter and Members would be updated on the outcome as may be appropriate. The Chairman suggested that an item be added to the Action Tracker to monitor the trend in road maintenance funding in the 10 year capital/revenue budgets.

3.3 With regards to the impact of the age of the Borders roads, Mr Hedley advised that several factors affected road condition including age, design and construction methods used, skid-resistant material and traffic profile. This meant that the roads asset was in a constant process of deterioration, which varied depending on the type of usage e.g. timber, farming, cars, etc. There were requirements on the Council in the Roads (Scotland) Act 1984 to maintain roads in reasonable condition and attend to the impact of winter. The road network had to be able to cope with the impact of weather, but there were no viable alternate methods of clearing snow and ice from roads than those currently in use. Deterioration of roads over winter was more to do with freeze/thaw than from the application of salt. Officers were always looking for new opportunities to improve the roads. Mr Scott added that the Council tried to carry out as much preventative maintenance as possible so roads did not deteriorate, rather than carrying out corrective maintenance. The best solution was sought for individual locations and officers were constantly looking at alternative materials and better means of delivering repairs. As an example, cold material was used in potholes in winter as if hot material was used it would go brittle and fail in freezing conditions. In response to a question about resolving water runoff from adjacent fields, Mr Hedley advised that preventative work was undertaken to engage adjacent landowners, where water was issuing from the property onto the public road, in developing solutions. Where officers became aware of an issue, initial contact was made through the Asset Team then officers worked with landowners to try and achieve a collaborative approach. For enforcement issues, if action had not been taken 28 days after receipt of a letter, the Roads (Scotland) Act 1984 empowered the Council to pursue appropriate action. In terms of engaging with local communities for information and assistance, this could be progressed through Area Partnerships, although care would need to be taken that no-one was put at risk e.g. inspecting gullies. The use of jet patching was part of an integrated maintenance approach and this was predominantly used on rural roads as it was not felt appropriate to use jet patching on A or B roads. With regards to timber transport, Mr Hedley advised that the Council had a good working relationship with Forest Land Scotland and that timber transport was no different to a supermarket lorry and had as much right to use the public road network as anyone else. The Council had a good relationship with the timber transport industry and had a preferred routes map, which tried to keep to A class roads, but this may be complicated by the location of forestry. The Council had also been successful over the years in accessing the Challenge Fund for Forestry for road improvements and reinstatement. Mr James England, the South of Scotland Forestry Transport Officer, was also very helpful.

3.4 Storm Arwen had impacted across the Borders but particularly within Berwickshire. Mr Young explained there had been extensive areas of wind-blown trees, and those impacting on the roads network had been removed. Landowners would also need to remove the windblown trees from their land and this also needed to be managed e.g. no cranes were allowed to lift timber from the side of the road and the safest place to load onto wagons had to be established as this would generate a lot of activity. Mr Scott advised that, in terms of soft verges, the issue predominantly in Berwickshire was roll over, as while roads were meant to have a stepped construction with the lowest level the widest, on many of these roads there was a vertical construction so once off the tar it was directly onto soil. This latter was often the way the road had been originally constructed and the width available for a road could be another issue. The only way to rectify this was to reconstruct the verges but this cost £150 per m². Where previously there had been ditches, there were now sometimes gas or water pipes so each area had to be considered on a case by case basis.

MEMBER
Councillor Scott left the meeting.

3.5 With regard to repair plans for C and D class roads in Berwickshire and the level of insurance claims, Mr Hedley advised that there were failures in road surfaces and these had to be attended to as soon as possible. The preference was to carry out permanent repairs but speed and cost were also factors so a blended approach was used. The intention was to move to more permanent repairs in the first instance and options were being explored on how to best manage this, such as not having to close roads when carrying out repairs and also introducing new machinery which would protect staff from using vibration equipment. There was a detailed programme of work for the coming year and an outline of work for the next 3 years which would include roads in the Berwickshire area. Details of roads where insurance claims had been made were available. With regard to hedges which encroached on roads, Mr Hedley confirmed that roadside hedges belonged to landowners and one of the Asset Team would visit the site and then encourage the landowner to carry out judicious pruning. There needed to be a balance with the time of year i.e. not to disturb nesting birds. If there were any particular areas of concern then Members should contact Mr Scott's team in the first instance. Mr Hedley also advised that the current review of the Roads service should be complete in early 2022. This was an internal operational report and, depending on the outcome, may come forward to Members post-election should strategic changes be proposed.

3.6 Councillor Bell thanked the Mr Hedley, Mr Young and Mr Scott for the report and their excellent responses to questions from the Committee. It was good to see the Department trying to find new mechanisms to improve the road network and for continuing to explore new ways of working.

DECISION
(a) NOTED the report.
(b) AGREED to request the Director Finance & Corporate Governance considered the need to monitor the 10 year capital/revenue trend in funding for roads maintenance.

The meeting concluded at 12.35 pm

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ACTION SHEET MASTER COPY

SCOTTISH BORDERS COUNCIL AUDIT and SCRUTINY COMMITTEE 2021/22 (AUDIT BUSINESS)

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
23 November 2020				
Internal Audit Work to October 2020	**AGREED to request that the Executive Director Finance & Corporate Governance write to the Chief Executive NHS Borders to encourage sign-off at the earliest opportunity of the SLA relating to the Community Equipment Service.**	Finance & Corporate Governance	David Robertson	Complete 3 December 2021. Budget agreed by NHS Borders and SBC. SLA sign-off by NHS Borders DoF.
29 June 2021				
Unaudited Report and Accounts 2020/21 for Scottish Borders Council	**AGREED that in respect of the three re-organised trusts: SBC Welfare Trust; SBC Education Trust; and SBC Community Enhancement Trust:** **(i) to express concern at the lack of significant activity in terms of their promotion and dispersal of funding;** **(ii) to ask officers to review the operation and governance of these Trusts with a view to better publicising and promoting their aims and objectives;** **(iii) to ask the Service Director for Young People Engagement & Inclusion to engage with Finance staff to facilitate the consolidation of the remaining SBC Charity Funds;** **(iv) to ask the Chief Executive to present a follow-up report on these funds to Executive Committee within next 3- 6 months.**	Resilient Communities Education & Lifelong Learning Chief Executive	Jenni Craig Lesley Munro Netta Meadows	In progress Realistic target date 31 December 2021
20 September 2021				
Audit Scotland Fraud & Irregularity Update 2020-21	**AGREED:** **(i) to request that the Integrity Group considers the report as part of their counter fraud role and responsibilities and determines any Management Actions required in response for improvement and assurance purposes;** **(ii) to request that the Integrity Group, at the same time, revisits the assessment of counter fraud controls associated with the covid-19- emerging-fraud-risks carried out during 2020/21, and assesses progress on any agreed actions;** **(iii) to request that the Integrity Group reports back to the Committee on findings and necessary actions; and,** **(iv) that the Chief Officer Audit & Risk arranged to disseminate the Audit Scotland Update to Council staff as necessary.**	Audit & Risk	Jill Stacey	Complete. Counter fraud controls assessment 2021/22 carried out by Integrity Group to be presented 14 February 2022.

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
Progress Update on LDS Financial Management Recommendation	**AGREED that the Joint Learning Disability Service Manager would bring an update report on progress with implementation of the Internal Audit review recommendation to the Committee in 4-months time and that this would be held in public if possible.**	Learning Disabilities Service	Simon Burt	Pending SLT approval before presenting to February/March meeting of A&S Committee
21 October 2021				
Audited Report and Accounts 2020/21 for Scottish Borders Council Pension Fund	**AGREED to recommend to the Pensions Fund Committee that it sought reassurance that by 31 March 2022 the recommendations detailed in the management action plan would be achieved.**	Finance & Corporate Governance	David Robertson	In progress.
22 November 2021				
Audit Action Tracker	**AGREED to add the Best Value audit update for the February 2022 meeting to the Audit Action Tracker.**	People, Performance & Change	Jason McDonald	Complete. Update on progress to be presented 14 February 2022.
Mid-Year Treasury Management Report 2021/22	**AGREED to request the Director Finance & Corporate Governance include factors affecting deliverability within the next budget briefing.**	Finance & Corporate Governance	David Robertson	Scheduled for presentation with papers for Council meeting 22 February 2022.
Internal Audit Work to October 2021	**AGREED to request the Corporate Management Team to review business continuity arrangements across the Council and that an assurance report be presented to the Audit and Scrutiny Committee at its February 2022 meeting.**	Finance & Corporate Governance	David Robertson	A&SC 14 March 2022 proposed for Update on progress.
Risk Management Policy and Strategy 2021-2024	**AGREED to endorse the revised Risk Management Policy Statement and Risk Management strategy for full Council approval.**	Audit & Risk	Jill Stacey	Complete. Approved by full Council at its meeting on 16 December 2021.
Counter Fraud Policy and Strategy 2021-2024	**AGREED to endorse the revised Counter Fraud Policy Statement and Counter Fraud strategy for full Council approval.**	Audit & Risk	Jill Stacey	Complete. Approved by full Council at its meeting on 16 December 2021.

TREASURY MANAGEMENT STRATEGY 2022/23

Report by Director, Finance & Corporate Governance

AUDIT AND SCRUTINY COMMITTEE

14 February 2022

1 PURPOSE AND SUMMARY

1.1 **This report is to enable the Audit and Scrutiny Committee to undertake their scrutiny role in relation to the Treasury Management activities of the Council. It presents the proposed Treasury Management Strategy for 2022/23 for consideration prior to Council approval.**

1.2 The Treasury Management Strategy is the framework which ensures that the Council operates within prudent, affordable limits in compliance with the CIPFA Code.

1.3 The Strategy for 2022/23 to be submitted to Council on 22 February 2022 is included in this report at Appendix 1 and reflects the impact of the Administration's draft Financial Plans for 2022/23 onwards on the prudential and treasury indicators for the Council.

2 STATUS OF REPORT

2.1 Allowing the maximum time for finalisation of the proposals in the draft Financial Capital Plans for 2022/23 to 2031/32 has impacted on the drafting of the treasury strategy. The report is currently out for consultation and comments will be reported at the meeting.

3 RECOMMENDATIONS

3.1 **It is recommended that the Committee considers whether to make any comments or recommendations on the draft Treasury Management Strategy for 2022/23 prior to presentation to the Council for approval.**

4 BACKGROUND

4.1 The Audit and Scrutiny Committee is responsible for scrutinising the Treasury Management Strategy in line with recommended practice set out in the CIPFA (Chartered Institute of Public Finance and Accountancy) Code (i.e. Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes).

5 TREASURY MANAGEMENT STRATEGY 2022/23

5.1 Appendix 1 contains the draft Treasury Management Strategy for 2022/23 for consideration by the Audit and Scrutiny Committee.

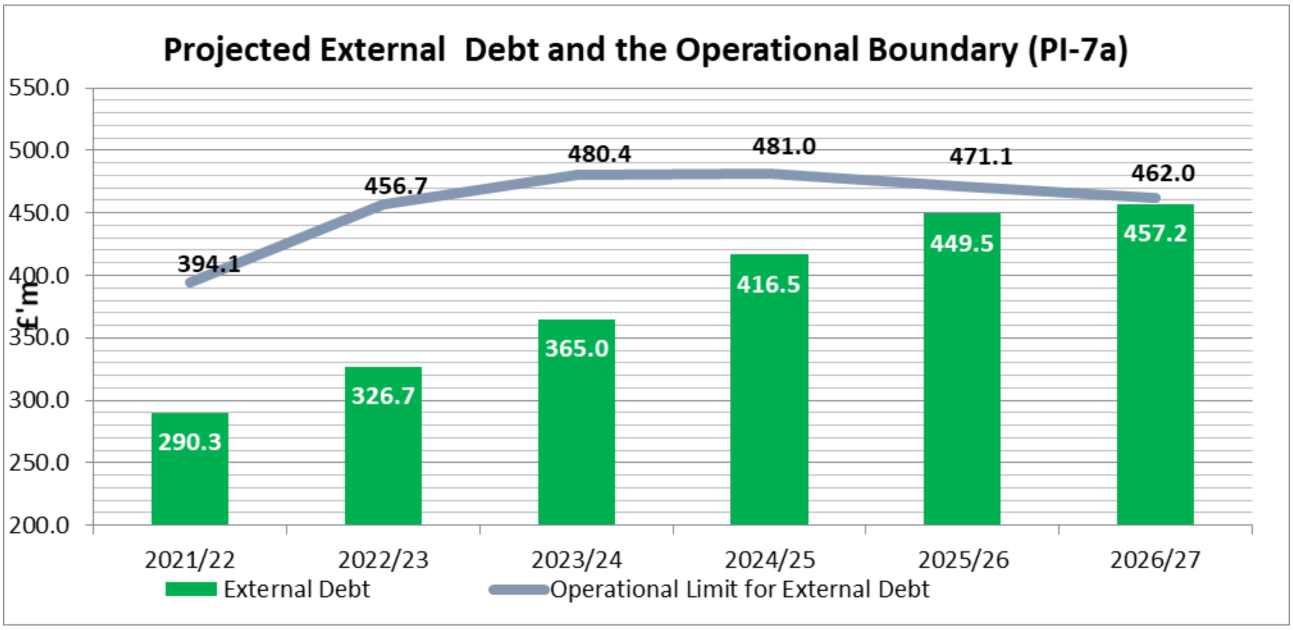
5.2 This is based on the Administration's current draft Financial Capital Plans for 2022/23 to 2031/32, yet to be published and as such is subject to change as these plans will not be presented to Council for approval until 22 February 2022. The final version of this report which will be reported to Council will include a 30 year loans charges projection based on assumed future capital expenditure.

5.3 Appendix 1, Annex A contains a summary of the proposed indicators within the strategy. The significant changes from the 2021/22 strategy are:

(a) Decrease in the Capital Financing Requirement (CFR) in the first two years with increases in later years due to the re-phasing of 1 primary school and 2 residential care homes. Also impacting on the CFR movement is the anticipated capital borrowing requirements associated with the re-phasing of projects from 2021/22 into future years as well as movements in the scheduled debt amortisation projections for the year.

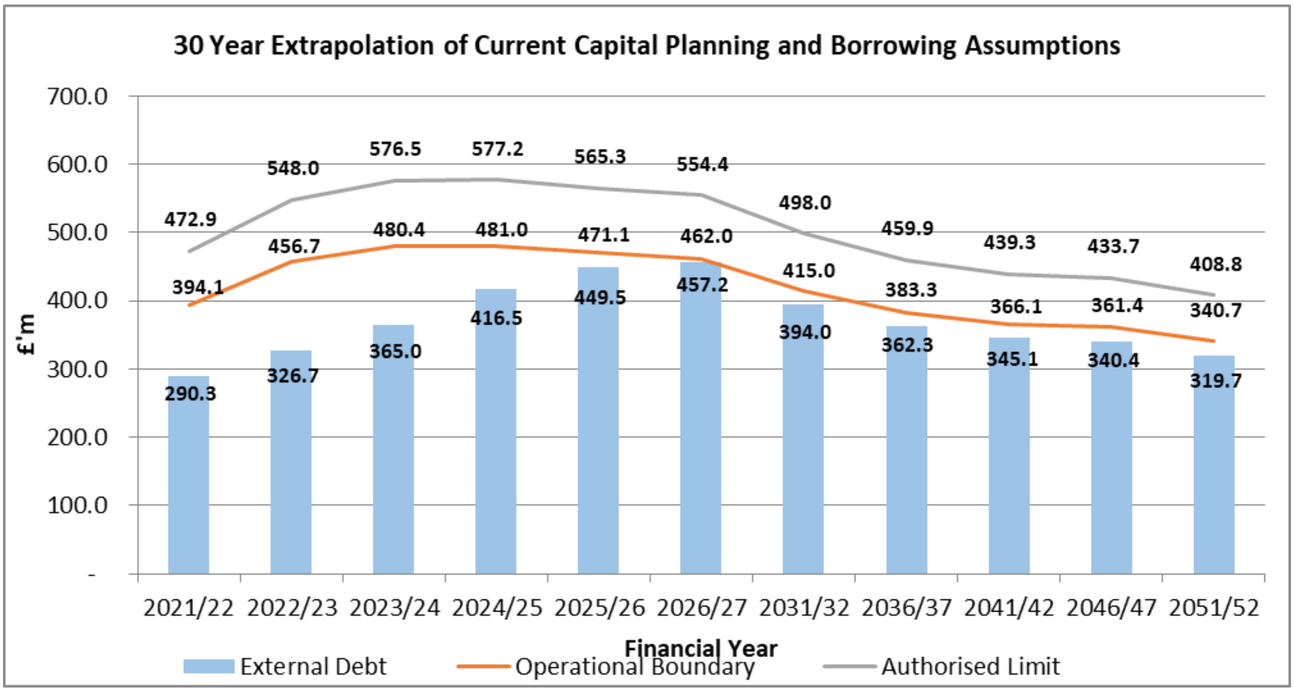
(b) Reduction in PI-6, Under-Borrowing against the CFR, in the last two years as a result of the increased level of external borrowing required to fund the capital plan.

5.4 The table overleaf shows the "Operational Boundary" against the anticipated levels of external borrowing. The external borrowing levels should not normally exceed the operational boundary limit, defined by the Prudential Framework. The gap between these two elements as seen in the table, consistently shows that the Council maintains an "under-borrowed" position for current and next 5 years. The gap however is reducing over the years due to the ambitious capital program and the profile of the notional loan charges.



5.5 The chart below details projected external borrowing for the next 5 financial years and then at each 5 year interval up to 2051/52. Alongside this, the Operational Boundary and Authorised Limit are also shown. The chart is designed to inform long term scenario planning in line with best practice.

It should be noted that from 2032-33, the first year outwith the current 10 year Capital Plan, a 10 year average capital expenditure, and annual borrowing requirement of £10.5m, has been assumed.



5.6 CIPFA published revisions to the Treasury Management Code and Prudential Code on 20 December 2021, and has stated that formal adoption is not required until the 2023/24 plan – additional information and potential impact of these revisions is included at Paragraph 1.8 of Appendix 1.

5.7 The implementation of International Financial Reporting Standard (IFRS) 16 means that, from 1 April 2022, leases which were previously off balance sheet will now be included. As leases form part of the other long term liability figures which make up the Prudential Indicators it is possible that the Indicators currently suggested will be exceeded. The data gathering has been substantially completed and the financial implications are currently being assessed. Once this exercise is completed, later in the 2022/23 financial year, an updated report may be required to inform the members of the detailed impact of IFRS 16 with amended Prudential Indicators for approval.

6 IMPLICATIONS

6.1 **Financial**
There are no additional financial implications in relation to this report, its content specifically relating to the financing and investment activities of the Council.

6.2 **Risk and Mitigations**
The key purpose of presenting the Strategy to Audit and Scrutiny Committee scrutiny is to ensure that the members are satisfied with this element of the risk management framework for the treasury management function within the Council. The risks to delivering the Strategy have been identified within the Strategy itself at Appendix 1. Controls and mitigating actions have been implemented, monitored and reviewed in line with the Council's Risk Management Policy. The Strategy provides the parameters and guidance for the investment and borrowing decisions for the Council.

6.3 **Integrated Impact Assessment**
There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine financial monitoring report which forms part of the governance of the Treasury function within the Council. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio–economic factors have duly been considered when preparing this report.

6.4 **Sustainable Development Goals**
There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

6.5 **Climate Change**
There are no direct carbon emissions impacts as a result of this report.

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

6.7 **Data Protection Impact Statement**
There are no personal data implications arising from the proposals contained in this report

6.8 **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 Chief Legal Officer (including as Monitoring Officer), the Chief Officer Audit and Risk, Director People Performance & Change, Communications and the Clerk to the Council have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson **Signature ....**
Director, Finance & Corporate Governance

Author(s)

Name	Designation and Contact Number
Kirsty Robb Sara Halliday	Pension and Investment Manager – 01835 825249 Treasury Business Partner – 01835 824000, Ext 5854

Background Papers:
Previous Minute Reference: not applicable

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

Contact us at Capital & Investments Team, Finance, Scottish Borders Council, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825249 Fax 01835 825166. email: mailto:treasuryteam@scotborders.gov.uk

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APPENDIX 1

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT STRATEGY
(incorporating the Annual Investment Strategy)
2022/23

CONTENTS

1 Purpose and Scope

1.1 The Council is currently required to receive and approve, as a minimum, three main reports on treasury activity each year, which incorporate a variety of policies, estimates and actual figures.

a) **Treasury Management Strategy** (this report) – The first, and most important of the three reports, is forward looking and covers:

- The capital plans of the Council (including prudential indicators);
- A policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are organised), including treasury indicators, and
- A permitted investment strategy (the parameters on how investments are to be managed).

b) **Mid Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **Annual Treasury Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2 Scrutiny
These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the **Audit and Srutiny Committee**.

1.3 The treasury management issues covered by this report are:

Capital Issues
- the capital expenditure plans and the associated prudential indicators;
- the loans fund repayment policy.

Treasury management issues
- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers

1.4 These elements cover the requirements of the Local Government in Scotland Act 2003, the CIFPA Prudential Code (the Prudential Code), the CIPFA Treasury Management Code (the Code) and Scottish Government loans fund repayment regulations and investment regulations.

1.5 The increased Member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council will continue to address this important issue by:

a) Elected Members

- Working with members of the Audit and Scrutiny Committee to identify their training needs
- Working with Link Asset Services to identify appropriate training provision for elected members

b) Officers dealing with treasury management matters will have the option of various levels of training including:

- Treasury courses run by the Council's advisers
- Attendance at CIPFA treasury management training events
- Attendance at the CIPFA Scottish Treasury Management Forum and information exchanged via the Treasury Management Forum network
- On the job training in line with the approved Treasury Management Practices (TMPs).

1.6 Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

1.7 The Treasury Management Strategy covers the treasury management activities for the Council (including any subsidiary organisations), the cash managed by the Council on behalf of the Scottish Borders Council Pension Fund, the Common Good and Trust Funds.

1.8 2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report, however at the present time this Council does not have any service delivery or commercial investments.

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

1.9 International Financial Reporting Standard (IFRS) 16 - Leasing

From 1 April 2022, leases which were previously off balance sheet will now be included. As leases form part of the other long term liability figures which make up the Prudential Indicators below, it is possible that the Indicators currently suggested will be exceeded. The data gathering has been substantially completed and the financial implications are currently being assessed. Once this exercise is completed, later in the 2022/23 financial year, an updated report may be required to inform the members of the detailed impact of IFRS 16 with amended Prudential Indicators for approval.

2 Background

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans and strategy. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.3 The Prudential and Treasury Indicators (summarised in **Annex A**) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. These Indicators have been developed in line with both the Prudential and Treasury Codes. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. The Treasury Management Strategy therefore forms an integral part of the Council's overall Financial Strategy covering both its revenue and capital budgets.

2.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

2.5 Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities and are separate from the day to day treasury management activities.

2.6 CIPFA defines treasury management as:

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

2.7 Revised reporting was introduced in the 2019/20 reporting cycle due to revisions to the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity if that is going to be undertaken. The capital strategy is being reported separately.

3 The Capital Prudential Indicators 2021/22 – 2026/27

The Council's Financial Strategy sets out financial resource and management parameters within which it will deliver its Corporate Vision and Priorities. The Financial Strategy brings together various elements of financial policy and strategy, including the Treasury Management Strategy, and establishes the financial planning framework for the Council in terms of Revenue Expenditure and Capital Investment. The output from this framework is the Council's Financial Plan, approved annually in February, presenting the financial proposals for delivering its services and objectives.

The Financial Strategy establishes that the Financial Principles underpinning the planning for the Council's future service delivery are to:

(i) Raise the funds required by the Council to meet approved service levels in the most effective manner;
(ii) Manage the effective deployment of those funds in line with the Council's corporate objectives and priorities; and
(iii) Provide stability in resource planning and service delivery as expressed through Corporate and Business Plans and the Revenue and Capital Financial Plan.

In order to adhere to these Principles, the Financial Strategy states that the Council will adopt Financial Objectives to:

"ensure capital borrowing is within prudential borrowing limits and sustainable in the longer term. In this regard it is important to recognise the capital investment decisions taken now have long term borrowing implications and these have the potential to place a significant burden on future tax payers".

The draft revenue budget sets loans charges associated with capital borrowing over the next 5 years at £17.9m in 2022/23, rising to £25.4m in 2026/27.

The Council's Capital Financial Plan is the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

3.1 Capital Expenditure (Prudential Indicator PI-1)

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this planning cycle. The Capital Financial Plan for 2022/23 – 2031/32 includes the following capital expenditure forecasts for the first five years. 2021/22 projected outturn figures are also shown:

Capital Expenditure (PI-1) £m	**Estimate**					
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Assets & Infrastructure	41.4	45.6	29.2	14.8	13.5	12.6
Other Corporate Services	9.8	12.7	3.9	0.2	0.1	0.5
Children & Young People	6.7	24.3	42.3	65.5	36.3	18.2
Culture & Sport	1.1	2.1	0.6	0.6	2.0	0.7
Economic Regeneration	5.7	14.8	30.5	23.4	14.2	15.3
Housing Strategy & Services	0.3	0.5	0.5	0.5	0.5	0.5
Social Care Infrastructure	0.7	3.1	10.6	1.6	8.5	0.1
Emergency & Unplanned Schemes	0.5	0.2	0.2	0.2	0.2	0.2
Total	**66.2**	**103.3**	**117.8**	**106.8**	**75.3**	**48.1**

3.2 Capital Financing Assumptions

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a financing need.

Capital Expenditure £m	Estimate					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Capital Expenditure – per plan	66.2	103.3	117.8	106.8	75.3	48.1
Other Relevant Expenditure	-	-	-	-	-	-
Total Expenditure	**66.2**	**103.3**	**117.8**	**106.8**	**75.3**	**48.1**
Financed by:						
Capital receipts	0.6	0.4	0.0	0.0	0.0	0.0
CFCR	1.4	7.0	0.0	0.0	0.0	0.0
Developer Contributions	0.2	0.1	0.2	0.2	0.1	0.1
Govt. General Capital Grants	32.2	3.8	11.0	11.0	11.0	11.0
Govt. Specific Capital Grants	1.2	21.4	10.6	0.7	1.5	0.2
Other Grants & Contributions	8.9	24.5	33.6	22.6	14.1	15.2
Plant & Vehicle / Infrastructure Fund	2.0	2.0	2.0	2.0	2.0	2.0
Synthetic Pitch Replacement Fund	0.0	0.4	0.4	0.4	1.1	0.5
Element of Net financing need for the year met by borrowing	**19.7**	**43.7**	**60.0**	**69.9**	**45.5**	**19.1**

3.3 The Council's Borrowing Need (the Capital Financing Requirement – Prudential Indicator PI-2)

a) The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure identified above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. From 1 April 2016, authorities may choose whether to use scheduled debt amortisation (loans pool charges), or another suitable method of calculation in order to repay borrowing.

b) The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council has £94.1m of liabilities relating to such schemes within the 2020/21 long term liabilities figure. The CFR may be impacted by the changes under IFRS 16 (see 1.9 above).

c) The Council is asked to approve the CFR projections on the page below:

Capital Financing Requirement (PI-2) £m	Actual	Estimate					
	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Total CFR (PI-2) *	**350.1**	**351.1**	**381.1**	**426.3**	**481.0**	**510.4**	**513.0**
Movement in CFR represented by:							
Net financing need for the year (above)		**19.7**	**43.7**	**60.0**	**69.9**	**45.5**	**19.1**
Less scheduled debt amortisation and other financing movements		(18.7)	(13.7)	(14.8)	(15.2)	(16.1)	(16.5)
Movement in CFR		**1.0**	**30.0**	**45.2**	**54.7**	**29.4**	**2.6**

* *The CFR for this calculation includes capital expenditure to 31 March of each financial year.*

d) A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 3.1, 3.2 and 3.3, and the details above, demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity. This Council does not currently have any commercial activity.

3.4 Statutory Repayment of Loans Fund Advances

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

b) A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:-

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

For loans fund advances made after 1 April 2016, the policy for the repayment of loans advances will be the:-

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

Under regulation 14 (2) of SSI 2016 No 123, the Council calculates the annuity rate based on historic annuity rates to ensure that it is a prudent application and it is currently 3.63%.

4 Treasury Management Strategy

The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional Codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current Portfolio Position

a) The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 December 2021 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual **31.3.21**	actual **31.3.21**	current **31.12.21**	current **31.12.21**
Treasury investments	£000	%	£000	%
banks	2,913	10%	2,162	10%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	25,000	90%	19,000	90%
Total managed in house	**27,913**	**100%**	**21,162**	**100%**
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**27,913**	**100%**	**21,162**	**100%**
Treasury external borrowing				
local authorities	15,000	7%	0	0%
third party loans	600	0%	600	0%
PWLB	166,369	77%	156,086	82%
LOBOs	35,000	16%	35,000	18%
Total external borrowing	**216,969**	**100%**	**191,686**	**100%**
Net treasury investments / (borrowing)	**(189,056)**	**0**	**(170,524)**	**0**

b) The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

as at 31 March £m	Estimate					
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Borrowing	201.2	242.4	285.3	341.0	378.5	390.5
Other Long Term Liabilities	89.1	84.3	79.7	75.5	71.0	66.7
Total Gross Borrowing (Prudential Indicator PI-5)	**290.3**	**326.7**	**365.0**	**416.5**	**449.5**	**457.2**
Capital Financing Requirement*	**426.3**	**481.0**	**510.4**	**513.0**	**498.7**	**483.7**
(Under) / Over Borrowing (Prudential Indicator PI-6)	**(136.0)**	**(154.3)**	**(145.4)**	**(96.5)**	**(49.2)**	**(26.5)**

** The CFR for this calculation includes the current and two future years projected capital expenditure see 4.1b)*

c) Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these (PI-6) is that the Council needs to ensure that its gross debt figure (shown above) does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

d) The Council has complied with this prudential indicator in the current year and no difficulties are currently envisaged for the long term future. This view takes into account current commitments, existing plans, and the proposals in the Financial Plans for 2022/23.

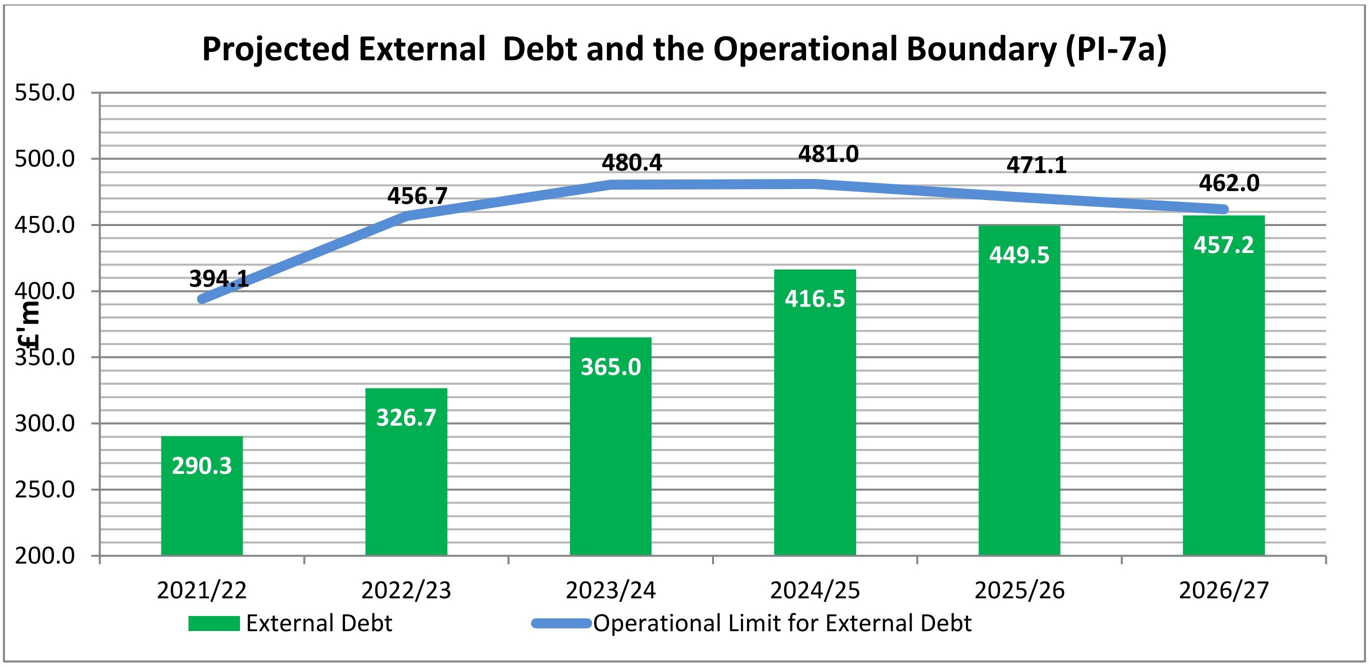
4.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary (Prudential Indicator PI-7)

a) This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	**Estimate**					
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Total Operational Boundary (PI-7a)	**394.1**	**456.7**	**480.4**	**481.0**	**471.1**	**462.0**
Less: Other long term liabilities	(89.1)	(84.3)	(79.7)	(75.5)	(71.0)	(66.7)
Operational Boundary exc. Other Long Term Liabilities (PI-7b)	**305.0**	**372.4**	**400.7**	**405.5**	**400.1**	**395.3**

b) The following chart shows how the current and projected Operational Borrowing limit compare with the anticipated levels of actual debt.



The Authorised Limit for External Debt (Prudential Indicator PI-8)

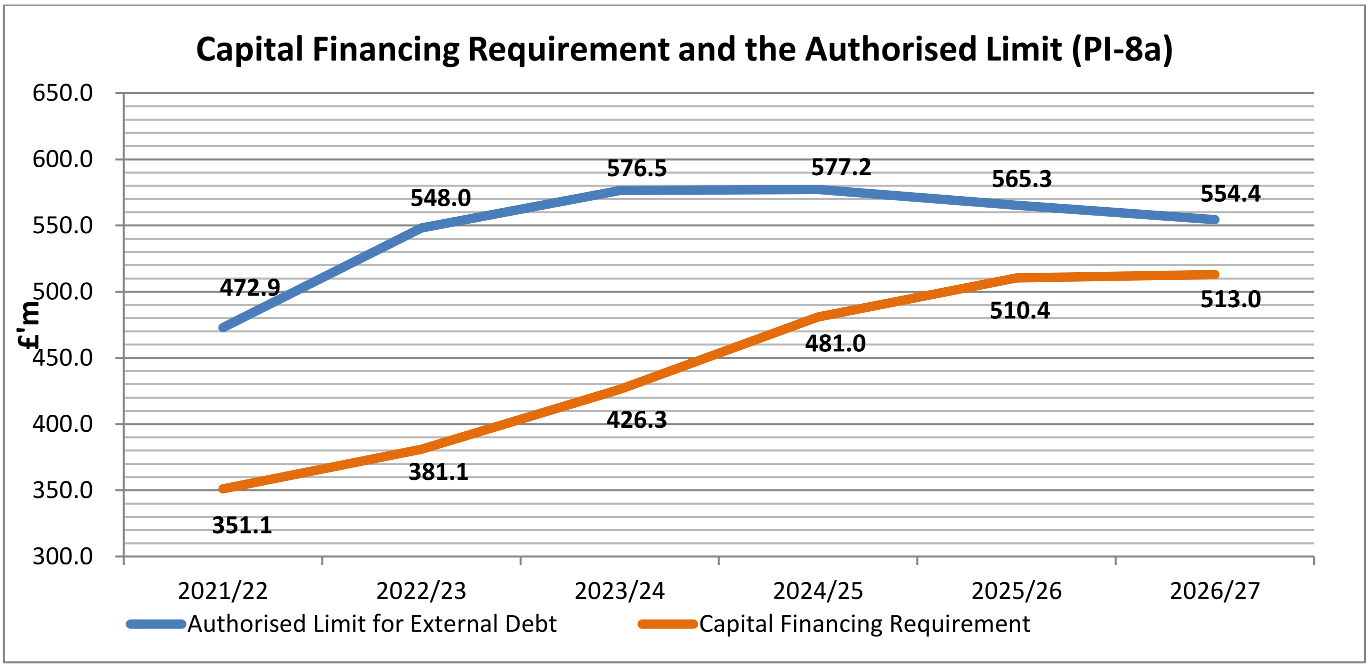
c) A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

d) The authorised limits for external debt for the current year and two subsequent years are the legislative limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

e) The Council is asked to approve the following authorised limit:

Authorised Limit £m	**Estimate**					
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Total Authorised Limit (PI-8a)	**472.9**	**548.0**	**576.5**	**577.2**	**565.3**	**554.4**
Less: Other long term liabilities	(89.1)	(84.3)	(79.7)	(75.5)	(71.0)	(66.7)
Authorised Limit exc. Other Long-Term Liabilities (PI-8b)	**383.8**	**463.7**	**496.8**	**501.7**	**494.3**	**487.7**

f) The chart on the below shows how the current and projected Capital Financing Requirement compares to the Authorised Limit for External Debt



4.3 Prospects for Interest Rates

a) The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20.12.21. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

b) Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021. As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

c) Significant risks to the forecasts:

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

d) The balance of risks to the UK economy - the overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants, both domestically and their potential effects worldwide.

e) Forecasts for Bank Rate - It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons:

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit

f) In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is. It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

g) **Forecasts for PWLB rates and gilt and treasury yields**. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

h) **US treasury yields.** During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when:

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

i) There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

j) There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors:

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?

- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

k) As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields. The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

l) **The balance of risks to medium to long term PWLB rates** - there is a balance of upside risks to forecasts for medium to long term PWLB rates.

m) **10.1.22 UPDATE TO FORECASTS:** The Fed minutes for their December 14-15 meeting were released last week. These showed there is a very likely going to be an acceleration in the pace of monetary tightening policies including a faster rate of increase in the Fed rate and running down the stock of QE purchases. This has led to a sharp jump up in treasury yields, and also in gilt yields in this country. It is also now clearer that there could be a 50% increase in the price cap on fuel prices from 1st April 2022 in this country: this could boost inflation significantly and would then put added pressure on the Bank of England to raise Bank Rate faster as inflation would be unlikely to come down as fast as previously expected. What is still an unknown is whether the Government will damp down the calculation of inflation figures by providing some kind of subsidy for gas and electricity costs e.g., it could make loans to energy companies by spreading increased costs incurred this year over several future years as those loans are gradually repaid. **There has therefore been a sharp increase in the balance of upside risks to the forecasts for gilt yields, PWLB rates and Bank Rate.**

n) **A new era – a fundamental shift in central bank monetary policy.** One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- <u>***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***</u>
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.

- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

o) **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

p) **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

q) On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

r) **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

s) While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

4.4 Borrowing Strategy

a) The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

b) Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Director of Finance & Corporate Governance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

• if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

• if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

c) Any decisions will be reported to Members at the next available opportunity.

4.5 Policy on borrowing in advance of need

a) Borrowing in advance of need is defined as any borrowing undertaken by the local authority which will result in the total external debt of the local authority exceeding the capital financing requirement (CFR) of the local authority for the following twelve month period. This twelve month period is on a rolling twelve month basis.

b) The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.

c) Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

d) The Director of Finance & Corporate Governance has the authority to borrow in advance of need under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. The Director of Finance & Corporate Governance will adopt a cautious approach to any such borrowing and a business case to support the decision making process must consider:

- the benefits of borrowing in advance,
- the risks created by additional levels of borrowing and investment, and
- how far in advance it is reasonable to borrow considering the risks identified

e) Any such advance borrowing should be reported through the mid-year or annual Treasury Management reporting mechanism.

4.6 Debt Rescheduling

a) Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

b) All rescheduling will be reported to the **Executive** at the earliest meeting following its action.

4.7 New financial institurions as a source of borrowing and/or types of borrowing

a) Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

b) Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5 Investment Strategy

5.1 Investment Objectives and Policy

a) The Council's investment policy implements the requirements of the following:-

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the Code");
- CIPFA Treasury Management Guidance Notes 2018.

b) The Council's primary investment objectives are as follows, in order of importance:

(i) The safeguarding or **security** of the re-payment of principal and interest of investments on a timely basis;
(ii) The **liquidity** of its investments;
(iii) The **returns on investments** that can be realised.

The Council will therefore aim to achieve the optimum return on its investments corresponding with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

c) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

d) **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

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

f) This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in appendix D. Appendix F expands on the risks involved in each type of investment and the mitigating controls.

g) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 5.3.

h) This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year

i) All investments will be denominated in **sterling.**

j) As a result of the change in accounting standards for 2022/23 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

k) This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 5.6). Regular monitoring of investment performance will be carried out during the year.

l) The above criteria are unchanged from last year.

5.2 Council Permitted Investments

The proposed criteria for permitted investments are shown in annex D approval.

5.3 Creditworthiness Policy

a) This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

b) This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

Creditworthiness Colour Banding	Maximum Investment Duration
Yellow	5 years*
Dark pink	5 years for Ultra short dated bond funds with a credit score of 1.25
Light pink	5 years for Ultra short dated bond funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi-nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used (ie don't invest)

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

c) The Link creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

d) Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

e) All credit ratings will be monitored on a real time basis. The Council is alerted to changes to ratings of all three agencies through its use of a creditworthiness service provided by the Link Group.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

f) Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

g) Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

h) Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

5.4 Country and Sector Considerations

a) Due care will be taken to consider the country and sector exposure of the Council's investments.

Country Limits

b) The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) No more than **10%** will be placed with any non-UK country at any time.

Institutional Sector Limits

d) These institutions must either be UK Local Authorities or UK Incorporated Institutions, UK Banks and Building Societies incorporated in the European Economic Area entitled to accept deposits through a branch in the UK. The Council may also use the UK Government including in the form of gilts and the Debt Management Account Deposit Facility (DMADF).

e) Limits will be applied to the overall amount lent out to any one sector at any one time in order to limit sector specific exposure risk, as follows:

UK Building Societies	**£25 m**
Banks	**£35 m**
UK Local Authorities	**£40 m**
UK Government Debt Management Office	**£unlimited**
UK Gilts and Treasury Bills	**£20 m**
Institutions covered by Government Guarantee	**£10 m**
Part Nationalised Banks	**£35 m**
Money Market Funds (AAA)	**£25 m**

These limits will be monitored regularly for appropriateness.

Group Limits

g) Limits will be applied to the overall amount lent out to institutions within the same group at any one time in order to limit group specific exposure risk, as follows, and subject to the parent company appearing on Link Groups' creditworthiness list:

Group of Banks **£10m**

Council's Own Banker

h) The Council's own banker (currently Royal Bank of Scotland) will be maintained on the Council's counterparty list in situations where rating changes may mean this is below the above criteria. This is to allow the Council to continue to operate normal current account banking facilities and overnight and short-term investment facilities. However, in the event that the rating does change below the criteria, officers will review the situation carefully and identify any appropriate action required to manage the risk that this change creates for the Council.

5.5 Individual Institution Monetary Limits

a) The monetary limits for institutions on the Council's Counterparty List are as follows:

	Money Limit
UK Building Societies	£5m
Banks	£5m
UK Local Authorities (i)	£40m
UK Government Debt Management Office	Unlimited
UK Gilts & Treasury Bills	£20m
Government Guaranteed Institutions	£2m
AAA rated Money Market Funds	£5m
Council's Own Banker (ii)	£5m

(i) No individual limit will be applied on lending to a UK local authority, other than it must not exceed the relevant sector limit of £40m.

(ii) Further to Sections 5.4 and 5.5, in the event that the rating of the Council's own banker falls below the criteria, the time limit on money deposited with the bank will be reduced to an overnight basis.

b) As mentioned earlier, the treasury function manages the funds of the Council, any subsidiary organisations, the Pension Fund and the Common Good and Trust Funds. When applying the limits set out in the table above, these limits will apply to the cumulative investment with an institution from the Council, the Pension Fund and the Common Good Funds and Trust Funds.

5.6 Types of Investments

a) For institutions on the approved counterparty list, investments will be restricted to safer instruments (such as deposits). Currently this involves the use of money market funds, the

DMADF and institutions with higher credit ratings than the minimum permissible rating outlined in the investment strategy, as well as the Council's own bank.

b) Where appropriate, investments will be made through approved brokers. The current list of approved brokers comprises:

- BGC Brokers L.P.
- ICAP Securities Limited
- Sterling International Brokers Limited
- Tradition (UK) Limited

5.7 Investment Strategy and bank rate projections

In-house funds

a) Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

b) The current forecast shown in paragraph 4.3, includes a forecast for a first increase in Bank Rate in May 2022, though it could come in February.

c) The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows:

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

Investment Treasury Indicator and Limit (Treasury Indicator TI-5)

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

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested for longer than 365 days (TI-5)					
£m	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	20%	20%	20%	20%	20%

e) For positive cash balances and in order to maintain liquidity, the Council will seek to use overnight investment accounts, short term (< 1 month) notice accounts, money market funds and short-dated deposits (overnight to three months).

5.8 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

a) Security

The Council's **maximum** security risk benchmark for the current portfolio, when compared to historic default tables, is:

0.04% historic risk of default when compared to the whole portfolio.

b) Liquidity

In respect of this area the Council seeks to maintain:

- Bank Overdraft: £250,000
- Liquid short term deposits of at least £1,500,000 available with a week's notice.
- Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to an weighted average life of 6 months), with a **maximum of 1.00 years**

c) Yield

Local measures of yield benchmarks are:

Investments – **Internal returns above the 7 day SONIA compounded rate**

d) At the end of the financial year, the Director of Finance & Corporate Governance will report on its investment activity as part of the Annual Treasury Report.

6 Performance Indicators

6.1 The CIPFA Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

6.2 Debt Performance Indicators

(i) Average "Pool Rate" charged by the Loans Fund compared to Scottish Local Authority average Pool Rate.

Target is to be at or below the Scottish Average for 2021/22.

(ii) Average borrowing rate movement year on year

Target is to maintain or reduce the average borrowing rate for the Council versus 2021/22.

6.3 Investment Risk Benchmark Indicators for Security, Liquidity and Yield, as set out in paragraph 5.8.

6.4 Loans Charges

a) Loans Charges for 2022/23 are expected to be at or below the Revenue Budget estimate contained in the Council's Financial Plans to be approved in February 2022, which are estimated as follows:

£m	2022/23	2023/24	2024/25	2025/26	2026/27
Interest on Borrowing	10.0	10.7	11.9	13.0	13.9
Investment income	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Capital Repayments	8.0	9.0	10.2	11.0	11.6
Total Loan Charges *	**17.9**	**19.6**	**22.0**	**23.9**	**25.4**

**The Loan Charges exclude the capital element of PPP repayments.*

b) The above budget excludes the revenue impact of funding the cost of the NHT and the lending to RSLs and lending in respect of the Council-led house building programme with the Scottish Futures Trust, as these are assumed to be revenue neutral overall.

6.5 The indicators, based on actual performance for the year, will be included in the Treasury Management Annual Report for 2022/23.

ANNEXES

ANNEX A
SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator Ref.	Indicator	Page Ref.	2021/22	2022/23	2023/24	2024/25	2025/26
PRUDENTIAL INDICATORS							
Capital Expenditure Indicator							
PI-1	Capital Expenditure Limits (£m)	7	66.2	103.3	117.8	106.8	75.3
PI-2	Capital Financing Requirement (CFR) (£m)	9	351.1	381.1	426.3	481.0	510.4
Affordability Indicator							
PI-3	Ratio of Financing Costs to Net Revenue (inc. PPP repayment costs)	28	8.7%	8.6%	9.3%	9.7%	9.9%
PI-4	Incremental (Saving)/Cost Impact of Capital Investment Decisions on Council Tax	28	£(0.02)	£(0.01)	£(0.01)	£0.01	£0.03
External Debt Indicators							
PI-5	Actual Debt (£m)	10	290.3	326.7	365.0	416.5	449.5
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	11	394.1	456.7	480.4	481.0	471.1
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	11	305.0	372.4	400.7	405.5	400.1
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	12	472.9	548.0	576.5	577.2	565.3
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	12	383.8	463.7	496.8	501.7	494.3
Indicators of Prudence							
PI-6	(Under)/Over Gross Borrowing against the CFR (£m)	10	(136.0)	(154.3)	(145.4)	(96.5)	(49.2)
TREASURY INDICATORS							
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)	29	394.1	456.7	480.4	481.0	471.1
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)	29	137.9	159.8	168.1	168.4	164.9
TI-3	Maturity Structure of Fixed Interest Rate Borrowing 2022/23	29	**Lower**		**Upper**		
	Under 12 months		0%		20%		
	12 months to 2 years		0%		20%		
	2 years to 5 years		0%		20%		
	5 years to 10 years		0%		20%		
	10 years and above		20%		100%		
TI-5	Maximum Principal Sum invested greater than 365 days	23	20%	20%	20%	20%	20%

Further prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The updated indicators are as follows:

Ratio of financing costs to net revenue stream (Prudential Indicator PI-3)

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs, net of investment income) against the net revenue stream.

%	Actual	Estimate				
	20/21	21/22	22/23	23/24	24/25	25/26
Ratio of Financing Costs to Net Revenue Stream (PI-3) *(inc. PPP repayment costs)*	8.9%	8.7%	8.6%	9.3%	9.7%	9.9%

The estimates of financing costs include current commitments and the proposals in the Financial Plans for 2022/23. The movements in the above ratio from 2021/22 onwards reflect a real-time reduction in overall financial resources available to the Council.

Incremental impact of capital investment decisions on council tax (Prudential Indicator PI-4)

This indicator identifies the revenue costs associated with the operational three year capital programme detailed in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	Estimate				
	2021/22	2022/23	2023/24	2024/25	2025/26
Incremental (Saving)/Cost Impact of Capital Investment Decisions on the Band D Council Tax (PI-4)	£(0.02)	£(0.01)	£(0.01)	£0.01	£0.03

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

(i) Upper limits on fixed interest rate exposure (Treasury Indicator TI-1)

This identifies a maximum limit for borrowing exposure to fixed interest rates, based on the debt position net of investments.

(ii) Upper limits on variable interest rate exposure (Treasury Indicator TI-2)

This identifies a maximum limit for borrowing exposure to variable interest rates based upon the debt position net of investments.

(iii) Maturity structure of borrowing (Treasury Indicator TI-3)

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

(iv) The following table highlights the proposed treasury indicators and limits:

£m	2021/22	2022/23	2023/24	2024/25	2025/26
Interest rate exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt (TI-1)	394.1	456.7	480.4	481.0	471.1
Limits on variable interest rates based on net debt (TI-2)	137.9	159.8	168.1	168.4	164.9
Maturity Structure of fixed interest rate borrowing 2022/23 (TI-3)					
		Lower		**Upper**	
Under 12 months		0%		20%	
12 months to 2 years		0%		20%	
2 years to 5 years		0%		20%	
5 years to 10 years		0%		20%	
10 years and above		20%		100%	

ANNEX B: INTEREST RATE FORECASTS 2021-25

[PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.]

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

Source: Link Asset Services, December 2021

ANNEX C
Economic Background

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.

- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  Raising Bank Rate as "the active instrument in most circumstances".
  Raising Bank Rate to 0.50% before starting on reducing its holdings.
  Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

See also comments in paragraph 4.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that

the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.
- The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Annex D
TREASURY MANAGEMENT PRACTICE: PERMITTED INVESTMENTS, ASSOCIATED CONTROLS AND LIMITS

This Council approves the following forms of investment instrument for use as permitted investments

Treasury risks
All the investment instruments are subject to the following risks: -

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.

3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report.

5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 5.3 and 5.4.

2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk:** this authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

4. **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 5.7.

5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. All types of investment instruments

Unlimited investments

Regulation 24 states that an investment can be shown as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category. The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

Annex E

Credit and Counterparty Risk Management
Permitted Investments, Associated Controls and Limits for Scottish Borders Council, Common Good and Trust Funds and In-house Managed Pension Fund

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
Cash type instruments					
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£40m, maximum 1 year.	£5m, maximum 1 year.	£40m, maximum 1 year.
c. Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£5m per fund/£25m overall	£5m per fund/£25m overall	£5m per fund/£25m overall

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	N/A	N/A	N/A
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£20m, maximum 1 year.	£5m, maximum 1 year	£20m, maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
Other types of investments					
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	£30m	£25m	N/A
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£25m	£1m	N/A
c. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£25m	N/A	N/A
d. National Housing Trust **(Very Low Risk due to Scottish Government Underwriting)**	These are loans to a Special Purpose Vehicle to allow it to purchase new homes under the NHT umbrella. These loans represent either 65% or 70% of the purchase price, the remainder being funded by the developer. The loan is redeemed after a 5 to	Loan redemption arises when the homes are sold. Interest payments are made to the Council by the SPV from rental payments in the intervening period. Both the loan amount and associated interest payments are underwritten by Scottish Government.	£8m	N/A	N/A

	10 year period when the properties are sold.				
e. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£1m	N/A	N/A
f. Investment in the Subordinated Debt of projects delivered via the 'HubCo' model **(Very Low Risk)**	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term. These projects are based on robust business cases with a cashflow from public sector organisations (i.e. low credit risk)	£600,000	N/A	N/A

The Monitoring of Investment Counterparties

The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link Group, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance & Corporate Governance, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers

It is the Council's policy to use external fund managers to manage the investment portfolios of the Scottish Borders Council Pension Fund and the pooled investment fund of the Common Good and Trust Funds. This Annex reflects the approved policies around the Common Good and Trust Fund Investment Strategy but specifically excludes, as allowed by regulations, the work undertaken by External Fund Managers in relation to the Scottish Borders Council Pension Fund.

Annex F

Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

[Ratings provided by Link Group as at 22 December 2021]

Annex G

Scheme of Delegation

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 95 OFFICER

The S95 (responsible) officer

- Take and/or authorise all operational decisions regarding the Council's investments and borrowing, in accordance with approved Treasury Management Policy and Strategy.
- Responsible for execution and administration of treasury management decisions in accordance with the Council's Treasury Management policy statement and Treasury Management Practice, and if (s)he is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- In terms of Treasury Management, from time to time, formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and construct a lending list defining appropriate limits.
- Borrow, in advance of need, where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Adopt a cautious approach to any such borrowing, and a business case to support the decision-making process must consider:
    - the benefits of borrowing in advance,
    - the investment risks created by the existence of investments at the same time as additional borrowing being outstanding; and
    - how far in advance it is reasonable to borrow, considering the risks identified. Any such advance borrowing shall be reported through the mid-year or annual Treasury Management reporting mechanism.
- Take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast contained in the Treasury Management Strategy.
- Maintain a counterparty list consistent with the Investment Counterparty Selection Criteria and revise the criteria and submit them to Committee for approval as necessary, and in addition, set out the types of investment to be made (Permitted Investments).

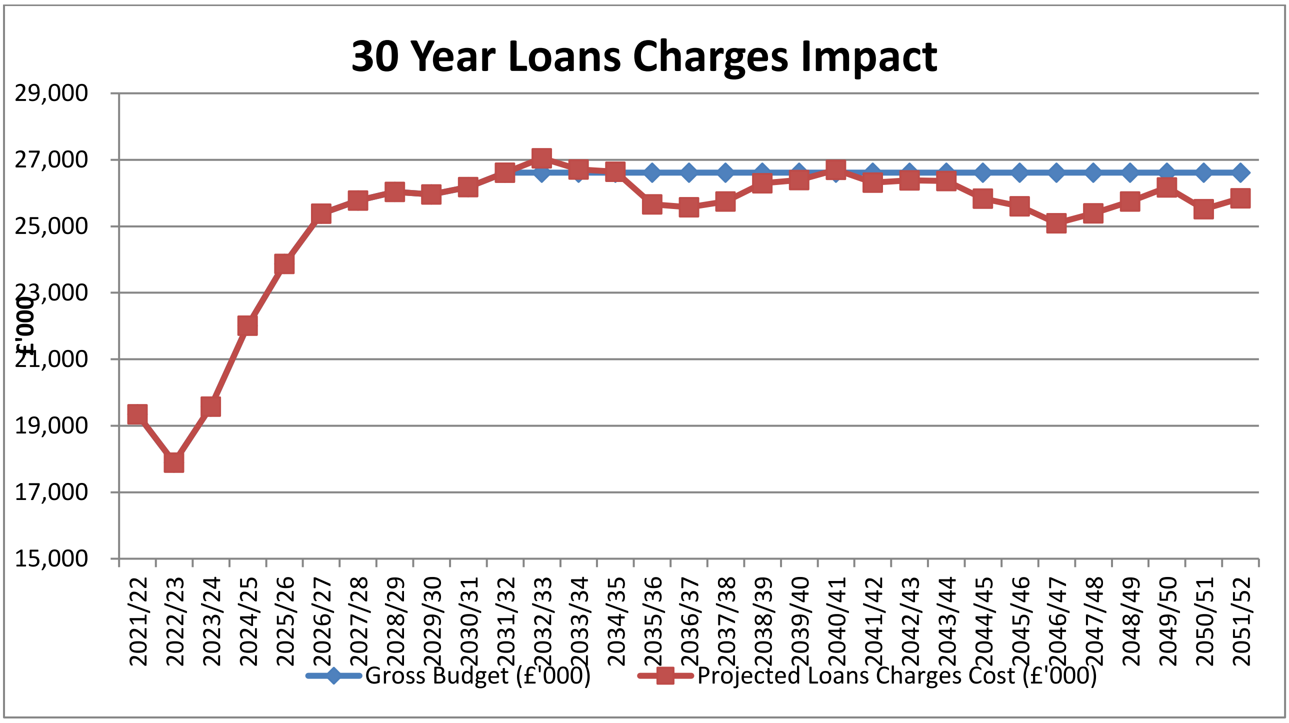
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non- treasury investments will be carried out and managed, to include the following *(TM Code p54): -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
    - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

ANNEX H

Long Term (30 Yr) Loans Charges Analysis

Current capital and revenue plans have been extrapolated over a 30 year period in order to assess the impact on the revenue Loans Charges budget. In line with assumptions made when assessing external debt and associated limits as described in paragraph 5.3 of the covering report, long term capital planning will cause a pressure on the loans charges budget from financial year 2031/32, as detailed in the chart below. Movements in notional loans charges associated with internal borrowing also impact on these figures.

It should be noted that from 2032-33, the first year outwith the current 10 year Capital Plan, a 10 year average capital expenditure, and annual borrowing requirement of £10.5m, has been assumed.



ANNEX I

Credit Ratings

Long and Short Term Credit Ratings

Audit Commission Grading#	**Fitch**		**Moody's**		**Standard and Poor's**	
	Long Term	**Short Term**	**Long Term**	**Short Term**	**Long Term**	**Short Term**
Extremely strong grade	AAA	F1+	Aaa	P-1	AAA	A-1+
Very strong grade	AA+ AA AA-	F1+ F1+ F1+	Aa1 Aa2 Aa3	P-1 P-1 P-1	AA+ AA AA-	A-1+ A-1+ A-1+
Strong grade But susceptible to adverse conditions	A+ A A-	F1+ / F1 F1 F1	A1 A2 A3	P-1 P-1 / P-2 P-1 / P-2	A+ A A	A-1+ / A-1 A-1 A-1 / A-2
Adequate Grade	BBB+ BBB BBB-	F2 F2 / F3 F3	Baa1 Baa2 Baa3	P-2 P-2 / P-3 P-3	BBB+ BBB BBB-	A-2 A-2 / A-3 A-2
Speculative Grade	BB+ BB BB-	B B B	Ba1 Ba2 Ba3	NP * NP NP	BB+ BB BB-	B-1 B-2 B-3
Very Speculative Grade	B+ B B-	B B B	Ba1 Ba2 Ba3	NP NP NP	B+ B B-	- - -
Vulnerable Grade	CCC CCC CCC CC C	C C C C C	Caa1 Caa2 Caa3 - Ca	NP NP NP NP NP	CCC+ CCC CCC- CC C	C C C C C
Defaulting Grade	D	D	C	NP	D	D

for the purpose of standardisation based on Standard and Poor's credit rating definitions.
* NP – Not Prime

Source: Audit Commission adaptation of information from Fitch, Moody's and Standard & Poor's

Benchmarking and Monitoring Security, Liquidity and Yield

The consideration and approval of security and liquidity benchmarks are also part of Member reporting. These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons, in the annual treasury report.

Yield
These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – **Internal returns above the 7 day SONIA compounded rate**

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Benchmarks for the cash type investments are below. In the other investment categories, appropriate benchmarks will be used where available.

Liquidity
This is defined as an organisation "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of liquidity, the Council seeks to maintain:

- Bank overdraft - £250,000
- Liquid short term deposits of at least £1,500,000 available with a week's notice.

The availability of liquidity in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect, the proposed benchmark to be used is:

- **WAL benchmark is expected to be 0.5 years, with a maximum of 1.00 years**.

Security of the investments
In the context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of the Creditworthiness service provided by Link Group. Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- **0.04% historic risk of default when compared to the whole portfolio.**

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Annual Treasury Management Report. As this data is collated, trends and analysis will be collected and reported.

GLOSSARY OF TERMS

CIPFA	Chartered Institute of Public Finance and Accountancy
CIPFA Code	Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
CFR	Capital Financing Requirement is the estimated level of borrowing or financing needed to fund capital expenditure.
Consent to Borrow	Para 1 (1) of Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act) effectively restricts local authorities to borrowing only for capital expenditure. Under the legislation Scottish Ministers may provide consent for local authorities to borrow for expenditure not covered by this paragraph, where they are satisfied that the expenditure should be met by borrowing.
Gilts	A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term “gilt” or “gilt-edged security” is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.
LIBID	London Interbank Bid Rate The rate at which banks bid on Eurocurrency Deposits, being the rate at which a bank is willing to borrow from other banks.
MPC	Monetary Policy Committee
NHT	National Housing Trust initiative undertaken in partnership with the Scottish Futures Trust.
Other Long Term Liabilities	Balance sheet items such as Public Private Partnership (PPP), and leasing arrangements which already include borrowing instruments.
PPP	Public-Private Partnership.
Prudential Indicators	The Prudential Code sets out a basket of indicators (the Prudential Indicators) that must be prepared and used in order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code.
QE	Quantitative Easing
Treasury Indicators	These consist of a number of Treasury Management Indicators that local authorities are expected to ‘have regard’ to, to demonstrate compliance with the Treasury Management Code of Practice.

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below.

Pensions & Investments Team, Finance, Scottish Borders Council, Council HQ, Newtown St Boswells
01835 824000, t&cteam@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL

Best Value Audit Implementation Plan

Progress Update

February 2022

Scottish Borders COUNCIL

- The last update on progress of the Best Value Audit Implementation Plan was presented to the Audit and Scrutiny Committee in February 2021. The update at that time focussed on a succinct group of actions. This update considers the full suite of 40 actions associated with the Best Value Audit Implementation Plan.

- Following recommendations from Audit and Scrutiny Committee, End Dates for actions have been reviewed and amended where applicable.

- The update was presented and discussed with the Strategic Leadership Team (SLT) on 02 February 2022.

- Best Value Audit Implementation Plan Timeline:

29/07/2020	15/09/2020	28/09/2020	27/01/2021	08/02/2021	02/02/2022	14/02/2022
Corporate Management Team	APWG	A&S Committee	Corporate Management Team	A&S Committee (Report on exception – only certain indicators included as requested)	Strategic Leadership Team	A&S Committee

Scottish Borders COUNCIL

- **Two years have passed since the introduction of the BV Audit Implementation Plan, during which time the organisation has faced unprecedented challenges and we cannot ignore the impact these challenges have had on progress of this plan. With that said, we have continued to make some progress.**

- **As the impact of these challenges begin to ease, there is opportunity to re-evaluate the action plan and ensure we remain realistic and balanced around what can be achieved. For example, Councillor CPD actions will be significantly progressed following the May elections.**

- **There are two key projects currently underway within the organisation that will address key recommendations of the Best Value Audit report:**

    - ➢ **The refresh of the Council Plan will ensure the organisation remains focussed on the key priorities for the Scottish Borders. Future Council Plans will be developed through greater engagement with stakeholders – promoting a sense of stakeholder ownership for its delivery. The key priorities for the organisation will be regularly reviewed and refined, which in turn will help to develop a culture of continuous improvement .**
    - ➢ **A review of the organisation's performance management approach will ensure services adopt a consistent, more frequent approach to self-evaluation, benchmarking and service planning. The performance management review will also strengthen the quality and relevance of not just Member and Public performance reporting, but also the performance monitoring practices of our services to ensure future planning is based on evidence.**

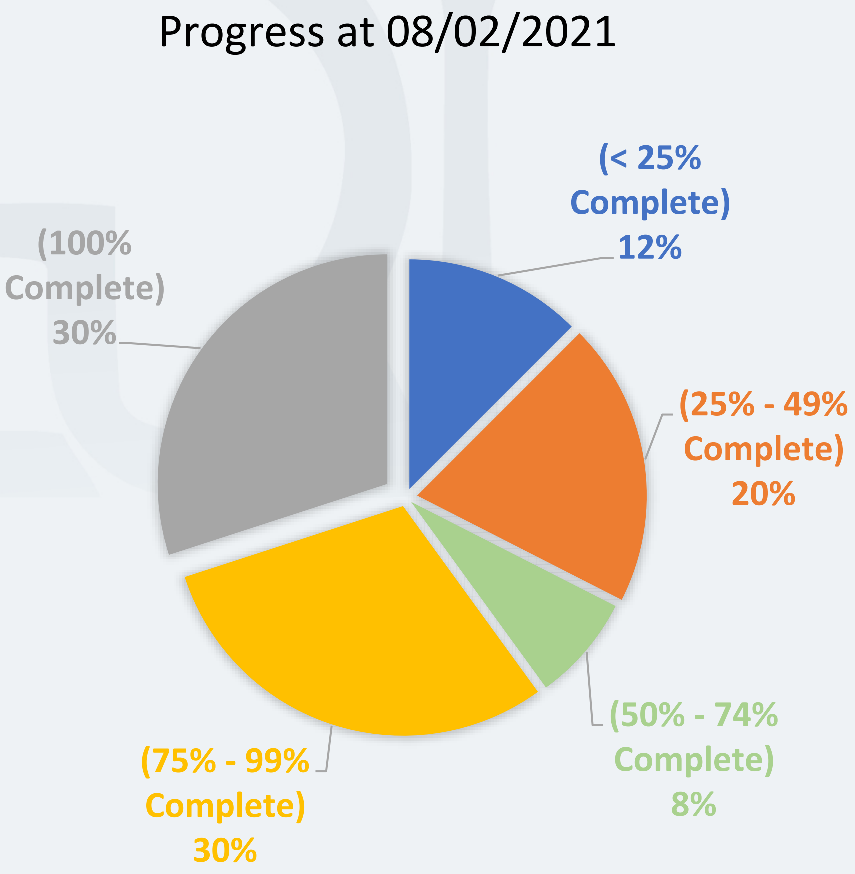
- **With this in mind, to ensure clarity of expectations and ongoing alignment with the strategic priorities for the organisation, future progress of our response to the recommendations set out in the Best Value Audit Report will be monitored through progression of the Council Plan. Best Value is now at the forefront of decision-making and will continue to influence future discussions.**

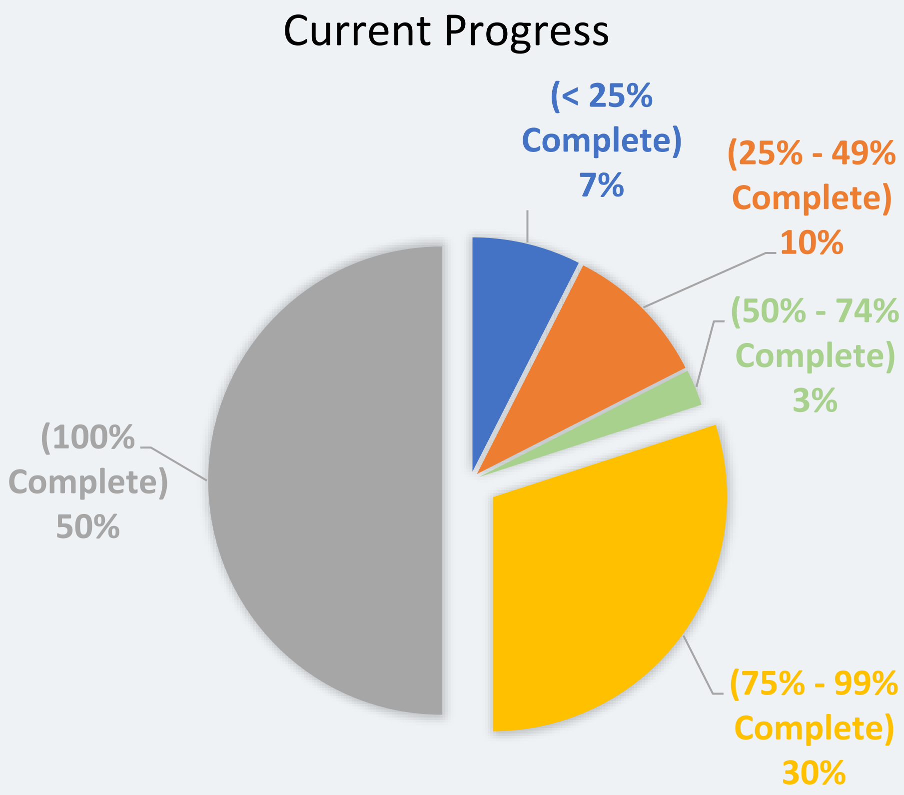
NEXT STEPS

➢ Future progress will be determined by the progression of the Council Plan priorities.

Scottish Borders COUNCIL

PROGRESS ROUND UP OF ALL 40 ACTIONS





Scottish Borders COUNCIL

AMENDED ACTIONS

As mentioned, a lot has happened since the BV Implementation Plan was developed. Therefore, 3 actions have been updated to ensure the focus of the activity remains relevant and geared towards delivering on the council's priorities:

No.	ORIGINAL ACTION	AMENDED ACTION	JUSTIFICATION FOR CHANGE
23	Hold 2 CMT meetings per quarter in council premises out with HQ.	Undertake regular large briefing sessions with managers from across all council services & use Yammer as a platform for council wide staff engagement sessions with members of SLT (rolling programme)	There is a need to reflect upon the changing landscape of how we communicate within the organisation following our advancements with digital technology in response to home working.
24	Develop a communications plan for staff engagement and undertake a structured survey of all staff using the online survey tool.	Develop a communications plan for staff engagement and undertake a structured survey of all staff using the online survey tool. Building upon the regular staff engagement and survey work during covid, maintain regular contact with all staff on key corporate issues.	This action has been updated to ensure the organisation continues to learn from and exploit opportunities brought about by the pandemic.
36	Align the approach & sequencing of performance monitoring for Executive Committee, Corporate Management Team and Directorate Management Team's, incorporating a programme of service level deep dives.	Align the approach & sequencing of performance monitoring for Executive Committee, SLT and Directorate Management Team's, incorporating a programme of service improvement deep dives.	Adapting the phrasing of 'service level deep dives' to 'service improvement deep dives' ensures clarity and improved focus of deep dives. Focussing on what needs to improve better supports the organisational culture of continuous improvement.

Scottish Borders COUNCIL

Audit Recommendation: *Embed a culture of Continuous improvement by implementing a corporate approach to self evaluation and benchmarking*

	ACTION	Timescales	Lead Officer	Report Ref	Service Lead	% COMPLETION	NOTES
1	Adopt PSIF as a corporate approach to self evaluation where no service-specific model is already in place. Ensure read-across with all services.	31-Oct-22	Clair Hepburn	67	Jason McDonald	100%	Whilst we have an agreed model that should be consistently used across all services, regular use and improvement from this needs to be more firmly established as part of regular service planning. This will all now form part of a refocussed approach to performance and service improvement across SBC.
2	As part of regular Strategic Leadership Team performance monitoring, review service self-evaluation arrangements, including use of peer evaluations.	31-Dec-22	Clair Hepburn	67	Jason McDonald	75%	As Action 1. This will be promoted and undertaken as part of the new performance and service improvement approach, and will also include the use of LGBF data for comparisons with other authorities.
3	Incorporation of self-evaluation and benchmarking data into annual planning process, ensuring learnings inform planned actions.	31-Oct-22	Clair Hepburn		Jason McDonald	75%	As Action 1. This will be addressed through the Performance Management Review where there will be an expectation for services to monitor benchmarking data more frequently throughout the year. Self evaluation will be incorporated as part of Service Planning.
4	Review content of customer satisfaction surveys, engaging with partner organisations/providers as required, to maximise opportunities for insight and ensure appropriate questioning & results analysis in future Scottish Borders Household Surveys.	31-Oct-22	Jenni Craig	62	Erin Murray	75%	Throughout 2021 a total of 30 consultations took place via Citizen Space, resulting in over 21,000 responses from citizens. These consultations included the **20mph Public Consultation**, **Christmas School Holiday proposals**, **National Entitlement Card Consultation** and the **Local Housing Strategy 2023-28 Early Engagement Survey**. Discussions are ongoing to determine how best to proceed with this as part of our recovery to ensure timely and relevant customer engagement.

Scottish Borders COUNCIL

Audit Recommendation: *Seek to improve partnership working with NHS Borders in order to support the strategic objectives of the Integration Joint Board*

	ACTION	Timescales	Lead Officer	Report Ref	Service Lead	% COMPLETION	NOTES
5	Bring together a joint approach to transformation and evaluation process across the organisations.	30-Jun-22	C Hepburn / C Myers	112 – 116	Clair Hepburn	25%	A piece of work has been done previously to look at how Transformation would be considered through the IJB. Both organisations have been focussed on other priorities over the last 2 years. This will now be picked back up with the Chief Officer for Scottish Borders H&SCP.
6	Raise visibility of key policies and decisions across respective governance groups including Executive Management Team and Strategic Leadership Team. -	31-Mar-22	Chris Myers	112 - 116	Graeme McMurdo	100%	Linked to action 10. A range of Governance issues are increasingly being discussed at the H&SC Joint Executive Team, in turn raising visibility of these across respective governance groups.
7	Explore co location and shared services opportunities as part of Fit for 2024 and corresponding NHS programmes.	30-Sep-22	John Curry	112 - 116	John Curry	25%	In January 2022, SBC began the development of an estates strategy. This is due to conclude at the end of March and will be presented to the new administration in Summer 2022. This will provide an evidence based road map, linked to the Council Plan and Service Needs providing a consistent framework for how we manage and maintain our estate and how we focus capital investment priorities. Alongside this, SBC are progressing with the place making approach which seeks to work with communities and partners to make access to public services easier. These two specific workstreams are expected to realise opportunities for co-location and shared services with a number of public sector partners. Discussions continue with NHSB and the new Earlston Primary School project includes the provision of a new GP surgery. A planning application for this project was submitted at the end of 2021.

Cont./

	ACTION	Timescales	Lead Officer	Report Ref	Service Lead	% COMPLETION	NOTES
8	Enhance governance arrangements and clarity of role of respective partnership groups including IJB Board , Executive Management Team and Strategic Planning Group. - transformation & performance resets. - improving quality and availability of reports outlining proposals to enable these groups to plan and take decisions more effectively.	30-Jun-22	Chris Myers	112-116	Graeme McMurdo	90%	As Action 10. Governance changes proposed include the creation of a 'Future Strategy Group' to report into the Strategic Planning Group. The FSG will develop Directions and manage the work associated with the delivery of the new Strategic Developments. Other governance changes include: - the work of the SIP Oversight Board is realigned to the Audit Committee rather than directly reporting to the IJB. - the Audit Committee to oversee a rapid review of the Terms of Reference and a self-assessment of the IJB Committees to ensure that the IJB and these Committees are able to continue to effectively function in the context of the significant level of work required, in line with the IJB's duties outlined in the Act.
9	Develop a model for localities that adopts a single structure for the management and provision of joint health and Social services.	31-Mar-22	Chris Myers	112 – 116	Clare Richards	100%	Locality model (CAHs, What Matters Hubs, Daily huddles and Weekly Community Meetings) is in operation across the 5 localities with business manager support in place. NHS attendance at daily huddles has been low. Approval was given by the SBC/NHS board to discuss the option to move the daily huddles to a virtual ward model - two workshops have been arranged and cancelled due to low NHS acceptances. This is now sitting with the NHS to lead. **There has been no agreed vision to move to joint H&SC staff structures.**
10	Ensure a joint financial and service plan that is fully endorsed by respective partners is prepared for IJB on an annual basis.	30-Jun-22	Chris Myers	112 – 116	Graeme McMurdo	100%	Directions Policy now in place from IJB. Commissioning decisions are now costed. Agreement of the 22/23 budget is awaited. This approach will continue in future years..

Audit Recommendation: *Improve how the Community Planning Partnership involves communities and the third sector, through greater involvement in local decision making and by accelerating implementation of the Community empowerment act*

	ACTION	Timescales	Lead Officer	Report Ref	Service Lead	% COMPLETION	NOTES
11	Work with the Improvement Service and Scottish Gov't to provide guidance and support to gain insight into best practice in the implementation of the community empowerment act.	30-Jun-22	Jenni Craig	133 - 144	Shona Smith	80%	Ongoing - CEA information now appears on every Area Partnership Agenda, and features on SBC website Scope of the CPP Review was approved and a Self Assessment workshop was held on 17 Jan 2022. A draft Improvement Plan will now be considered by the Joint Programme Board on 9 Feb, and the aim is that this will be presented to the CPP Strategic Board on 3 March 2022. The next APR due to scottish government in Summer 2022 - this along with the participation and asset transfer report will feed in to the Scottish Government national report.
12	Conduct a review of the operation of local area partnerships to inform the development of enhanced local decision making service provision and the allocation of resources.	31-Mar-22	Jenni Craig	133 - 144	Shona Smith	100%	Council approved recommendations on 27 08 2020, and a further update will go back to Council before March 2022 Review has been completed, and officers are now undertaking research of best practice across Scotland in order to present recommendations. Next step is to update Council.
13	Use the experience of the budget consultation process 2020/21 to develop the approach to mainstreaming participatory budgeting. Work with communities to identify priority areas within current budgets. Evaluation of Localities Bid Fund to be undertaken.	31-Mar-22	Jenni Craig	133 - 144	Shona Smith	90%	Evaluation of Locality Bid Fund 1&2 as well as the Community Fund was received by Council 27.08.2020. Covid-19 has delayed the progress of mainstreaming Participatory Budgeting, although there has been a strong focus on this work in order to try and acheive the 1% target for 2021/22. JCraig chairs PB Strategic Group that meet monthly, and an officer group has also been established that reports in to that monthly. An update report will be presented to Council as part of the Budget process on 22 Feb 2022.

Scottish Borders COUNCIL

	ACTION	Timescales	Lead Officer	Report Ref	Service Lead	% COMPLETION	NOTES
14	Promote the #your part campaign to recognise the contribution of communities.	31-Oct-21	Jenni Craig	133 - 144	Shona Smith	100%	Letters have been sent out & comms on website from Chief Exec thanking communities for playing their part during CV-19. Paper has been considered by SLT re the contribution of volunteers during pandemic, and communities are currently being consulted in relation to what might be appropriate to mark the contribution of volunteers. Report back to SLT potentially end of Feb. Services are using on Yammer - Comms on social media, etc.
15	Undertake an organisational review under Fit for 2024 of how to best develop community capacity in the 3rd sector and localities.	31-Mar-22	Jenni Craig	133 - 144	Shona Smith	80%	9 enaggement officers have been appointed across the organisation focussed on developing community capacity and place making. There are ongoing discussions between senior managers in relation to maximising the benefits these posts bring 5 community assistance hubs were set up during pandemic and these are going to be continuing. Weekly and fortnightly meetings with third sectors and partners are being held in each of the localities.
16	Review Community Plan and Action Plan to ensure actions align to 2020 Strategic Assessment.	31-Mar-22	Jenni Craig	133 - 144	Shona Smith	75%	A review has begun in relation to the SB CPP, with a workshop held and a draft Improvement Plan developed with assistance from the Improvement Service
17	Agree Community Planning Partnership (CPP) Performance Management Framework through CPP Joint Programme Board and CPP Strategic Board.	30-Sep-20	Jenni Craig	133 - 144	Shona Smith	100%	Complete - approved at CPP Strategic Board on 10 09 20. To be refreshed/revamped for future performance reporting To be revised following refreshed key priorities and action plan
18	Completion of Locality Plans ad Action Plans.	30-Sep-20	Jenni Craig	133 - 144	Shona Smith	100%	Approved by CPP Strategic Board 10 09 20

	ACTION	Timescales	Lead Officer	Report Ref	Service Lead	% COMPLETION	NOTES
19	Promote stakeholder engagement through Area Partnerships and community engagement events, with training around leadership/national standards of engagement.	30-Jun-22	Jenni Craig	133 - 144	Shona Smith	60%	Virtual Area Partnerships have now commenced. Engagement training still to be agreed and undertaken.
20	Community Empowerment Act to become standing agenda item at Area Partnerships with information to raise awareness and provide support to Communities. Research to be undertaken on SBC performance relative to other authorities.	31-Dec-20	Jenni Craig	133 - 144	Shona Smith / Jenny Wilkinson	100%	Will always be part of agenda. Research re SBC performance been done, SBC is comparative to others (North Ayrshire / D&G regarding our approach). Action complete although work will continue as BAU.
21	Develop regular reporting of progress on Community Engagement across the whole council, for inclusion in reports to members and CPP Strategic Board.	31-Mar-22	Jenni Craig	133 - 144	Shona Smith	0%	Delayed due to CV-19.

Scottish Borders COUNCIL

Audit Recommendation: *Establish a structured programme of ongoing staff consultation and Engagement*

	ACTION	Timescales	Lead Officer	Report Ref	SERVICE LEAD	% COMPLETION	UPDATE
22	Continue the process of engagement sessions with staff under the Fit for 2024 programme.	30-Jun-20	Clair Hepburn	36 - 37,	Jason McDonald	100%	Well established part of the FF24 programme process. Extensive staff enagagement has taken place particularly with H&SC staff, staff across A&I and staff in business Support/customer services.
23	Undertake regular large briefing sessions with managers from across all council services & use Yammer as a platform for council wide staff engagement sessions with members of SLT (rolling programme)	30-Jun-20	Jason McDonald	96 - 97,	Jason McDonald	100%	SLT have started a series of senior manager meetings on Yammer. This has been supplemented with Senior Manager visits to frontline depots and other sites to ensure engagement and interaction with frontline staff. This will continue to evolve and it is hoped that the roll out of technology to all staff will further assist this engagement.
24	Develop a communications plan for staff engagement and undertake a structured survey of all staff using the online survey tool. Building upon the regular staff engagement and survey work during covid, maintain regular contact with all staff on key corporate issues.	31-Oct-22	Clair Hepburn	153 - 154	Iain Davidson	80%	Several staff surveys have been undertaken through out the course of the CV-19 pandemic. A programme of Senior Manager sessions is now underway using Yammer. The development of the refreshed Council Plan and Performance Management approach will ensure continued engagement with staff of key council priorities. These refreshed approaches will need time to bed in and become part of the ongoing organisational culture. A formal communications plan is to be developed.

Scottish Borders COUNCIL

Audit Recommendation: *Update its people plan for 2017 -21 and ensure longer term workforce plans are reflected in service and financial plans*

	ACTION	Timescales	Lead Officer	Report Ref	SERVICE LEAD	% COMPLETION	NOTES
25	Launch a new appraisal process for staff based on the updated competency framework.	31-Mar-20	Clair Hepburn	90 – 92, 149	Erick Ullrich	100%	Launched 08/06/2020
26	Ensure each department has a 5 year people plan which aligns with the corporate plan and Fit for 2024 principles.	30-Apr-22	Clair Hepburn	90 – 92, 149	Erick Ullrich	80%	People plans are being revised for each service which will reflect the new Council corporate plan and revised transformation plan due later this year.
27	People planning to be undertaken using a consistent approach as part of Fit For 2024, taking into account Fit for 2024 design principles, staff turnover, succession planning, talent management and future operating models.	31-Dec-20	Clair Hepburn	90 – 92, 149	Erick Ullrich	100%	New integrated People/ Financial/ Transformation planning document has been finalised and rolled out. This incorporates FF24 principles, staff turnover, succession planning, talent management and future operating models.
28	Ensure that resourcing of Fit for 2024 does not adversely impact on business as usual service delivery. Rebalance senior portfolios or use of secondments, backfill, recruitment and/or consultancy as appropriate.	31-Dec-20	Jason McDonald	35	Jason McDonald	100%	With the exception of new Chief Executive, CMT roles are occupied with full time officers.

Audit Recommendation: *Support members Continuing Professional Development by tailoring training to meet their individual needs and use technology to make training more accessible*

	ACTION	Timescales	Lead Officer	Report Ref	SERVICE LEAD	% COMPLETION	NOTES
29	Use Improvement Service Member CPD to allow members to evaluate their continuing professional development needs.	31-Mar-20	Jenny Wilkinson	28 - 29	Jenny Wilkinson	100%	All Members offered assessment through the Improvement Service - 5 have taken this up.
30	Undertake a review of induction training with members to establish any gaps.	31-Mar-22	Jenny Wilkinson	28-29	Jenny Wilkinson	10%	Work underway - no report required to Council. Previous programme being reviewed and Members will be invited to contribute.
31	Develop a members section of SBLearn where specific materials linked to Councillor responsibilities could be housed.	31-Mar-22	Jenny Wilkinson		Jenny Wilkinson	0%	Still to have meeting with HR on how best to take this forward - will link in to Members induction and individual Members development plans.
32	Survey with the members to identify skills gaps.	30-Jun-22	Jenny Wilkinson		Jenny Wilkinson	25%	All Members will be surveyed following election in May 2022; survey being developed as part of induction programme.
33	Review the potential for earlier visibility of meeting / Committee content, for members.	31-Mar-22	Jenny Wilkinson	25	Jenny Wilkinson	25%	Work underway with Chief Executive and Monitoring Officer on how best to take this forward

Audit Recommendation: *Ensure performance reports to members and the public are more comprehensive balanced and that they cover service performance and the delivery of the Fit for 2024 programme*

	ACTION	Timescales	Lead Officer	Report Ref	SERVICE LEAD	% COMPLETION	NOTES
34	Redevelop the performance management framework to reflect Fit for 2024 priorities and demonstrate best value within performance reporting.	28-Feb-22	Clair Hepburn	71 - 72,	Melanie Hermiston	75%	The reset of the Council Plan will introduce a clearer mechanism for communicating and monitoring the priorities of the Transformation Programme. This will be incorporated in the updated Performance Management Framework as part of the current project to review performance management across the organisation.
35	Ensure that benchmarking data and longer term trend info is included within performance reports and is used to identify improvement priorities.	31-Oct-22	Clair Hepburn	145 – 151,	Melanie Hermiston	100%	Executive and SLT Reporting has been revised to include longer term trends and inclusion of a range of LGBF benchmarking data. Following the review of performance management, there will be an expectation for services to better monitor and analyse benchmarking data more frequently throughout the year. There has been greater engagement in LGBF learning events to support a continued focus on the benefits of benchmarking data.
36	Align the approach & sequencing of performance monitoring for Executive Committee, SLT and Directorate Management Team's, incorporating a programme of service improvement deep dives.	31-Oct-22	Clair Hepburn	152	Melanie Hermiston	80%	Executive and SLT Reporting has been revised to bring consistency of approach closer; however, more work is required to align and calibrate the selection of indicators at the various organisation levels and frequencies (e.g. strategic down to operational). The review of performance management will deliver a model for services to Assess, Act, Monitor, Revise and Learn from performance information. This review will also create a model for identifying areas of improvement through targeted service deep-dives.
37	Ensure performance reports include adequate commentary on reasons for underperformance and actions to address.	31-Mar-20	Clair Hepburn		Melanie Hermiston	100%	Reporting approach updated with greater cohesion around commentaries. Ensuring adequate commentary is included is embedded in the report production process.
38	Develop regular progress reporting on Fit for 2024 for FF24 Board, Strategic Leadership Team and Executive/Public Performance Reporting.	31-Mar-20	Clair Hepburn	154	Jason McDonald	100%	FF24 progress is tracked in the Financial Plan. Project specific highlights are included in Executive and Public reporting.

These are Additional Points added to the Action Plan, out with those highlighted in the Best Value Audit Report.

	ACTION	Timescales	Lead Officer	Report Ref	SERVICE LEAD	% COMPLETION	NOTES
39	Ensure relevant officers are reminded of their responsibilities to the council and Arm's Length External Organisation(s) at appointment and on a regular basis thereafter.	31-Mar-20	Jen Holland	123	Jason McDonald	100%	
40	Review Fit for 2024 implementation plans in light of the council's Annual Governance Statement.	31-Mar-20	Clair Hepburn	155-156	Jill Stacey	100%	Internal Audit review of Fit for 2024 Transformation Programme was completed on 27 February 2020 and findings reported to A&SC on 9 March 2020. Progress with the three improvement actions discussed at FF2024 Board on 12 May 2020.

COUNTER FRAUD CONTROLS ASSESSMENT 2021/22

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 February 2022

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to make the Audit and Scrutiny Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls.**

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. 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.

1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group, whose purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. One way it can achieve that is self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place.

1.4 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.

1.5 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 outcomes contained within this report.

2 RECOMMENDATIONS

2.1 **I recommend that the Audit and Scrutiny Committee:**

a) Acknowledge the findings from the Integrity Group's assessment of counter fraud controls 2021-22 in response to fraud risks; and

b) Endorse the ongoing actions to enhance the Council's resilience to fraud, as summarised in the Action Plan in Appendix 1.

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, corruption, or crime. The Council at its meeting on 16 December 2021 approved a revised Counter Fraud Policy and Strategy 2021-2024, which had been endorsed by the Audit and Scrutiny Committee on 22 November 2021. 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 the Strategic Leadership Team and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.

3.3 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.

3.4 The Integrity Group is an officer forum, chaired by the Chief Officer Audit & Risk, which has 2 Director representatives from SLT and representatives from HR, Finance, Legal, IT, and Procurement to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice.

3.5 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.

3.6 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.

3.7 The Integrity Group carried out an assessment in 2020/21 of counter fraud controls associated with the covid-19-emerging-fraud-risks. The findings from which were reported to the Audit and Scrutiny Committee on 8 March 2021, along with the necessary actions to enhance the Council's resilience to fraud, theft, corruption, and crime.

3.8 The Audit and Scrutiny Committee on 20 September 2021 considered the Audit Scotland report 'Fraud and Irregularity Update 2020/21' (published 1 July 2021) and assigned some tasks to the Integrity Group associated with the Audit Scotland report and to request an assurance report thereon.

4 SELF-ASSESSMENT 2021/22 FINDINGS AND NECESSARY ACTIONS

4.1 The Integrity Group considered the Audit Scotland report 'Fraud and Irregularity Update 2020/21' on 18 October 2021 to determine any Management Actions required in response for improvement and assurance purposes. It noted the similarities in the fraud risks reported in 2020 and 2021 by Audit Scotland. It revisited the Counter Fraud Controls Assessment carried out during 2020/21 and asked for a progress update on the agreed Action Plan at its next meeting.

4.2 The Integrity Group on 6 December 2021 received a progress update on the Action Plan from each of the Integrity Group Action Owners along with further information on additional practices that have been introduced since the counter fraud controls assessment was carried out during 2020/21. The output from that is included within Appendix 1.

4.3 The Chief Officer Audit & Risk on 8 December 2021 arranged via the Strategic Leadership Team for the dissemination of the Audit Scotland 'Fraud and Irregularity Update 2020/21' to staff across the Council, and requested that relevant fraud risks be assessed and fraud risk mitigation actions be implemented as appropriate.

4.4 Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the outcomes contained within this report. The Integrity Group will continue to monitor progress with implementation of Actions, noting that some are continuous across all parts of the Council.

5 IMPLICATIONS

5.1 **Financial**
Effective internal control systems are designed to prevent and detect fraud, theft, corruption or crime and this contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse.

5.2 **Risk and Mitigations**
The process of identifying fraud risks by Management is based on the principles of the Council's Counter Fraud Policy and Strategy. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group.

5.3 **Integrated Impact Assessment**
Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. This is a routine good governance report for assurance purposes, not a new or revised policy or strategy for decision and, as a result, completion of an Integrated Impact Assessment is not an applicable consideration.

5.4 **Sustainable Development Goals**
The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist. However, the application of practices associated with the Council's Counter Fraud Policy and Strategy is fundamental to ensuring an effective response to fraud, theft, corruption, or crime. This will make a difference to the UN Sustainable Development Goal 16 "Promote peaceful and inclusive societies

for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

5.5 **Climate Change**
This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 **Data Protection Impact Statement**
There are no personal data implications arising from the content of this report.

5.8 **Changes to Scheme of Administration or Scheme of Delegation**
No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

6 CONSULTATION

6.1 The Integrity Group has carried out the counter fraud controls self-assessment 2021/22 and has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

6.2 The Strategic Leadership Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, has been consulted on this Report and appended Action Plan.

6.3 The Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

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

Background Papers: Audit Scotland publications on website
Previous Minute Reference: Audit and Scrutiny Committee 8 March 2021 and 20 September 2021

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 fraud@scotborders.gov.uk

Risk Area	Action required to enhance existing Fraud Risk Controls 2020/21	Integrity Group Action Owner	Progress Update 2021/22
Procurement	The roll-out of the Supplier Relationship Management module in Business World system will allow suppliers to access portal to update their bank and other details.	Commercial & Commissioned Services Manager	Contract data migration to new system by 31 December 2021, with supplier engagement rollout thereafter. Contract owner training rollout commencing January 2022 and likely to run throughout the calendar year. Expect to move from project to business as usual on a rolling basis from 1 April 2022, recognising it is likely that adoption of contract and supplier management (CSM) will realistically take a period of time beyond that. Internal Audit will include assurance audit of CSM in Annual Plan 2022/23.
	Internal Audit carry out annual review of Business World key controls.	Chief Officer Audit & Risk	Internal Audit Report on Business World Key Controls issued to Management 30 April 2021; Executive Summary to Audit and Scrutiny Committee 10 May 2021. Procure to Pay – Substantial Assurance (with exception of GL07s – Limited Assurance)
Covid-19 Funding	Learning lessons from initial phases to apply to new specific Covid-19 grant funding being administered on behalf of the Scottish Government.	Director Resilient Communities	Ongoing in new phases. Actions are progressing associated with the recommendations from Internal Audit Report on Scottish Government Support Grants issued to Management 13 September 2021; Executive Summary to Audit and Scrutiny Committee 20 September 2021.
	Ongoing staff vigilance on checks and controls.	Director Resilient Communities	Ongoing in new phases. SBC has opted in to the Housing Benefit Award Accuracy Initiative with DWP since 2020/21 to target potentially unreported HB changes.
	Ongoing engagement by Internal Audit in SLAIG to keep up to date on areas of fraud, and with Services administering new funds.	Chief Officer Audit & Risk	Principal Internal Auditor attends Scottish Local Authority Investigators Group (SLAIG) meetings quarterly. Internal Audit Report on Scottish Government Support Grants to Management 13 September 2021; Executive Summary to Audit and Scrutiny Committee 20 September 2021. Limited Assurance on 3 of the 4 grants reviewed; Substantial Assurance on the Spring Support Payment Grants.
Payroll-Recruitment	Internal Audit carry out annual review of Business World key controls.	Chief Officer Audit & Risk	Internal Audit Report on Business World Key Controls issued to Management 30 April 2021; Executive Summary to Audit and Scrutiny Committee 10 May 2021. Payroll – Comprehensive assurance

Risk Area	Action required to enhance existing Fraud Risk Controls 2020/21	Integrity Group Action Owner	Progress Update 2021/22
IT-Cyber Crime	Continued periodic emails reminding staff of their responsibilities, and guidance on what to do.	IT Client Manager	Increase frequency to Monthly.
	Following the publication of the report relating to the SEPA cyber-attack during December 2020 the digital office has provided textual guidance and gap analysis highlighting the main weaknesses with SEPAs preparedness and response.	IT Client Manager	To work with CGI to review the report and provide assurance that any identified gaps do not exist within the SBC infrastructure. Completion date February 2022.
	Ongoing monitoring of the effectiveness of the technical and organisational controls. Ransomware attacks are becoming extremely sophisticated; delivery mechanisms (such as email) are bypassing technical and filtering controls by using sophisticated code to create malicious URL links. More focus required on staff/user security awareness/education.	IT Client Manager	IT Client Manager attends both Scottish Local Authority Information Security Group (SLAISG) and Scottish Government Public Sector Cyber Resilience Network quarterly meetings. In partnership with CGI it has been agreed that a Cyber Security Maturity Assessment (CSMA) will be undertaken to determine the effectiveness of current controls and identify areas where resilience against persistent threats could be improved. Completion date April 2022.
Health & Wellbeing	Ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.	Director People, Change & Performance	Fortnightly staff communications. The employee helpline, occupational health and various HR policies, as well as eLearning videos, are designed to support staff manage the risks posed by, and impact of, fraud or other legal financial issues they encounter.
Wider Risk	Ongoing cascading of public awareness campaigns from the Scottish Government, Action Fraud, NCSC and others to alert people to the dangers via staff and other stakeholder communications.	Director People, Change & Performance	Fortnightly staff communications are used to capture other relevant alerts.

INTERNAL AUDIT WORK TO JANUARY 2022

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 February 2022

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 6 November 2021 to 31 January 2022 associated with the delivery of the approved Internal Audit Annual Plan 2021/22 is detailed in this report. A total of 5 final Internal Audit reports have been issued relating to assurance audits. There were 2 recommendations (1 Medium-rated; 1 Low-rated) made associated with 2 of 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.

2 RECOMMENDATIONS

2.1 **I recommend that the Audit and Scrutiny Committee:**

a) **Notes the final assurance reports issued in the period from 6 November 2021 to 31 January 2022 associated with the delivery of the approved Internal Audit Annual Plan 2021/22;**

b) **Notes the Internal Audit Assurance Work in Progress and Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter; and**

c) **Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 BACKGROUND

3.1 The Internal Audit Annual Plan 2021/22 was approved by the Audit and Scrutiny Committee on 8 March 2021. To facilitate operational delivery an Internal Audit Programme of Work has been developed which provides an indication of when work is scheduled during the year, taking account of discussions with Management and availability of Internal Audit resources.

3.2 For each assurance audit: prior to commencement of the fieldwork, an Audit Assignment detailing the scope, objectives and timing is agreed with the relevant Service Management; and, at the conclusion of the fieldwork, a draft Report is issued to relevant Service Management for response on the factual accuracy and acceptance of the findings and recommendations, as appropriate, which is then issued as a final Report.

4 PROGRESS UPDATE

4.1 Internal Audit has carried out the following work in the period from 6 November 2021 to 31 January 2022 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

4.2 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.

Completed Internal Audit Assurance Reports

4.3 Internal Audit issued final assurance reports on the following subjects:

- Financial Policy Framework
- Registration Service
- Justice Services (b/f from 2020/21)
- Waste and Recycling Services (b/f from 2020/21)
- Digital Strategy (b/f from 2020/21)

4.4 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.

4.5 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.

Current Internal Audit Assurance Work in Progress

4.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2021/22 consists of the following:

Audit Area	Audit Stage
Schools Financial and Business Administration Processes	Drafting the report
Grants and Following the Public Pound	Testing nearly completed
Economic Development Industrial Property	Testing underway
Sustainable Environment (b/f from 2020/21)	Testing underway
Corporate Transformation Programme - Fit for 2024	Continuous audit
Information Governance	Continuous audit
Roads Asset Management (b/f from 2020/21)	Audit Assignment issued
Capital Investment	Audit Assignment issued
Business World System Key Controls	Audit Assignment issued
IT Asset Management	Drafting the assignment

Internal Audit Consultancy and Other Work

4.7 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 'critical friend' internal challenge and assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024 Transformation Programme, Information Governance Group, Social Work Performance Board, Social Work Review Delivery Group, Sustainable Development Core Group).

b) Carried out background research and engagement associated with the ongoing review and enhancement of the Council's Performance Management Framework (PMF). Internal Audit will continue to have oversight on any changes to the PMF and will include an assurance audit in its Annual Plan 2022/23 to critically evaluate the revised PMF and test a sample of performance indicators in Service Plans 2022/23 to validate their relevance, completeness and accuracy.

c) The planned Internal Controls assurance audit on Central Schools (Review the processes and procedures for the provision of non-contact Teacher time in Primary Schools, including peripatetic and supply staff, to ensure the efficient and effective use of resources) has been removed from the Internal Audit Annual Plan 2021/22 in agreement with the Director Education & Lifelong Learning. Due to its links to the Fit for 2024 transformation programme, this has been designated as an Internal Audit consultancy review in a 'critical friend' role.

d) The planned Internal Controls assurance audit on Mental Health Services (Adults & Children) (Assess the governance arrangements in place to commission specialist mental health services to promote closer integration and partnership working to meet the needs of people with mental health needs. Ensure there is sound budgetary control in place.) has been removed from the Internal Audit Annual Plan 2021/22 in agreement with the Director Social Work & Practice, and will be carried out during 2022/23.

e) The planned Internal Controls assurance audit on Assessors (There are adequate controls to ensure that responsibilities are discharged appropriately to provide and maintain the valuation roll and to ensure timely and correct value assessment of properties to meet required standards and practices) has been removed from the Internal Audit Annual Plan 2021/22 due to late release of legislation, and will be carried out during 2022/23.

f) Learning and development for all Internal Audit team members during the research stage of new audit areas and through joining virtual audit forums, and meetings to keep knowledge of new Internal Audit developments up to date (Chartered Institute of Internal Auditors (CIIA) Local Authority Forum, CIIA Data Analytics Forum and Practitioners Forum, Scottish Local Authority Chief Internal Auditors Group, Computer Audit Sub Group). Topics have included: Organisational Change and Digital Transformation; Safeguarding; Cyber risks: resilience and incident management; and Risk appetite and the annual audit opinion.

Recommendations

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

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.

4.9 The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	1
Low	1
Sub-total reported this period	**2**
Previously reported	10
Total	**12**

Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	**12**

5 IMPLICATIONS

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

5.2 **Risk and Mitigations**

a) During the development of the Internal Audit Annual Plan 2021/22 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.

b) If audit recommendations are not implemented, there is a greater risk of loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate effective management of risks through improved internal controls and governance.

5.3 **Integrated Impact Assessment**

(a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).

(b) The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

5.4 **Sustainable Development Goals**
The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist.

5.5 **Climate Change**
This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 **Data Protection Impact Statement**
There are no personal data implications arising from the content of this report.

5.8 **Changes to Scheme of Administration or Scheme of Delegation**
No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

6 CONSULTATION

6.1 The Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.

6.2 The Strategic Leadership Team (SLT), Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People, Performance and Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

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 22 November 2021

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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Financial Governance Subject: Financial Policy Framework No: 076/009 Date issued: 31 January 2022 Draft; 7 February 2022 Final Level of Assurance: Substantial	The purpose of the review was to assess the Financial Policy Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines, and any associated Codes of Practice, including the rollout to employees. The Financial Regulations is the overarching policy which governs all financial activity within the Council and was published in November 2018. The associated policies and procedures are the responsibility of three Services: Financial Services, Pensions & Investments, and Procurement & Commissioned Services. At the time of our audit we were advised that the current Financial Regulations are under review and a revised version is to be presented to Council for approval on 22 February 2022, including updates to reflect changes to the Strategic Leadership Team roles and responsibilities. The following examples of good practice were found: • All relevant policies and procedures relating to Pensions & Investments and Procurement & Commissioned Services were current, available on the Intranet, and had specified Review Timescales. Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement as current arrangements could undermine the achievement of objectives, such as: ensure Review Timetables are in place and all policies/procedures are available and published on the Intranet (Financial Services). During the audit we have discussed these improvements with the Financial Services Manager, and between draft and final report stage, a commitment has been made to progress these.	0	0	0	Management have accepted the factual accuracy of the report and its findings. The refreshed Financial Regulations will be updated to reflect the improvements. These Management Actions will be followed up by Internal Audit during 2022/23.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Internal Controls Subject: Registration Service No: 092/004 Date issued: 13 December 2021 Draft; 21 December 2021 Final Level of Assurance: Substantial	The purpose of the review was to assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income. The Registration service within Scotland's 32 Local Authorities are legislated by 9 Main Acts, and the Registrars' work is overseen by National Records of Scotland. The Registrar General employs three examiners who inspect the work of the Registrars, to ensure compliance with legislation. Inspections were carried out on a twice yearly basis pre COVID and are now completed on a virtual basis. The last examination for Scottish Borders Council was in 2020 and a further examination is anticipated in early 2022. The service is following the legislation and the registers are subject to scrutiny by the Registrar General Examiners. Income collection utilises Webpay and was found to be effective. However, when the income is shown in Business World it is not categorised at a transactional level which would allow detailed reconciliation activity. Budget monitoring is carried out between the Operations Manager and Finance on a monthly basis. The following examples of good practice were found: • Monthly Management reviews are completed on the Registrars activity to ensure completeness and accuracy. • The service has adapted well to revised processes necessary due to the COVID pandemic. Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Management have indicated that they will revisit whether there is a need for a detailed income reconciliation, given the Management reviews and scrutiny by Registrar General Examiners. Internal Audit made no recommendations.	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Internal Controls Subject: Justice Services No: 178/004 Date issued: 27 January 2022 Draft; 01 February 2022 Final Level of Assurance: Substantial	The purpose of the review was to assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations. Community justice sits within a complex public services landscape. A review is to be carried out by the Chief Officer Children & Families of the governance and accountability arrangements at a local level between Community Justice and Justice Social Work, and the interface between them, to address known gaps. The Community Justice Board has responsibility for the implementation of the improvement actions contained within the Scottish Borders Community Justice Outcomes Improvement Plan 2020 – 2025 (approved March 2021). Service Managers receive information on a monthly basis, actively scrutinise budget monitoring reports, and contribute towards refinement of forecasts for the remainder of the year. Performance reporting is very fragmented reflecting the multi-agency collaborative nature of service delivery. Information is provided by and obtained from various sources and organisations and reported to various Committees, Boards and Agencies. Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place to meet statutory obligations. Internal Audit have made no recommendations at this time as actions are underway to improve the efficacy of governance to achieve objectives. Improvement actions should also be considered following reviews carried out by Scottish Government (Justice Strategy), Community Justice Scotland (OPI Framework) and the Service.	0	0	0	Management have accepted the factual accuracy of the report and its findings. Internal Audit will monitor improvements and resulting action plans during 2022/23.

Report	Summary of key findings and recommendations	Recommendations H	M	L	Status
Audit Plan Category: Internal Controls Subject: Waste and Recycling Services No: 205/011 Date issued: 27 January 2022 Draft; 2 February 2022 Final Level of Assurance: Substantial	The purpose of the review was to ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services. Adequate operational and financial controls in place and the delivery of waste and recycling services is generally effective. A clear strategic direction has been established to achieve Waste and Recycling services' contribution towards the Council's obligations concerning sustainable environment. This has been achieved through the Council's Climate Change Route Map rather than its own documented strategy. Budget monitoring procedures are accurate, relevant and timely and meet the needs of service management who receive information on a monthly basis, actively scrutinise budget monitoring reports and contribute towards refinement of forecasts for the remainder of the year. Performance monitoring and benchmarking is undertaken to maintain and improve performance. There is an opportunity to further develop performance monitoring for the collection side of the service. Benchmarking is provided through the Local Government Benchmarking Framework (LGBF), which is available to the residents of Scottish Borders. Arrangements are in place which enable appropriate monitoring of contracts with third parties. Suppliers are required to provide specified data on a monthly basis and monthly contract meetings take place between the supplier and service management at which relevant issues are discussed.	0	0	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendation by June 2022.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Waste and Recycling Services (cont'd)	The replacement cycle for refuse collection vehicles is not currently optimised to deliver value for money. Fleet services are fully aware that the current replacement cycle has not resulted in the lowest total cost of ownership and will undertake trials in 2022/23 to evaluate the financial and operational benefits of earlier replacement. Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Internal Audit has made the following low-rated recommendation, which is designed to improve the efficacy of governance to achieve objectives: • The benefits of having performance data on various aspects of the waste collection process should be considered and, if judged to be beneficial, performance targets set and performance against those target monitored through the use of appropriate performance indicators. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: ICT Governance Subject: Digital Strategy (b/f from 2020/21) No: 230/008 Date issued: 13 January 2022 Draft; 4 February 2022 Final Level of Assurance: Substantial	The purpose of the review was to ensure at a high level that the Digital Strategy is aligned to Council priorities and business requirements. This included a review of the client relationship and contract management with CGI to assess compliance with Service Delivery and terms and conditions. In September 2020 the Council agreed to extend its strategic IT partnership with CGI and in doing so agreed to the development of a new Digital Strategy for the Council. Significant work ensued to develop the Digital Strategy and detailed analysis work had been undertaken to assess how the opportunities identified by the Strategy should be prioritised. In February 2021 the Council approved the Digital Strategy which was designed to realise the vision of Scottish Borders becoming a Smart Rural Region. The Digital Strategy has two main objectives: to use digital technology to improve SBC processes, improve the customer experience and improve operational efficiency; and to set out the Council's digital vision for the Borders. A range of environmental, social and economic benefits are expected to be achieved. The Digital Strategy sets out to support Council Priorities, Corporate Objectives and business requirements principally by establishing principles and providing a framework against which specific projects can be assessed. Provided the approach is faithfully followed, projects should be very clearly aligned to the Council priorities, objectives and business requirements. Overall the Digital Transformation Programme has not yet reached the stage where the Digital Strategy is translated into operational plans. The Digital Strategy is to be enabled and scrutinised through the Council's Fit for 2024 transformation programme and the FF2022 Board, although transformational and operational governance has yet to be confirmed (*Recommendation 5.1*).	0	1	0	Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendation. The Digital Strategy responded to the key recommendations set out in the Accounts Commission report Digital progress in local government | Audit Scotland (audit-scotland.gov.uk) published in January 2021.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Digital Strategy (cont'd)	Consultation has been focussed on the Corporate team for evaluation of imperatives, and Finance and related Business Partners for value considerations. At present existing projects are being evaluated in terms of their fit with the Digital Strategy's design principles. This will mean that some existing projects will continue, others will be consolidated, and some may not be progressed further. Senior officers involved with the development of the Digital Strategy have recognised that the staff and public are not presently well-served and that engagement needs to be enhanced. New members have been recruited to the Communications Team with the intention that some of this additional capacity will be used to ensure appropriate engagement of staff and wider stakeholders in the delivery of the Digital Strategy. The contribution of CGI has been critical to defining the Digital Strategy and shaping its delivery. CGI's role with regard to Digital Strategy will be treated as a separate work stream of the ongoing contract with CGI. No specific arrangements will be put in place. Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Internal Audit have made the following recommendation to improve the efficacy of governance to achieve objectives: • Transformational and operational governance for the implementation of the Digital Strategy should be determined and put in place prior to the finalisation of the programme of work via the road map. This should be informed by risks, best practice and recommendations in report Digital progress in local government | Audit Scotland (audit-scotland.gov.uk) (Medium)				

ACCOUNTS COMMISSION REPORT COMMUNITY EMPOWERMENT: COVID-19 UPDATE

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 February 2022

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to make the Audit and Scrutiny Committee aware of a published report by Accounts Commission.**

1.2 The Accounts Commission report, 'Community Empowerment – Covid-19 Update' was published on 28 October 2021. [Community empowerment: Covid-19 update | Audit Scotland (audit-scotland.gov.uk)]

1.3 The Accounts Commission highlighted in its report that Communities played a crucial role in the response to Covid-19. Public bodies can learn from good practice and new ways of working which emerged in response to Covid-19 and use this to shape the way they work in the future to promote the best outcomes for local communities and help address inequalities.

1.4 Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal control relating to the Council's service delivery models including partnership and collaboration to provide reasonable assurance of effective and efficient operations. This would include the consideration of national reports that share intelligence and good practice.

2 RECOMMENDATIONS

2.1 **I recommend that the Audit and Scrutiny Committee:**

a) Consider the Accounts Commission report Community Empowerment: Covid-19 Update; and

b) Note that the Strategic Leadership Team were consulted on this report content in full to learn from good practice and new ways of working which emerged in response to Covid-19 and to use this to shape their medium-term strategic plans and their approaches to supporting and empowering communities.

3 ACCOUNTS COMMISSION 'COMMUNITY EMPOWERMENT: COVID-19 UPDATE'

4.1 Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Audit Scotland publishes on its website these reports, which may be of interest to the Council. Officers receive notifications on publication of national performance audit reports, which are considered by the Audit and Scrutiny Committee on a regular basis.

4.2 The Accounts Commission report, 'Community Empowerment – Covid-19 Update' was published on 28 October 2021. The full report can accessed on the Audit Scotland website, using link below:

- Community empowerment: Covid-19 update | Audit Scotland (audit-scotland.gov.uk)

4.3 The Accounts Commission highlighted in its report that Communities played a crucial role in the response to Covid-19.

4.4 Purpose of the Accounts Commission report: Public bodies can learn from good practice and new ways of working which emerged in response to Covid-19 and use this to shape the way they work in the future to promote the best outcomes for local communities and help address inequalities. The report shares some of the many good examples of the community response to the pandemic and summarises the learning. It builds on the Principles for community empowerment published in 2019 and ongoing engagement with the Community Empowerment Advisory Group. Public bodies should use this information alongside their own learning to develop longer-term approaches to supporting and empowering communities.

4.5 The Strategic Leadership Team has been consulted on the Accounts Commission report, 'Community Empowerment – Covid-19 Update' content in full to learn from good practice and new ways of working which emerged in response to Covid-19 and to use this to shape their medium-term strategic plans and their approaches to supporting and empowering communities.

5 IMPLICATIONS

5.1 **Financial**
This is a routine Accounts Commission report published by Audit Scotland for improvement and assurance purposes.

5.2 **Risk and Mitigations**
The Accounts Commission report, 'Community Empowerment – Covid-19 Update' shares some of the many good examples of the community response to the pandemic and summarises the learning.

5.3 **Integrated Impact Assessment**
This is a routine Accounts Commission report published by Audit Scotland for improvement and assurance purposes. The Accounts Commission report, 'Community Empowerment – Covid-19 Update' highlights that public bodies can learn from good practice and new ways of working which emerged in response to Covid-19 and use this to shape the way they work in the future to promote the best outcomes for local communities and help address inequalities.

5.4 **Sustainable Development Goals**
The Accounts Commission report, 'Community Empowerment – Covid-19 Update' highlights that public bodies should use this information alongside their own learning to develop longer-term approaches to supporting and empowering communities.

5.5 **Climate Change**
This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 **Data Protection Impact Statement**
There are no personal data implications arising from the content of this report.

5.8 **Changes to Scheme of Administration or Scheme of Delegation**
No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

6 CONSULTATION

6.1 The Strategic Leadership Team has been consulted on the Accounts Commission report, 'Community Empowerment – Covid-19 Update' content in full to learn from good practice and new ways of working which emerged in response to Covid-19.

6.3 The Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this summary report and any comments received have been taken into account.

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

Background Papers: Audit Scotland publications on website
Previous Minute Reference:

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Social care

Briefing

ACCOUNTS COMMISSION

AUDITOR GENERAL

Briefing prepared by Audit Scotland
January 2022

Key messages

1 There are huge challenges facing the sustainability of social care, and the integration of health and social care more widely. There are good examples of improved service delivery, but despite efforts made by the Scottish Government, Integration Authorities, NHS, local government, and their partners in recent years, the pace of change has been slow. At the same time, the pressures from increasing demand and demographic changes are growing. Although a lot of public money is spent on social care (£5.3 billion in 2019/20), progress in moving to more preventative approaches to delivering social care has been limited. This has led to tighter eligibility criteria being applied for accessing care and increasing levels of unmet need.

2 Service users and carers do not always have a say or choice about what support works best for them. Bringing together their views, knowledge and experience is critical if the Scottish Government is to deliver its long-standing ambitions for social care. There are around 700,000 unpaid carers who provide most of the social care support in Scotland. Many carers are forced to give up work because of their caring responsibilities and most are not aware of their rights under the Carers (Scotland) Act 2016.

3 The 209,690 people working in social care are under immense pressure, and the sector faces ongoing challenges with recruitment and retention. Staff are not adequately valued, engaged, or rewarded for their vitally important role. The workforce is predominantly female and poor terms and conditions for staff contribute to recruitment difficulties, rising sickness absence and high vacancy levels. This puts the capacity, sustainability, and quality of care services at a considerable risk.

4 Other challenges we have identified through this and past audit work include:

- Commissioning tends to focus on cost rather than quality or outcomes. Current commissioning and procurement procedures have led to competition between providers at the expense of collaboration and quality.
- A high turnover of senior staff in councils, the NHS and Integration Authorities, increasing short-term posts and an ageing workforce are affecting leadership capacity. Cultural differences between partner organisations are a barrier to collaborative working.
- An inability or unwillingness to share information, along with a lack of relevant data, means that there are major gaps in the information needed to inform improvements in social care.

5 The Scottish Government is planning significant changes in social care over the next five years. This includes the introduction of a new National Care Service (NCS) which will need legislation to implement it. Work is under way, but there is much to do, including establishing the true costs of reform. Stakeholders have raised concerns about the scale of reform and the time it will take to implement it. They told us about services in near-crisis, and that a lack of action now presents serious risks to the delivery of care services for individuals.

6 Regardless of what happens with reform, some things cannot wait. A clear plan is needed now to address the significant challenges facing social care in Scotland based on what can be taken forward without legislation, which could provide strong foundations for an NCS. The Scottish Government should develop this quickly, with clear timescales, to remove any uncertainty about the future direction of social care, building on lessons learned from previous reform.

Introduction

1. Our previous reports have highlighted the significant challenges facing social care and the integration of health and social care more widely. Other stakeholders have also recognised these challenges, including the Scottish Government, the NHS and local government. Despite the efforts of these stakeholders and their partners, and some good examples of improvements in service delivery, progress has been slow. There is widespread agreement that the way social care is provided still needs to change significantly.

2. Our previous reports have regularly highlighted the following key themes and challenges in delivering improvements in social care:

- the importance of the service user's perspective and voice
- the fragility of the social care workforce
- tensions between cost and quality in the commissioning of social care
- instability of leadership and leaders failing to work effectively together
- a lack of key data, and ineffective use of existing data, to inform decision-making
- increasing financial challenges and threats to the sustainability of services, including lack of progress in shifting resources to preventative approaches.

3. Since we last prepared a detailed report on health and social care, there have been significant developments in the sector, most notably:

- The Independent Review of Adult Social Care (IRASC) and the Health and Sports Committee's The Future of Social Care and Support in Scotland, both published in February 2021. These reports highlighted many of the same issues we have raised in our work.
- The Scottish Government held an extensive consultation on a new National Care Service between August and November 2021. Our response to the consultation can be viewed on our website.
- The Independent Care Review and its report The Promise published in February 2020, setting out improvements for how partner bodies can work together better to care for vulnerable children and their families.

4. While this briefing acknowledges the work planned by the Scottish Government and stakeholders, it notes that work in many of these areas cannot await the creation of a new organisation. The associated changes to governance and management structures will require legislation and several years to implement.

5. This briefing summarises the key challenges and recent progress in social care in Scotland against each of the themes listed above. We have included quotes from recent publications containing the views of people with experience of social care support and providers of social care. It should help inform Scottish Government and stakeholders' immediate planning for social care alongside longer-term plans for reform. We plan to follow this up with more detailed work on social care in 2022/23.

Social care challenges

Challenges we have identified through this and past audit work include the service user's perspective and voice, pressures on the workforce, increasing financial challenges and threats to the sustainability of services.

Service users and carers do not always have a say or choice about what support works best for them

6. In our reports, we have consistently highlighted the importance of the user's perspective on what good-quality care looks like. This includes those currently providing unpaid care – family members and friends. Bringing together their views, knowledge and experience will be a critical part of supporting improvements needed for the current pressing challenges facing social care services.

7. We have highlighted in our Principles for community empowerment report that that services can be most effective when delivered in, or by, communities. People contributing to the IRASC, spoke of the need for a flexible approach that takes account of wider supports, such as the support of carers and local services offered by community organisations to enable people to fulfil their potential, goals, and outcomes.

8. Self-directed support (SDS) was introduced jointly by the Scottish Government and Convention of Scottish Local Authorities (COSLA) in 2013. It was designed to give people choice and control over their care, including personalised options for carers to take short breaks from caring. In our Self-directed support progress report, we noted that, despite many examples of positive progress, SDS has not yet been fully implemented. People using social care support who contributed to the IRASC described the hurdles encountered in accessing services and described accessing support as a battle. They summed up the process of accessing social care as notoriously difficult, over-complicated and bureaucratic.

"with SDS I have control. I can choose what option I want (within the rules, of course!). I find this is much more liberating … Basically, it has been the passport to independence."

Source: 1

Unpaid carers provide a huge amount of support

9. Unpaid carers provide most of the social care support in Scotland. There are an estimated 700,000 unpaid carers, with around 20 per cent of carers aged over 65 and four per cent under the age of 16.[1] Under the Carers (Scotland) Act 2016, carers have a right to support, information and advice. However, a 2019 survey by the Coalition of Carers found that only 16 per cent of carers knew of the Act and what rights it provides; 33 per cent had heard of it but did not know what it was about; and 51 per cent had never heard of it.[2] Women are more likely to work part-time and provide unpaid care. This results in a financial penalty, affecting women more than men and which lasts into retirement.[3] The IRASC highlighted that many carers are forced to give up work because of their caring responsibilities and that access to and options for respite care are limited.

The social care workforce is under immense pressure

10. The paid social care workforce provides support and care to people with a wide range of different needs in society, including learning disabilities, physical disabilities, and dementia. With around 209,690 people, it accounts for approximately eight per cent of all Scottish employment. There is increasing demand for social care and ongoing challenges with recruitment and retention (Exhibit 1, page 9).

11. In our 2016 Social work in Scotland publication, we reported on the difficulties in recruitment, including low pay, antisocial hours and difficult working conditions, with women making up approximately 85 per cent of the workforce. The IRASC highlighted the gender inequality this creates because the predominantly female workforce is not adequately valued, engaged, or rewarded for its vitally important role. There is too much focus on costs, rather than on high-quality, person-centred care and support. The focus on costs leads to poor terms and conditions for staff and contributes to recruitment difficulties, rising sickness absence and high vacancy levels. This presents a risk to the capacity and quality of care services.

"When unpaid carers are dealing with caring 24/7 it is very difficult for them to have any energy left to 'fight' for social care support."

Source: 4

Exhibit 1

Social care workforce

The social care workforce has high vacancy rates with many services facing recruitment problems.

209,690

people working in social care

- 159,260 full-time equivalents (FTE) in 2020
- an increase of 1.6% from 2019

36%

of services reported having vacancies in December 2020

- 3 percentage point decrease from 2019
- > three times higher than across all employers in Scotland (11%)

Services with high vacancy rates are:

- housing support services (60%)
- care at home services (59%)
- care homes for older people (55%)
- care homes for adults (48%)

5.1%

FTE vacancy rate for all services at 31 December 2020

- down from 6.2% in 2019
- > more than two and a half times the overall vacancy rate across all establishments in Scotland (1.9%)

20%

are **not** on permanent contracts

11%

are on **zero hours** contracts

13%

of the workforce work over **50 hours a week**

15%

of social care workers work **unpaid overtime**

£9.79

average hourly pay

Source: Scottish Social Services Council (SSSC) workforce survey October 2021, FWC's Fair work in Scotland's social care sector 2019 report, Care Inspectorate and SSSC Staff vacancies in care services 2020 report, Scottish Government's Employer Skills Survey 2020

12. The Fair Work Convention (FWC) has been in place since April 2015 and acts as an independent advisory body to Scottish ministers. Following publication of its Fair Work Framework in 2016, the FWC established a social care inquiry because of concerns raised about the social care workforce during consultation on the framework. The overarching finding was that fair work is not consistently delivered in the social care sector. Despite some good practice and efforts by some employers, the wider funding and commissioning system makes it almost impossible for care providers to offer fair work.

13. The Scottish Government established a Fair Work in Social Care Group, including representation from local government, private sector, third sector, trade unions, and COSLA. Since summer 2020 the group has been discussing improving pay and conditions and improving the staff consultative framework, called Effective Voice.

14. Since 2016, the Scottish Government has provided funding for adult social care staff to be paid the Real Living Wage. However, care providers have expressed concern that this may still not be enough to attract people into the sector. Recent announcements include:

- Funding announced in March 2021 for adult social care workers to receive at least the Real Living Wage of £9.50 an hour. The Real Living Wage increased to £9.90 an hour in November 2021.
- Winter funding announcement in October 2021 included additional funding of up to £48 million this financial year to enable employers to provide an uplift to the hourly rate of pay for staff offering direct care within adult social care to a minimum £10.02 per hour.
- The Scottish budget in December 2021 announced funding for local government to deliver a £10.50 per hour minimum pay settlement for adult social care workers in commissioned services.

15. The Covid-19 pandemic has exacerbated the long-standing challenges facing the social care sector and put the workforce under immense pressure. This has led to increased workloads, staff burnout, and rising sickness levels. Additional pressures on unpaid carers, owing to the closure of day centres and respite services, have resulted in increased feelings of anxiety, depression, and mental exhaustion.[4] Surveys of staff and providers show concerning issues:

- Almost a quarter of staff leave within the first three months of joining an organisation.[5]
- 88 per cent of social care providers said that recruitment and retention was problematic.[6] Ongoing recruitment is a massive cost to the sector as providers are advertising vacancies on a rolling basis.[7]
- 63 per cent of Coalition of Care and Support Providers in Scotland (CCPS) members had to reduce the volume of care provided.[8]
- 7 per cent of CCPS members have returned care packages and 53 per cent have refused/would refuse new care packages.[9]
- 78 per cent of home care workers and 74 per cent of care home workers reported that they frequently did not have enough time with clients to deliver compassionate and dignified care.[10]
- 73 per cent of home care and care home staff reported they frequently had to do training in their own time.[11]

Commissioning focuses on cost at the expense of high-quality, person-centred care and support.

Commissioning tends to focus on cost rather than quality or outcomes

16. We have highlighted the challenging task that councils face responding to financial pressures and managing the market for providing social care services in their local area. There are tensions around making savings while ensuring high-quality services at a fair cost in an environment of increasing demand and financial pressures. However, there is scope for providers to be more involved in commissioning services and at an earlier stage. Our local government financial overview reported that 2019/20 saw a cash increase of £0.5 billion to local government, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget.

17. Current commissioning and procurement procedures have led to competition between providers, at the expense of collaboration. The result is that price is often the main driver for decision-making. The Scottish Government states commissioners could be more flexible in how they procure care and support services, but that it is not being fully used by commissioners.[12] The IRASC highlighted that this focus on cost comes at the expense of high-quality, person-centred care and support. It has led to home care visits being planned on a 15-minute basis, which prioritises social care tasks at the expense of relationships. Short-term approaches to procurement also contribute to poor staff terms and conditions and to providers spending significant time and resources applying and reapplying for contracts.

18. The FWC concluded that low pay in the sector is a symptom of wider structural problems arising from the commissioning system for social care itself. The current method of competitive tendering is based on framework agreements where too often, care provider organisations do not know how many support hours are needed on a day-to-day basis. Employers pass this risk on to staff by giving them contracts that maximise employer flexibility (zero-hours, low-hours, and sessional contracts). This can mean workers having their shifts cancelled if demand falls or being asked to do extra hours at short notice if demand increases, leading to feelings of being always on-call.[13]

19. Voluntary and private sector providers deliver most social care services in Scotland, representing 20 and 57 per cent of registered services respectively.[14] The sustainability of the social care market is key to maintaining Scotland's capacity to address individual care needs. The CCPS 2020 Business Resilience Survey reported that a third of respondents from voluntary services had decided to withdraw from or not to bid for contracts considered unsustainable.[15] Scottish Care reported that half of private care at home services did not apply for local authority contracts in 2017 and 39 per cent handed work back to councils.[16] This was largely because of funding levels for contracts, requirements or penalties in contracts, extent of travel, and a lack of available staff. With the growing financial and workforce pressures facing private and voluntary providers, it is important that Integration Authorities have contingency plans in place and that the financial health of key strategic providers is monitored.

"Everything has a cost, but it is more useful to look at things as a choice rather than a cost, some things are worth the investment."

Source: 4

Capacity and cultural differences are affecting leadership

20. The health and social care sector needs stable and collaborative leadership to address the ongoing challenges, to remobilise services following the pandemic, and to implement significant reform. In recent years, we have highlighted significant challenges for leadership capacity across the public sector. Our Local government in Scotland: Overview 2020 report emphasised the critical need for effective leadership at a time of increasing pressures and change. It highlighted that councils and Integration Authorities are experiencing high turnover of senior staff and are competing not only with each other for the best quality leaders but also with the private and third sectors. Similarly, our NHS in Scotland 2020 report highlighted the continuing lack of stable NHS senior leadership, with high turnover and short-term posts.

21. The current model of governance for Integration Authorities is complicated, with decisions made at Integration Authority, council and health board level. We have found that **cultural differences between partner organisations** are a barrier to achieving collaborative working. Partner organisations work in very different ways, and this can result in a lack of trust and understanding of each other's working practices and business pressures. There can also be tendency to put the organisation first when alternative actions would benefit partners.

A lack of key data limits informed decision-making

22. The lack of relevant data, or analysis of primary, community and social care data, has been a common theme across a range of our reports. Good data and analysis will be essential for implementing social care reform. For example, in our health and social care integration report, we noted that, despite work to better analyse data, there were still gaps. That report also highlighted that an inability or unwillingness to share information was slowing the pace of health and social care integration. In October 2021, the Scottish Government and COSLA published a revised Digital Health and Care Strategy. The strategy includes a focus on harnessing data for the benefit of citizens and services, with further detail to be published this year on how this will be achieved.

23. Current limitations of social care data include:

- No individual social care record in the same way that each member of society has an NHS record. This makes it difficult to assess whether social care is meeting people's needs.
- No consistent method for recording unmet need. A person may be assessed as needing social care support but may not meet the eligibility criteria in place. This makes it difficult to assess the level of unmet need and therefore what more is required to deliver a person-centred, human-rights approach to social care.
- No coordinated approach to anticipating future demand for and costs of delivering services. Although some individual health and social care partnerships base their strategic plans on data for the prevalence of conditions in their area, for example heart disease, there is limited evidence of this being used in budget decisions.

Pressure on social care spending is increasing

24. A considerable amount of money is already spent on social care and pressures are growing because of increasing demand and demographic changes. In 2019/20, total social care expenditure was £5.3 billion, most of which was on adult social care – £4.1 billion (77 per cent) (Exhibit 2, page 16).

25. By 2038, forecasts suggest that nearly a quarter of people living in Scotland will be over the age of 65.[17] Scotland's increasingly ageing population means that the demand for social care services will rise, and more resources will be required for social care over the long term. Around a fifth of the population of Scotland define themselves as having a disability and disability is more prevalent in older people. As our older population rises, the number of people with a disability, as a proportion of the population, is expected to increase too. For example, research by Horizon Housing in 2018 projected an 80 per cent increase in the population of wheelchair users by 2024.[18]

26. The Scottish Government has committed to increasing social care funding by at least 25 per cent in cash terms over the current parliamentary term. This should mean over £800 million of additional funding by 2026/27.[19] Moreover, the UK Government's announced increase in national insurance contributions will provide an estimated additional £1.1 billion to Scotland by 2024/25, some of which will go towards funding social care.[20]

"Consultation has to be honest. You won't be able to deliver on everything people want, but you have to show them how they can be involved in change"

Source: 2

27. In previous reports we have highlighted the importance of public bodies developing medium- and long-term financial plans that take account of forecast demand. The current lack of multi-year budgeting has made managing costs and potential funding shortfalls more difficult in the medium to longer term. We have also commented on the lack of progress in shifting resources from acute to community settings and preventative approaches. A preventative, person-centred approach, as set out by Christie ten years ago, is key for improving outcomes and reducing inequalities.[21] However, we repeatedly reported in our Christie: 10-years on blog that this is not being achieved consistently or at scale. Christie stated that one of the major barriers to preventative action was the extent to which resources are currently tied up in dealing with short-term problems. The report warned that without a shift to preventative action, increasing demand would swamp public services' capacity to achieve outcomes.

A preventative, person-centred approach, is key for improving outcomes and reducing inequalities.

28. Health and social care partnerships face ongoing challenges, with over two-thirds of Integration Authorities unable to achieve a balanced budget without additional funding from partners in 2018/19. Our report on free personal and nursing care found that abolishing charging led to councils developing eligibility criteria to manage the demand for services. Financial pressures across Scotland are leading to local variations in how those eligibility criteria are being applied to manage access to social care.

Exhibit 2

Social care expenditure in Scotland, 2019/20

Of the £5.3 billion spent on social care in 2019/20, £4.1 billion (77 per cent) was spent on adult social care.

		Gross expenditure
77%	Adults social care services	£4,083m
19%	Children and Families	£993m
3%	Criminal Justice Social Work Services	£137m
1%	Other	£52m

Source: Scottish Government collated information including Local Finance Returns 2019/20, Independent Living Fund accounts 2019/20, Financial circulars 2019/20.

Quotes from people with experience of social care support and providers of social care.

"There are many, many people who do not speak the language, they will never know who to contact, where to phone, what they get or don't get. Just think about it, their situations, where they're just left, in such a dire situation sometimes." Source: 1

"Disabled people are apprehensive about moving home from one local authority area to another because they know that they will have to go through yet another assessment process. Most of them will have battled with social services for years to get the support that they have currently and are not keen to have to repeat the trauma..." Source: 2

"We are hearing repeatedly from unpaid carers that carers assessments are not being undertaken, that they feel undervalued and their human rights as people are being ignored. Unpaid carers are relentlessly providing care, night and day, with many paying for provision themselves in order to get a break from their caring responsibilities." Source: 4

"I think [we need] recognition that care work is really important and is essential. [...] I think if it was better pay and it was more secure and the hours were better than I wouldn't be so afraid that my personal assistant would leave." Source: 1

"It took 2 years and 6 different social workers to finally get a budget for my daughter." Source: 2

"There is an understanding that eligibility criteria act as a device for local authorities to manage limited resources, however this has resulted in service provision being focused on critical care responses rather than prevention. Social care should be considered an investment and not a cost." Source: 3

Social care next steps

There is much to do to improve social care. Stakeholders have raised concerns about the scale of reform and how a lack of action now presents serious risks.

The Scottish Government is planning significant changes in social care over the next five years

29. On 1 September 2020, the Cabinet Secretary for Health and Sport confirmed the Scottish Government was commissioning a review of adult social care. The cabinet secretary said that the pandemic had 'shone a light on the pressing work we need to do to improve those services and support those who need them and those who work in them'. The key developments and anticipated timescales for social care reform are set out on page 19.

30. The IRASC recommendations were focused on adult social care. The Scottish Government NCS consultation goes further and sets out a vision to create a community health and social care service that supports people of all ages and with a wider range of needs. This includes children's services, community justice, alcohol and drug services, and social work. The proposals are not costed. It states that all proposals will be assessed for value for money as the consultation feedback is considered but there is still much to do to establish the true costs of reform.

31. It is still early days for the Scottish Government's plans for reform. However, stakeholders have raised concerns about the extent of the proposals for reform and the time it will take to implement them. Many of the issues cannot wait for the Scottish Government to implement an NCS. Stakeholders told us of services in near-crisis and explained that a lack of action now presents serious risks to the delivery of care services for individuals. And this in turn will affect the delivery of the Scottish Government's ambitions for social care in Scotland. The social care workforce was frequently described as undervalued, with low wages for the responsibilities of their work, and vacancies hard to fill owing to similar or better wages paid in retail and hospitality sectors.

Stakeholders have raised concerns about the extent of the proposals for reform and the time it will take to implement them.

Timeline for social care reform

2021	**3 February**	the IRASC advisory panel published its report and made 53 recommendations for improvement
	16 February	the Scottish Government confirmed it accepted the IRASC recommendations
	24 March	the Scottish Government and COSLA issued a joint statement of intent outlining how they would work together to deliver the intentions of the IRASC
	20 July	the Social Care Covenant Group held its first meeting. Chaired by the Minister for Mental Wellbeing and Social Care and including members with first-hand experience, the group was set up to establish a common set of values and beliefs for social care
	9 August to 2 November	the Scottish Government held a wide-ranging consultation on a national care service (NCS) for Scotland
	August and October	the Scottish Government held a series of engagement events at which stakeholders, individuals, and communities came together to share their views on the consultation
	2 September	the Scottish Government awarded a contract to PricewaterhouseCoopers for setting up a programme management structure for an NCS
	2 November	the Scottish Government tendered work on developing an operating model and business case for an NCS
2022	**January/ February**	the Scottish Government expects to publish the results of the consultation in early 2022
	June	the Scottish Government has committed to begin the legislative process to set up an NCS
2026	**May**	the Scottish Government expects that an NCS would be fully operational by the end of the current parliamentary term.

Implementing reform will take significant work, but some things cannot wait

32. The Scottish Government's commitments to an NCS indicates that it recognises the significance of the challenge, but it is at an early stage, with little planning having yet taken place. As we and others have indicated, the need for improvements in social care are now urgent and the government and key stakeholders need to remain focused on making improvements in the areas we have highlighted. The need to address the significant and pressing challenges facing social care in Scotland cannot wait to be solved by a new NCS.

33. The pandemic has exacerbated the long-standing challenges facing the social care sector, highlighting the precarious situation of many vulnerable people who rely on social care or support. The Scottish Human Rights Commission (SHRC) reported on the negative impact Covid-19 had on people requiring support and their rights. The SHRC expressed deep concern about future levels of social care support likely to be available to people whose packages were reduced or withdrawn during the pandemic. It highlighted the need to invest in a social care system, based on human rights, that meets people's needs and improves outcomes.[22]

34. Although there is still uncertainty about what social care reform will look like in terms of scope, the additional funding needed will be significant. It is important that the additional investment set out in paragraph 26 is used effectively to make the changes required in social care and that services do not continue to be funded and delivered in the same way.

The Scottish Government should identify where improvement can be made now, drawing on existing work and recommendations and bringing together key stakeholders.

Next steps for the Scottish Government

35. Following the end of its consultation, the Scottish Government needs to establish what is included in an NCS and the legislative programme needed to progress it. It should also identify what can be taken forward now without legislation, which could provide a strong foundation for an NCS. Considerable work has already been carried out in some areas on the improvements required, for example on the workforce (Fair Work Commission) and commissioning (CCPS, Healthcare Improvement Scotland).

36. It is important the Scottish Government develops a clear scope quickly, with timescales for implementing each workstream, to remove uncertainty about the future direction of social care. The Scottish Government needs to consider the following in developing a plan:

- the functions where there may be value in adopting a national approach to achieve consistency and equity
- areas where improvement can be made now, drawing on existing work and recommendations, by bringing together key stakeholders with a clear remit to deliver the changes required
- developing an understanding of the longer-term costs and funding, including effective exit strategies from current services, identifying double-running costs while setting up new services, and moving more resources into preventative services
- prioritising developing a long-term, integrated workforce plan to address the crisis in the social care workforce and to implement the FWC's recommendations
- developing an understanding of what a preventative and human rights-based approach to social care looks like and a plan for co-producing it. This includes how it will continue to embed the voice of care experienced people in all aspects of developing, planning, and delivering effective social care for people who require support and their carers.

37. The Scottish Government will need to link plans for social care with developments in other policy areas, such as the NHS and housing. This includes the Scottish Government's plans to set up a new care and wellbeing portfolio to focus on reducing inequality, prioritising prevention and early intervention, and improving health and wellbeing outcomes.

38. Lessons also need to be learned from past restructuring and public service reform, for example health and social care integration, police and fire reform, college sector regionalisation, and the development of social security responsibilities in Scotland. Our reports in these sectors have found that reform is challenging and public bodies have experienced difficulties implementing elements of reform – expected benefits are not always clearly defined and, even if they are, reform does not always deliver the expected benefits, particularly in the short term. Any difficulties in implementing social care reform could have a significant negative impact on vulnerable people who rely on care and support. Key learning points include the importance of including:

- realistic costs in financial memorandums accompanying parliamentary bills for legislative change
- a comprehensive business case, clearly setting out the purpose and objectives of reform, timescales, key roles, responsibilities and accountability, risks, and the budget
- evidence to support major changes and being clear about how they will improve outcomes, options appraisal, and economic modelling
- good baseline information and a clear plan for measuring performance and improvement
- governance, accountability, roles and responsibilities in the new structure, and ensuring a shared understanding and agreement among key stakeholders
- strong, consistent strategic leadership from the outset
- an understanding of the time and effort needed to implement major change and complex restructuring, and of the cultural differences between partners.

Endnotes

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10 Show You Care survey, GMB Scotland, August 2020. Survey of 1600 GMB members/social care workers.

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17 A Scotland for the Future: The opportunities and challenges of Scotland's changing population, Scottish Government, March 2021.

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20 Build Back Better: Our plan for health and social care, UK Government, September 2021.

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Source 1: My Support My Choice, People's Experiences of Self-directed Support and Social Care in Scotland, Self Directed Support Scotland, National Report, October 2020.

Source 2: Social Care Inquiry, Responses from Members of Public, Citizens Space, 2020.

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Source 4: Health and Social Care Alliance Scotland, Social Care Review Engagement Activity in partnership with Age Scotland 29 October, 2020.

Social care

Briefing

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Audit team

The core audit team consisted of:
Jillian Matthew, Shelagh Stewart, Christopher Lewis and Aileen Campbell under the direction of Mark MacPherson.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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SCOTTISH BORDERS COUNCIL

SCRUTINY BUSINESS ACTION SHEET

AUDIT and SCRUTINY COMMITTEE

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	DEPARTMENT/ SECTION	RESPONSIBLE OFFICER	Action Update
13 January 2022				
1. Scrutiny Business Action Sheet	Para 2.4 – action (d) AGREED there would be a discussion at a future meeting of Audit & Scrutiny on the use of school facilities by community groups and how this could be taken forward through the Place Making discussions.	Corporate	Lesley Munro/Jenni Craig/John Curry	A report will be provided to Audit & Scrutiny Committee post-election, likely after summer 2022.
2. Roads and Infrastructure Services Performance	Para 3.6 – action (b) AGREED to request the Director Finance & Corporate Governance considered the need to monitor the 10 year capital/revenue trend in funding for roads maintenance.	Finance	David Robertson	This is being taken forward by Finance in the next financial year.
9 December 2021				
1. Community Funding Evaluation Process	Para 3.2 – action (b) AGREED to add the review of Festival Funding to the Action Tracker.	Democratic Services	Jenni Craig	A report on a review of Festival Funding will be taken to the Executive Committee post-election, with funding for 2022/23 based on existing arrangements.
2. Rural Proofing Policy	Para 4 – action (b) AGREED that the UN Sustainable Development Goals and Integrated Impact Assessment Goals checklists would be strengthened to ensure that elements of rurality were fully incorporated, and that the draft checklists be considered by the Committee prior to submission to Council.	Corporate	Jenny Wilkinson/ Jenni Craig	Work is now underway on the checklists.

TITLE	DECISION REQUIRING ACTION	DEPARTMENT/ SECTION	RESPONSIBLE OFFICER	Action Update
3. Waste & Recycling Communications Update	Para 5 – action (b) AGREED to ask Communication Officers to attend the March meeting of the Committee to allow Members to have a discussion about a programme of communication in regard to climate change, including waste and recycling.	Infrastructure & Environment	Ross Sharp-Dent	Due to pressure in the Communications team, this matter will be taken forward using the results of the current budget survey (helping households recycle more) which will give the basis for a communications plan and form part of the consideration for the overarching Communications Strategy. It is likely a report can be provided after summer 2022.
29 June 2021				
1. Scrutiny Work Programme	Para 11 – NOTED the Scrutiny Work Programme (a) Management and Maintenance of Public Halls – An evaluation of the community contribution to the management and maintenance of public halls, including those managed by Live Borders. (Scrutiny hearing)	Strategic Commissioning and Partnerships	Jen Holland	
	(b) Public transport and communities – An evaluation of the current situation and future plans for supporting rural communities to set up their own community transport where there was demand and current transport inadequate. (Initial Scrutiny hearing to determine best methodology and reporting)	Infrastructure & Environment	John Curry	Presentation to be made at meeting on 27 June 2022.
25 November 2019				
1. Petition – Jedburgh Contact Centre and Library	Para 2.8 - AGREED to refer the petition to the Service Director Customer and Communities with the recommendation that, during the months of January to March 2020 and prior to the opening of the JGC, a consultation be carried out with the Jedburgh Community Council and local community to address the concerns raised.	Resilient Communities	Jenni Craig	Consultation took place with the Community Council which, along with the Friends of Jedburgh Library Group, organised a survey of the community

				via The Jed Eye publication. That resulted in a proposal being received from the Jedburgh Legacy Group to take on the town centre facilities and joint work on this continues. The Covid pandemic has also meant that the new library facility in the Jedburgh Grammar Campus has been unable to open to the public. Phased re-opening will now take place and feedback from users will be sought on an ongoing basis.

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