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Argyll and Bute Council
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9 March 2020

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **TUESDAY, 17 MARCH 2020** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

3. **MINUTES** (Pages 3 - 6)

   Minutes of the Audit and Scrutiny Committee as held on Friday, 24 January 2020

   AUDIT ITEMS

4. **INTERNAL AUDIT SUMMARY OF ACTIVITIES** (Pages 7 - 16)

   Report by Chief Internal Auditor

5. **INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2019-20** (Pages 17 - 24)

   Report by Chief Internal Auditor

6. **INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2019/2020** (Pages 25 - 94)

   Report by Chief Internal Auditor

7. **INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL** (Pages 95 - 120)

   Report by Chief Internal Auditor

8. **2020/21 INTERNAL AUDIT ANNUAL PLAN** (Pages 121 - 140)

Report by Chief Internal Auditor

9. **EXTERNAL AUDIT - ANNUAL AUDIT PLAN 2019/20** (Pages 141 - 156)

   Report by Audit Scotland

SCRUTINY ITEMS

10. **SCRUTINY - LESSONS LEARNED** (Pages 157 - 160)

    Report by Chief Internal Auditor

11. **SCRUTINY OF BUSINESS CASE REVIEW (ROTHESAY PAVILION)** (Pages 161 - 166)

    Report by Chief Internal Auditor

12. **LOCAL GOVERNMENT IN SCOTLAND - FINANCIAL OVERVIEW 2018/19** (Pages 167 - 218)

    Report by Section 95 Officer

13. **UNAUDITED ANNUAL ACCOUNTS 2019-20** (Pages 219 - 244)

    Report by Section 95 Officer

14. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 245 - 308)

    Report by Section 95 Officer

15. **TRAFFIC REGULATION ORDERS/COMMUNITY ENGAGEMENT REVIEW** (Pages 309 - 382)

    Report by Executive Director with responsibility for Legal and Regulatory Support

16. **CORPORATE COMPLAINTS - COMPARISON OF COMPLAINTS RECEIVED DURING THE PERIOD 2018/19 AND 2019/20 TO DATE** (Pages 383 - 388)

    Report by Executive Director with responsibility for Legal and Regulatory Support

17. **DRAFT AUDIT AND SCRUTINY COMMITTEE WORKPLAN** (Pages 389 - 394)

Audit and Scrutiny Committee

Martin Caldwell (Chair)
Councillor George Freeman
Councillor Alan Reid
Councillor Richard Trail
Councillor Jim Findlay
Councillor Sir Jamie McGrigor
Councillor Sandy Taylor (Vice-Chair)
Councillor Andrew Vennard

Shona Barton, Committee Manager

Contact: Lynsey Innis, Senior Committee Assistant; Tel: 01546 604338

MINUTES of MEETING of AUDIT AND SCRUTINY COMMITTEE held in the COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 24 JANUARY 2020

Present: Martin Caldwell (Chair)

Councillor George Freeman
Councillor Alan Reid
Councillor Sandy Taylor
Councillor Richard Trail
Councillor Andrew Vennard

Attending: Laurence Slavin, Chief Internal Auditor
Shona Barton, Committee Manager
Anne MacColl-Smith, Procurement and Commissioning Manager
Iain Jackson, Governance and Risk Manager
Sonya Thomas, Performance and Improvement Officer
Jim Rundell, Manager, Audit Scotland
David Meechan, Senior Auditor, Audit Scotland
Daffyd Jones, Trainee Auditor, Audit Scotland

The Chair ruled and the Committee agreed to vary the order of business to facilitate the commitments of officers in attendance. This minute reflects the order in which discussion took place.
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1. APOLOGIES FOR ABSENCE

The Chair welcomed everyone to the meeting.

Apologies for absence were intimated on behalf of Councillors Sir Jamie McGrigor and Jim Findlay.

2. DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3. MINUTES

The minute of the previous meeting of the Audit and Scrutiny Committee held on Tuesday, 24 September 2019 was approved as an accurate record.

4. TRAFFIC REGULATION ORDERS/COMMUNITY ENGAGEMENT REVIEW

The Committee gave consideration to a report advising of the current position of the Mull Traffic Regulation Order and Community Engagement Review.

Decision:

The Audit and Scrutiny Committee agreed to note the contents of the report.

(Ref: Report by Executive Director with responsibility for Legal and Regulatory Support, dated 24 January 2020, submitted.)

5. INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Committee gave consideration to a report providing an update on Internal Audit activity during Quarter 3 against the following areas:

- 2019/20 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

Information was also provided in respect of acting up arrangements in place during the period of time in which the current Head of Service is acting up to the role of Executive Director.

Decision:

The Audit and Scrutiny Committee agreed to note and endorse the contents of the report.

(Ref: Report by Chief Internal Auditor, dated 24 January 2020, submitted.)

6. INTERNAL AUDIT REPORTS TO AUDIT & SCRUTINY COMMITTEE 2019/20

The Audit and Scrutiny Committee gave consideration to a report containing the action plans in relation to the following 5 audits:

- Care Home Provision
- Risk Management
- Building Standards
- Following the Public Pound
- Normal Operating Procedures/Emergency Action Procedures (Live Argyll)

Decision:

The Audit and Scrutiny Committee agreed to endorse the summary report and detail within each individual report.

(Ref: Report by Chief Internal Auditor, dated 24 January 2020, submitted.)

7. INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2019-20

A report providing updates on all open actions as at 30 November 2019 including information on actions where the agreed implementation date has been rescheduled was considered.

Decision:

The Audit and Scrutiny Committee agreed to endorse the contents of the report.

(Ref: Report by Chief Internal Auditor, dated 21 January 2020, submitted.)

8. EXTERNAL AUDIT UPDATE REPORT

The Committee gave consideration to a report providing an update of current progress on external audit activity and recent national performance reports.

Decision:

The Audit and Scrutiny Committee agreed to note the contents of the report.

(Ref: Report by Audit Scotland, dated 24 January 2020, submitted.)

9. DRAFT 2020/21 INTERNAL AUDIT PLAN

The Committee gave consideration to a report introducing the draft 2020/21 internal audit plan which incorporated continuous monitoring and verification activity.

Decision:

The Audit and Scrutiny Committee agreed to endorse the content of the report.

(Ref: Report by Chief Internal Auditor, dated 24 January 2020, submitted.)

10. INTERNAL AUDIT BENCHMARKING

The Committee gave consideration to a report providing information about the establishment of an internal audit benchmarking group and the associated activity that has been agreed by the Council's Chief Internal Auditor with the Chief Auditors of five other Scottish Councils.

Decision:

The Audit and Scrutiny Committee:

1. endorsed a set of performance indicators; and

2. agreed that the CIA will bring a report to the Committee on an annual basis (each December) to report on the indicators and any additional benefits obtained from the ongoing engagement with the established benchmarking group.

(Ref: Report by Chief Internal Auditor, dated 24 January 2020, submitted.)

11. COUNCIL 6-MONTH PERFORMANCE REPORT - APRIL TO SEPTEMBER 2019

The Committee gave consideration to a report presenting the Council's 6-month Performance Report and Scorecard for April to September 2019.

Decision:

The Audit and Scrutiny Committee:

1. agreed to note the Council Report and Scorecard as presented for the purposes of scrutinising the Council's performance;

2. agreed to note the recent developments of the PIF and planned activity for 2019/20; and

3. congratulated the staff involved in adapting the reporting template to suit the needs of the Committee.

(Ref: Report by Chief Executive, dated 24 January 2020, submitted.)

12. CORPORATE COMPLAINTS - ANNUAL REPORT 2018-19

The Committee gave consideration to a report providing information on how the Council has dealt with complaints during the period between 1 April 2018 and 31 March 2019 and performed against the statutory indicators which have been agreed between the Scottish Public Services Ombudsman (SPSO) and the Local Authorities Complaint Handlers Network.

Decision:

The Audit and Scrutiny Committee agreed to note the contents of the report.

(Ref: Report by Executive Director with responsibility for Legal and Regulatory Support, dated 24 January 2020, submitted.)

13. DRAFT AUDIT AND SCRUTINY COMMITTEE WORKPLAN

In order to facilitate future planning of reports to the Audit and Scrutiny Committee, Members considered the outline Audit and Scrutiny workplan.

Decision:

The Audit and Scrutiny Committee:

1. agreed to note the outline workplan; and

2. requested that the Chief Internal Auditor carry out some initial scoping for a possible scrutiny topic relating to Rothesay Pavilion and provide a report to the next meeting.

(Ref: Audit and Scrutiny Committee Workplan, dated 24 January 2020, submitted.)

Agenda Item 4

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 4 of 2019/20.

1.2 Core activities together with a progress update statement are shown below.

- **2019/20 Audit Plan progress**: The audit plan is currently on track.
- **Individual Audits undertaken**: Four audits have been completed during the period. Of these audits, three are rated as reasonable and one as limited.
- **Continuous Monitoring Programme Testing**: A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.
- **Performance indicators**: Current status is green / on track.

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE **17 MARCH 2020**

INTERNAL AUDIT SUMMARY OF ACTIVITIES

2. INTRODUCTION

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 4 against the following areas:

- 2019/20 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to review and endorse this report.

3.2 Members are requested to approve the delay of the 2020/21 scrutiny plan until a future meeting.

4. DETAIL

4.1 Five audits have been completed since the previous Committee in January 2020. Six audits are currently in progress and these will be reported to a future Committee.

Audits Completed

- Pupil Equity Fund
- Grounds Maintenance
- Fleet Management
- Information Asset Registers
- LiveArgyll Performance Management

Audits in Progress

- School Purchasing
- Logical Access
- Cybersecurity
- HSCP Contract Management
- Legionella Improvement Plan
- Interfaces / Reconciliations

4.2 In addition to those already in progress indicative audits planned for Quarter 1 2020/21 are:

- Scottish Welfare Fund
- Welfare Rights
- Management of Term Contracts

- Homelessness

Internal Audit Follow-up Process

4.3 The Internal Audit team currently follow up on open audit points on a monthly basis and issue a monthly report to the Strategic Management Team (SMT). This means the team are creating 16 follow up reports a year as they issue 12 to the SMT and four to the Audit and Scrutiny Committee. Whilst this ensures open audit issues are 'kept in view' it consumes considerable resource both for the internal audit team and the officers providing monthly updates. The Chief Internal Auditor (CIA) has implemented a revised quarterly follow up approach which will be aligned to the Audit and Scrutiny Committee timetable. This has no impact on the volume of reports to the Audit and Scrutiny Committee. Action points raised on future audit reports will have completion dates set to be quarter ends to align them with a quarterly follow up process. The quarterly process will still allow for an appropriate level of follow up and will free up resource to perform audit work.

Scrutiny

4.4 Work continues to progress on the 2019/20 scrutiny plan, briefings have taken place and panel meetings commenced for both the Economic Strategy and Strategic Housing Fund reviews. We are experiencing some difficulties securing suitable dates for future panel meetings and the team will keep working on this.

4.5 It has been agreed that the Pa/Secretarial Assistant from Financial Services will assist in making meeting arrangements and recording minutes of discussions on a trial basis. This was trialled at the latest panel meeting of the Economic Strategy scrutiny review held on 4 March 2020 and was successful.

4.6 A lessons learned report has been prepared and has been submitted as a separate report to this meeting.

4.7 As two reviews remain ongoing and another is yet to commence from the 2019/20 plan, we are asking the Committee to consider delaying the creation of the 2020/21 scrutiny plan to allow completion of the current plan. It is currently due to be considered by the Committee in June 2020.

4.8 **Additional updates from Quarter 4:**

- The CIA and Council Tax Review Officer attended a FraudHub demo presented by the Cabinet Office NFI Team. The system allows public sector organisations to share intelligence and help identify potential frauds using live datasets from which matches are identified for investigation. The Council is currently involved in NFI data-matching, it is a 2 yearly exercise which can be time consuming. The Fraudhub uses more accurate real-time information that is fed back to the Council regularly enabling quicker decision making. Fraudhub could be considered a system which would be beneficial once the new Corporate Fraud Team is established and may enhance processing of NFI information.

- We have been notified of a potential mismanagement of PTA funds in a primary school and are conducting a review of the circumstances and controls in place.

- We have introduced a new audit finding category called VFM (Value for

Money). This will be an observation which does not highlight an issue relating to internal controls or governance but represents a possible opportunity for the Council to achieve better VFM. This new category will first be reflected in the Fleet Management audit report and all reports from the June committee going forward.

- We support Audit Scotland in providing a summary of fraud activity identified within the Council. Senior officers were approached to advise of any activity that requires to be reported for the 29 February deadline, this resulted in a nil return.

4.9 Our continuous monitoring programme is generally focused on transactional type activity. Standard audit tests are applied which are relevant to each auditable unit. Control design tests look at whether the controls in place adequately address the potential risk event.

4.10 A follow up process is in place whereby management are advised of continuous monitoring findings and, where appropriate, requested to take remedial action. There are currently no outstanding follow-up points arising from previous testing. Due to the volume of continuous monitoring tests carried out the decision was made to report by exception only. Issues identified are detailed in table 1 below:

Table 1: Continuous Monitoring Findings

Auditable Area	Areas Tested	Issues Identified	Management comment / action
Debtors	10% review of new accounts by debtors team	The 10% review of new accounts does not take place as accounts are set up at department level and they will not have the documentation to check against. Any obvious errors are amended as identified.	We were previously advised the Debtors section was unable to carry out the required 10% check as they do not hold the backup information for new accounts created. The Council's Revenue and Benefit's Manager has now advised that debtors will be carrying out this check and will work out a way to implement this and carry out the 10% check with effect from Feb 2020.
Budgeting	Engagement records	Budget engagement meetings are regularly taking place, however, as so many cost centres are reviewed at any one time, it is not always possible to identify if a particular cost centre has been discussed in line with the risk category. Additionally meetings are recorded inconsistently. We were previously advised that "The risk category applied to cost centres and the approach that is	In terms of recording the cost centres that have been discussed at engagement meetings, Finance Manager will raise this at the next meeting of the Financial Services Management Team and discuss a better approach to recording this information to ensure it is clear and consistent. However, we do need to make sure that

		currently taken is something that requires to be reviewed and updated. The aim is to have this completed by 30 September 2019", however the issue remains ongoing.	it does not become an onerous task. Regarding the review of the risk categories attached to cost centres, this is actually already complete and is actioned within the system to take effect from 1 April 2020 as to make changes mid-year would cause confusion.

4.11 A follow up process for national reports is in place whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. Table 2 below details the National Reports issued during Quarter 4.

Table 2: Issue of National Reports in Quarter 4:

National Report	Issued To	Detail	Management response/ Action taken
Audit Scotland: Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models.	Acting Executive Director – Kirsty Flanagan	A £3.3 billion investment programme in Scotland's infrastructure has enabled more public buildings and new roads to be built. But the Scottish Government needs to be clearer about how and when they use privately financed contracts.	No action to be taken
Audit Scotland Best Value Assurance Report: Highland Council	SMT via Corporate Support Manager	Highland Council must make significant savings and change the way it delivers services to ensure it can live within its financial means.	No specific action to be taken
National Audit Office: EU Exit: the Get ready for Brexit campaign	EU Withdrawal Tactical Team	This report has been prepared following Parliamentary interest in the campaign. It examines the management of the campaign, in particular: the preparation of the campaign, including the approval of the business case and budget, and procurement; governance and oversight; and the evidence available to the Cabinet Office on the effectiveness of the campaign.	Awaiting response
National Audit Office: Local authority investment in commercial property	Executive Director – Douglas Hendry	The report examines whether the framework allows for the management of risks to the financial sustainability of local authorities from investment in commercial property. We expect to have clear objectives for the system and enough information and assurance on its functioning. We also expect effective changes when required.	Awaiting response

4.12 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to identify potentially fraudulent claims and payments to be identified. Note though that the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. A reminder process is in place to ensure that matches are reviewed on a timely basis.

Table 3: National Fraud Initiative Progress at 05/03/2020:

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
CT to Elect Register	791	791	791	0	CT records to Electoral Register/ other data sets to ensure discount awarded to only those living alone aged over 18, taking into account disregarded occupants. (CT to other Datasets will not be progressed further due to poor quality data)
CT rising 18s	144	144	144	0	
CT to other Datasets	1152	1152	5	0	
Housing Benefits	426	83	42	0	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	583	2	10	4	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	141	111	141	0	Blue badge records to DWP data to identify deceased claimant with valid badge.
Private Residential Care Homes	48	28	48	0	Care home records to DWP data to identify deceased claimant with ongoing payments.
Housing Waiting list	388	51	366	0	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Personal Budgets	26	3	26	0	Direct payment records to those in other authorities, DWP and pension records to identify individuals claiming from multiple authorities, undisclosed income or where the claimant has died and payments ongoing.
Council Tax Reduction	624	119	10	2	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	3572	179	180	0	Analyses Creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
Procurement	102	n/a	0	0	Payroll records to Companies House and Creditors data to identify employees who appear to have a personal interest in a company that the authority has traded with.

Overall Summary of Matches

Matches Complete	Work In Progress	Cleared	Frauds	Errors	Total Value	Recovering	Recovering Value
1763	6	1671	0	92	£24,745.92	3	£24,745.92

4.13 The table below details progress against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. Additional actions have been added for fraud investigation training and updates to the terms of reference template and annual audit report.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Local benchmarking indicators	The CIA has established a working group with the CIAs of four other local authorities who meet to share ideas and resources. The group are establishing a suite of performance indicators which will be used for benchmarking. Once finalised these will be reported to the Audit and Scrutiny Committee.	Complete	December 2019
Update Internal Audit Manual	Update follow-up process to reflect change from monthly to quarterly exercise.	Complete	March 2020
Scrutiny lessons learnt	Prepare and submit a report to the Audit and Scrutiny Committee highlighting lessons learnt from early scrutiny reviews and areas for improvement for future reviews.	Complete	March 2020
Review and Update Internal Audit Charter	The Internal Audit Charter will be updated to: 1. reflect change of title of the Council's S95 Officer and executive directors. 2. amend the CIA's role in relation to investigating alleged frauds. 3. reference IA's register of interest which was introduced in Summer 2019.	Complete	March 2020
Add new audit finding category for VFM	Update the report template to include the new category of VFM.	Complete	March 2020
Counter Fraud Team	Approval for establishment of fraud team received, vacancies advertised.	On Track	June 2020
Annual Audit Report Content	Ensure 2019/20 Annual Audit Report includes a section incorporating 2019/20 performance and feedback.	On Track	June 2020

Area For Improvement	Agreed Action	Progress Update	Timescale
VC and conference facility	Progress plan to use former audit room at Whitegates as a video conference facility.	On Track	June 2020
Performance Information	The scorecard indicators in the IA Summary of Activities report need to be updated to reflect the service plan indicators. These will be reported to the Audit & Scrutiny Committee from June 2020 onwards.	On Track	June 2020
Update Scrutiny Manual and Framework	Update the Scrutiny Manual and Framework to reflect Audit and Scrutiny Committee Decisions resulting from the lessons learned report submitted to the March Committee.	On Track	June 2020

4.14 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2019– 20 – FQ3 19/20 (as at December 2019)			
TEAM RESOURCES			
PRDs IA Team G	TARGET	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	5	5	
FINANCIAL			
Revenue Finance	BUDGET	ACTUAL	G
YTD Position Year End Outturn	£171,131 £262,221	£171,729 £262,221	
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Annual Risk Assurance Statements completed by Services	Target	On Track	G
	Status	On Track	
Risk Management Overview report approved	Status	Complete	G
	Target	Complete	
Review of Strategic Risk register	Status	Complete	G
	Target	Complete	
Annual Audit Plan approved by 31 March	Status	On Track	G
	Target	On Track	
Percentage of audit plan completed	Status	100%	G
	Target	100%	
Percentage of audit recommendations accepted by management	Actual	100%	G
	Target	100%	

% customer satisfaction with audit reports	Actual	100%	G
	Target	100%	

5. CONCLUSION

5.1 The 2019/20 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control effectiveness.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach to activity

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Fairer Scotland Duty - None

6.5.1 Equalities – None

6.5.2 Socio-Economic Duty – None

6.5.3 Islands Duty - None

6.6 Risk – None

6.7 Customer Service - None

Laurence Slavin
Chief Internal Auditor
17 March 2020

For further information contact:
Laurence Slavin, Chief Internal Auditor (01436 657694)

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Agenda Item 5

ARGYLL AND BUTE COUNCIL **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **17 MARCH 2020**

INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2019-20

1.0 INTRODUCTION

1.1 Internal and external audit reports include an action plan with a management response establishing the agreed action, timescale and responsible officer. Internal Audit record these in a database and, on a monthly basis, follow them up to ensure they are being progressed.

1.2 This report updates the Committee on all open actions as at 31 December 2019 including information on actions where the agreed implementation date has been rescheduled.

2.0 RECOMMENDATIONS

2.1 To endorse the contents of the report.

3.0 DETAIL

3.1 The two tables below provide a numerical summary of open audit actions with a split between actions due by and due after 31 December 2019.

Actions Due by 31 December 2019

Service	Complete	Delayed / Rescheduled	Superseded	Total
Internal Audit				
Customer & Support Services	3	0	1	**4**
Legal & Regulatory	1	0	0	**1**
LiveArgyll	2	1	0	**3**
Roads & Infrastructure Services	1	0	0	**1**
External Audit				
	0	0	0	**0**
Total	**7**	**1**	**1**	**9**

Actions Due After 31 December 2019

Service	Complete	On Course	Delayed / Rescheduled	Total
Internal Audit				
Adult Care	0	5	0	**5**
Commercial Services	1	0	0	**1**
Cross Cutting	0	12	0	**12**
Customer Support Services	0	1	0	**1**
Development & Economic Growth	2	1	0	**3**
Education	0	9	1	**10**
Financial Services	0	1	1	**2**
Legal & Regulatory	0	9	1	**10**
Lifelong Learning & Support	0	1	0	**1**
Roads & infrastructure	1	5	0	**6**
External Audit				
Financial Services	0	2	0	**2**
Total	**4**	**46**	**3**	**53**

3.2 Six of the seven actions in the table due by 31 December 2019 showing as complete for Customer Support Services, LiveArgyll and Roads & Infrastructure Services have been closed based on email confirmation however we are still waiting for evidence to confirm they are completed.

3.3 Appendix 1 provides further detail on actions that have either been delayed and rescheduled or for which Internal Audit have received no response from the service to inform this follow

4.0 CONCLUSION

4.1 Satisfactory progress continues to be made implementing audit actions.

5.0 IMPLICATIONS

5.1 Policy	None
5.2 Financial	None
5.3 Legal	None
5.4 HR	None
5.5 Equalities	None
5.6 Risk	None
5.7 Customer Service	None

Laurence Slavin
Interim Head of Financial Services/Chief Internal Auditor
17 March 2020

For further information contact: Laurence Slavin, Tel 01436 657694, Laurence.slavin@argyll-bute.gov.uk

APPENDICES

Appendix 1 – Action Plan Points Delayed & Rescheduled or with No Response

Appendix 1 - Action Plan Points Delayed & Rescheduled or with No Response

Action Plan Points Due by 31 December 2019						
Service / Report	**Finding**	**Priority**	**Agreed Action**	**Dates**	**Comment**	**Responsible Officer / Status**
LiveArgyll – Normal Operating Procedures & Emergency Action Plans	Evac chairs. Evac chairs are in use across leisure sites, however there is no programme of maintenance and no staff training to support their use.	Medium	There is no statutory inspection requirement for the evac chairs. Pools will commit to undertake a weekly visual inspection of the evac chairs, in line with their other weekly H&S checks (the relevant NOP and SSOW will be updated). The Area Operations Manager (Kintyre) will contact the Council's Fire Safety Officer to enquire about training requirements regarding use of the evac chairs.	31 December 2019 **31 March 2020**	Weekly visual inspection is now being carried out at facilities with evac chairs (this has been added into the weekly checklist). Nothing has happen yet with regards to evac chair training. This will be taken up with the Council's Fire Safety Officer before the end of the financial year. **Delayed & Rescheduled**	Duty Officers

Action Plan Points Due After 31 December 2019						
Service / Report	**Finding**	**Priority**	**Agreed Action**	**Dates**	**Comment**	**Responsible Officer / Status**
Financial Services – Financial Planning	Building Resilience Strategic Finance is currently implementing a restructure focused on providing greater resilience and capacity to deliver. Consideration should be given to supporting the revised structure with a programme of knowledge sharing, skills transfer and procedure notes to reduce the impact on service delivery in the event of unforeseen absence.	Medium	Strategic Finance, through the SFMT, will implement a project to build resilience by delivering a structured programme of knowledge sharing. This will be supported by the development of procedure notes to provide guidance on the delivery of key finance processes.	31 March 2020 **31 December 2020**	A significant amount of progress has been undertaken in relation to this action. For example, we now have a whole suite of procedure notes relating to year end that any of the team can pick up and undertake the tasks. Furthermore, various secondments within the team and rotation of tasks have also built up resilience. However, due to the time of year this action was implemented it was largely focused on the year end processes and we would like to extend this further across a number of other tasks undertaken by the Service throughout the year. **Delayed & Rescheduled**	Head of Financial Services
Education –	Review of Education	High	Streamline Education	31 December 2019	Circular been drafted	School Services

Action Plan Points Due After 31 December 2019						
Service / Report	**Finding**	**Priority**	**Agreed Action**	**Dates**	**Comment**	**Responsible Officer / Status**
Review of School Funds	Circular 1.10 The extent to which schools refer to, and make use of Circular 1.10 varies with the general consensus amongst schools being that it is not easy to navigate, is excessive in size and is not pragmatic in terms of the mandatory requirements it establishes, in particular for smaller schools with limited support. The Circular would benefit from being streamlined to provide greater clarity over the management of school funds. Particular consideration should be given to the mandatory requirement for: • committee elections • need for parents to be on committee • formal fund meetings • payment sub-committees		Circular 1.10, obtain necessary approvals and rollout to schools. The key stages are: 3. Obtain necessary approvals from EMT, DMT, JSC	31 January 2020 **29 February 2020**	and considered by EMT. JSC has suggested some amendments and it will be considered by Customer Services DMT on 17 February. Completion date amended to 29 February. **Delayed & Rescheduled**	Support Manager

Action Plan Points Due After 31 December 2019						
Service / Report	**Finding**	**Priority**	**Agreed Action**	**Dates**	**Comment**	**Responsible Officer / Status**
	• separate school trip accounts • formal ratification of school fund constitutions at an open meeting. The Circular could also benefit from a contents page and a general review to determine whether the main body and accompanying appendices are clear and still fit for purpose as it has been five years since they were last reviewed.					
Legal & Regulatory – Following the Public Pound	Oban & Lorn Community Enterprise Ltd Board Based on the funding agreement with OLCE the Council are supposed to be represented on the OLCE board by two elected members. There is currently only one member on the OLCE board.	Low	A paper will be taken to the 16 April 2020 Council meeting to ask members to either nominate a second representative to the OLCE Board or reduce the required representation to one elected member.	17 March 2020 **31 May 2020**	Next Council meeting – 16 April 2020 – time required to allow time for the Council/committee process to run its course. **Delayed & Rescheduled**	Head of Legal & Regulatory Board

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ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE **17 MARCH 2020**

INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2019/2020

1. EXECUTIVE SUMMARY

1.1 There are four audits being reported to the Audit and Scrutiny Committee.

1.2 The table below provides a summary of the conclusions for the audits performed. The full reports are included as appendices to this report.

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions	VFM Actions
Grounds Maintenance	Reasonable	0	3	0	0
Fleet Management	Reasonable	0	2	2	2
Information Asset Register	Reasonable	1	2	0	0
Pupil Equity Fund	Limited	1	2	1	0
Live Argyll Performance Reporting	Substantial	0	1	0	0

1.3 Internal Audit provides a level of assurance upon completion of audit work. A definition for each assurance level is documented in each audit report.

2. RECOMMENDATIONS

2.1 Audit and Scrutiny Committee to review and endorse this summary report and detail within each individual report.

3. DETAIL

3.1 A high level summary of each completed audit report is noted below:

Grounds Maintenance: This audit has provided a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. Toolbox talks are provided to staff however no training record per employee is maintained. Complaints are progressed in line with the Council process. Machinery and equipment are repaired as necessary but winter servicing does not always take place. Vehicles follow a robust inspection programme and annual service and MOT to ensure availability for use, however, there is limited evidence of six monthly driver licence checks being carried out. Processes are in place to update maintenance schedules and monitor the delivery of services. Efficiencies are being generated through using new technology and the service is continuing to develop the use of the ELM system to deliver further efficiencies in future. Partnership agreements are in place, however, there is no register of all partnerships and no record of

training provided to voluntary organisations. The Council has not requested to view documentation in relation to insurance, permits, licenses or permissions that partners are supposed to have as per the terms of partnership agreements. Three medium priority recommendations were raised in relation to prioritizing machinery for winter maintenance, management of partnership arrangements and partner training.

Fleet Management: This audit has provided a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk. Key policies and procedures are in place, however they should be subject to periodic review and approval. Driving records are reviewed and infringements are followed up, however this requires to be completed in a timely manner. The manual system of recording driving hours for those driving under domestic rules is resource intensive and can be subject to human error. There would be clear process efficiency gains and less risk of error if driver cards were used for all drivers. Fleet Services check driving licences of fleet drivers prior to staff commencing work in line with VOSA guidelines and the Council has a policy of performing further checks on fleet driver licenses every six months. Driver license checks for fleet drivers should be carried out in compliance with established policy. Analysis of pool car usage would suggest that the Council could generate considerable savings through more efficient use of pool cars and consideration should be given to the cost and benefit of introducing electric/hydrogen vehicles to the pool car fleet.

Information Asset Registers (IARs): This audit has provided a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk. One high recommendation was identified due to two Social Work Information Asset Registers not being available for review. Two medium recommendation were identified, the first relating to annual review and agreement of IARs by relevant departmental teams as well as completion of related action plans and the second relating to requirement to review all records management policies and procedures within prescribed timescales.

Pupil Equity Fund: This audit has a limited level of assurance as internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives at risk. One high recommendation was identified relating to detailed 2019/20 PEF plans not having been completed for the majority of schools as well as procedures to review and feedback on draft PEF plans not being followed. Two medium recommendations relating to roles and responsibilities requiring clarification as well as monitoring visits of schools by quality Improvement officers not being carried out as required. In addition one low recommendation relating to training for all school staff involved in PEF was identified.

Live Argyll Performance Management: This audit has a substantial level of assurance as internal control, governance and the management of risk were concluded to be sound. LiveArgyll has an overarching and comprehensive business plan covering 2017-2021 and two sub business plans for Leisure and

Sport and for Libraries. Collection of the data to report against the performance measures in the plans is labour intensive and potentially subject to human error. Appropriate measures are in place to allow customers to provide feedback on the service provided and for assessing financial performance. Business plans set out a suite of performance measures and targets which are aligned to organisational objectives and priority areas. Performance monitoring reports are regularly considered by the Board and the Business and Performance sub-committee. Annual staff appraisals have been introduced with appropriate guidance established.

4. CONCLUSION

4.1 Management has accepted each of the reports submitted and have agreed responses and timescales in the respective action plans.

5. IMPLICATIONS

5.1 Policy - None

5.2 Financial - None

5.3 Legal - None

5.4 HR – None

5.5 Fairer Scotland Duty - None

5.5.1 Equalities – None

5.5.2 Socio-Economic Duty – None

5.5.3 Islands Duty - None

5.6 Risk - None

5.7 Customer Service – None

Laurence Slavin
Chief Internal Auditor
17 March 2020

For further information contact:
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APPENDICES

1. Grounds Maintenance Audit Report
2. Fleet Management Audit Report
3. Information Asset Register Audit Report
4. Pupil Equity Fund Audit Report
5. Live Argyll Performance Reporting Audit Report

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Argyll and Bute Council

Internal Audit Report

February 2020

FINAL

Grounds Maintenance

Audit Opinion: Reasonable

	High	Medium	Low
Number of Findings	**0**	**3**	**0**

Contents

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Grounds Maintenance.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Grass cutting and grounds maintenance is carried out across Argyll and Bute throughout the year according to planned schedules. This includes the maintenance of cemeteries, sports fields and pitches and amenity open spaces (e.g. verges and parks).

5. Across the Council's four administrative areas gardening staff levels have reduced over the last six years from 26.5 to 16 and work schedules have been adjusted accordingly.

6. The Council has introduced, and is further developing, a system called Environmental Land Manager (ELM) which enables grounds maintenance officers to access work schedules via handheld tablets.

7. The Council has entered partnership arrangements with third sector organisations, such as community councils, for those organisations to maintain areas of ground the Council no longer maintain.

Scope

8. The scope of the audit was to review the Council's policies and procedures in relation to grounds maintenance, the Council's compliance with those procedures and the arrangements in place to manage partnership arrangements as outlined in the Terms of Reference agreed with the Operations Manager, Development & Infrastructure Services on 25 October 2019.

Risks

9. The risks considered throughout the audit were:

- **Audit Risk 1:** Failure to comply with established policies & procedures
- **Audit Risk 2:** Schedules are not reviewed, monitored and updated regularly
- **Audit Risk 3:** Partnership arrangements are not appropriately managed

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

11. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk is broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

12. We have highlighted three medium priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

    - key Items of machinery and equipment should be prioritised for winter servicing
    - a partnership register should be established and periodic reviews of partnership arrangements carried out including checks to ensure partners have the appropriate insurance, permits, licences and permissions as required by partnership agreements
    - a record of training delivered to partner organisations should be compiled and maintained.

13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	The Council has, and complies with, appropriate policies/ procedures in relation to grounds maintenance.	Audit Risk 1	Reasonable	Toolbox talks are provided to staff however no training record per employee is maintained. Complaints are progressed in line with the Council process. Machinery and equipment are repaired as necessary but winter servicing does not always take place. Improvements are required in relation to recording machinery maintenance and staff training. Vehicles follow a robust inspection programme and annual service and MOT to ensure availability for use, however, there is limited evidence of six monthly driver licence checks being carried out.
2	Work is carried out in line with the	Audit Risk 1 Audit Risk 2	Substantial	Processes are in place to update maintenance schedules and monitor

	prepared schedules and this is monitored and revised accordingly.			the delivery of services. Efficiencies are being generated through using new technology and the service is continuing to develop the use of the ELM system to deliver further efficiencies in future.
3	Partnership arrangements are in place and appropriately managed.	Audit Risk 3	Limited	Partnership agreements are in place, however, there is no register of all partnerships and no record of training provided to voluntary organisations. The Council has not requested to view documentation in relation to insurance, permits, licences or permissions that partners are supposed to have as per the terms of partnership agreements.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

The Council has, and complies with, appropriate policies/procedures in relation to grounds maintenance

16. There are no formal policies and procedures however the service does have a manual of 'toolbox talks' which were first created in 2015, reviewed in 2018, with a further review scheduled for 2021. These provide appropriate content and guidance for the service and the type of work involved.

17. The manual is issued to the workers as part of their induction and a hard copy retained at each depot. An annual schedule of toolbox talks has been established which is broadly adhered to. Deviations from the schedule are for valid reasons such as staffing or weather conditions.

18. We reviewed a sample of fifteen complaints on the Council's complaints system which related to grounds maintenance, cemeteries and parks and confirmed they had been progressed appropriately and action taken where required.

19. Horticultural mechanics and charge hands are responsible for ensuring machinery and equipment are operational by carrying out an annual service schedule and repairs as needs arise. All workers are required to inspect and test equipment prior to use and hand them to the horticultural mechanic for repair should any item fail to operate or break-down during the course of the working day.

20. Sample checking of manual maintenance and repair logs confirmed that machinery and equipment is repaired as necessary however annual winter servicing is not always carried out for all machines. We were advised that this is due to resource pressures resulting in mechanics being asked to assist in other areas of service delivery such as cemetery work and refuse collection.

21. In order to find a pragmatic balance between available resource and required work there may be benefit in establishing a programme of prioritisation to ensure that more critical machinery receives the annual service with less critical being serviced less regularly.

Action Plan 1

22. Records of maintenance and repair logs and only kept on paper records at various locations. Nothing is recorded electronically. No audit recommendation has been raised in this report as a recent review undertaken by the Health and Safety Executive (HSE) made a similar recommendation to digitise machinery records. The service is progressing this and intends to use the Tranman fleet management system for this purpose.

23. Items needed to repair and maintain equipment and machinery are generally ordered as required, the mechanic sources the item and passes this information to the line manager to order via PECOS. Some generic spare parts and consumables are retained in the depot and as these items are of a non-reportable value, no stock records are required to be maintained.

24. Workers are required to be trained in health and safety and in the operation of relevant machinery and equipment. Toolbox talks are delivered on a scheduled basis and demonstrations provided by experienced users. A handwritten log of attendance at toolbox talks is maintained however this does not record expected attendance and indicate who should be there or if any worker was absent. There is no central record of training undertaken by workers and no evidence of follow-up should a training event be missed. Consequently we were unable to provide full assurance that officers are being provided with all appropriate training. Whilst we recognise there are resource implications in maintaining accurate training records there is a risk that the Council may breach the Health and Safety at Work Act which states that *'It shall be the duty of every employer to ensure, so far as is reasonably practicable, the health, safety and welfare at work of all employees.'*

25. This issue was also flagged in the HSE review and is to be addressed utilising functionality within Tranman, consequently no recommendation has been made.

26. Quality standards are communicated to workers through toolbox talks and equipment has standard settings applied to ensure consistency. Random checks are made occasionally but routine inspections of work carried out are rarely performed. Testing confirmed that complaints are dealt with appropriately and there was only 25 received in relation to grounds maintenance, cemeteries and parks from January to October 2019. This provides a degree of assurance that work is undertaken to a good standard. Consequently no recommendation has been made to implement routine inspections as we do not consider it to be a productive use of limited resource.

27. Council vehicles are subject to a programme of maintenance inspections, services and MOTs. Fleet management generate a monthly list of vehicles due for intervention and contact the supervisors to ensure the vehicle is provided to Council's mechanics for work to be undertaken. A sample of seven maintenance history reports from Tranman consisting of one vehicle from each of the Council's main depots was reviewed which confirmed inspections were recorded at the correct intervals. Services and MOTs are performed annually however review of the vehicles sampled highlighted that only three had been serviced in the past year and only two had had an MOT. Upon further enquiry, it was established that the services and MOTs had been carried out but not entered correctly on Tranman.

28. Driving licence information for any officer required to drive as part of their duties should be checked every six months and updated on Tranman. A sample of six drivers were reviewed to ensure that license checks had been performed, the results were as follows:

    - one in the previous six months
    - two in the previous 12 months
    - two in the previous two years
    - one in the previous three years.

    At the time of this audit a fleet management audit was also in progress. This issue is considered more appropriate to be raised as part of that audit so has not been raised here to avoid repetition.

29. All six drivers sampled had been provided appropriate training in the safe operation of vehicles.

Work is carried out in line with the prepared schedules and this is monitored and revised accordingly

30. The ELM system enables supervisors to assign scheduled and unscheduled work to teams, reducing paperwork and creating more efficient working practices. The team record when work is completed on ELM which allows progress, and time for completion to be monitored. ELM is still under development, at present it is operated through provision of spreadsheets containing the area name, size, frequency and size or timing to the supplier for upload to allow generation of the weekly schedules. Through time, all maintenance areas will be added to the system as an asset with this information embedded to allow generation of the work schedules without the need to upload spreadsheet data.

31. An annual exercise is undertaken to review and update the information held on ELM to ensure all maintained areas are included, and their measurements, frequency of maintenance and duration of work are accurate. However there can be reasons why areas may take longer than scheduled where it is not appropriate to update ELM (e.g. adverse weather, ground conditions or machinery issues). ELM is only updated where it is a necessary change which will impact future scheduling. Furthermore weekly performance reports are reviewed and supervisors can advise if it is necessary to further amend ELM.

32. The information held on ELM is used to generate a weekly work programme which is transferred to handheld tablets used by grounds maintenance workers. Reports were provided for a sample of 16 areas on ELM and we confirmed that maintenance is predominantly completed as scheduled. Maintenance not completed as per the schedule was due to inclement weather, poor ground conditions or unavailability of workers. The number of cuts to be undertaken for each area to be maintained (excluding pitches) during 2020-21 has been revised to 12 from 16 as a savings measure.

33. Unscheduled or reactive work can be added to the tablets so it can be factored into the weekly schedule. Work is progressed in clusters of adjacent areas and largely complies with the set durations, this can vary slightly in periods of adverse weather and/or ground conditions. Work is assigned on ELM to each team by the supervisor and 'ticked' by the worker once complete or the supervisor is informed if an area is missed and the reason why. The supervisor will check ELM and mark the work as complete if appropriate and reassign or defer if not.

34. Weekly performance reports of scheduled and unscheduled work are generated which indicate the current status of the work. If work has not been completed as expected it is either

reassigned or will be actioned in the next scheduled cycle. Comments are entered on ELM to provide a brief explanation as to why work has not been completed as expected.

35. The tablet is assigned to one person and requires a monthly password update. This can create difficulties if that person is not available (i.e. through sickness absence) as the tablet cannot be used. The service is engaging with ICT to identify a solution utilising a generic email login. In the meantime copies of the weekly schedule can be printed to provide a manual workaround. Appropriate training in the use of the tablet is made available to officers.

36. At the time of the audit there were in excess of 26,000 entries of work recorded on ELM. Screen shots were provided for a sample of 16 areas from a population of 571 entries on the performance reports and reviewed. The sample included entries from across the Council's four administrative areas focusing on the largest contributors of grass cutting and sweeping. This confirmed that each work area has an allocated frequency, duration or size and given a unique job number each time it is added to the schedule.

37. The introduction of tablets is delivering efficiencies as:

    - paperwork is no longer completed and manually entered onto ELM
    - work updated on the tablet is uploaded to ELM instantly
    - there is less need for onsite inspections as photographs can be taken using the tablets to evidence completion of work or provide images of poor conditions that prevented work.

38. However there are further efficiencies that can be achieved through further use of technology and the service is continuing to explore these opportunities. For example ELM is not currently able to interface with other council systems. The Council's IT department are currently developing an application to be installed on the tablets which will allow timesheet data to be entered directly to the TOTAL costing system. This will deliver efficiencies in data input, including the automation of timesheet input for payroll purposes and improved performance and financial information.

Partnership arrangements are in place and appropriately managed.

39. The Council has partnership agreements in place where community councils and other voluntary organisations undertake grounds maintenance work in areas no longer maintained by the Council. Formal minutes of agreement are prepared by the Council's legal team and signed by parties involved. Amenity Services hold a list of these partnerships however this list is incomplete. During the audit we were provided with the minutes of three agreements that were not on the list. Additionally it is thought that there may be more informal agreements in place that are not recorded anywhere. Legal Services prepare the minute of agreement for partnerships however they also do not maintain a register of them.

Action Plan 2

40. The minutes of the three agreements provided were reviewed. Two were created in the current year and subject to annual review and one was established in 2016 and subject to quarterly review. There was no evidence that these quarterly reviews had occurred.

Action Plan 2

41. The three agreements reviewed stated that the partnership organisations should maintain adequate insurance cover against public liability, third party risks and also cover the value of the equipment provided. The agreements also require that details of this cover should be provided to the Council upon request. One of the organisations is a community council who are covered

under the Council's insurance policy however there has been no request made for evidence of insurance cover held by the other organisations. The minute of agreements also state that partners should obtain and maintain any permits, licences, permissions, consents, approval, certificates and authorisations associated with the agreement. There is no evidence that the Council ensures these are in place.

Action Point 2

42. Partner organisations are provided with a health and safety manual and toolbox talks at the beginning of each season however no record of this is maintained.

Action Point 3

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Winter Servicing of Machinery and Equipment** Annual winter servicing of machinery and equipment does not always take place due to resource pressures resulting in mechanics being asked to assist in other areas of service delivery such as cemetery work and refuse collection. There may be benefit in establishing a programme of prioritisation to ensure that more critical machinery receives the annual service with less critical being serviced less regularly.	Machinery and equipment may fail during periods of use resulting in injury or increased complaints from the public.	All machinery will be subject to annual maintenance to comply with manufacturing guidelines.	Operations Manager 30 June 2020
Medium	2	**Managing Partnership Arrangements** The Council has partnership agreements where community councils and other voluntary organisations undertake grounds maintenance work in areas no longer maintained by the Council however there is no formal register of all the partnership arrangements. Additionally there was no evidence that periodic reviews had taken place as outlined within the minute of agreements including those to ensure that public liability and third party risks insurance cover, any permits, licences and permissions etc. were in place.	Unable to establish full extent of partnerships in place and follow-up on any compliance checks. The partner may not be appropriately insured resulting in liability resting with the Council.	Meetings will be held to discuss and review partnership arrangements.	Operations Manager 30 September 2020

Medium	3	**Partner Training** There is no record of the Council delivering toolbox talks to partners upon delivery of the equipment at the start of each season.	The Council may be liable if a member of a voluntary organisation is injured using Council equipment and there is no evidence of training being provided.	Record of training provided to partners will be maintained.	Operations Manager 30 September 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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Argyll and Bute Council

Internal Audit Report

February 2020

FINAL

Fleet Management

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	2	2	2

Contents

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019 and amended in January 2020 to include this audit, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Fleet Management.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Fleet Services provide and maintain the fleet across all Council services. Vehicles and equipment are a critical corporate asset used in the delivery of frontline services. They are utilised for a variety of tasks e.g. vehicles for road repairs, waste management, road gritting and delivery of social work services. The Council currently have a fleet of 512 vehicles (HGVs/ trailers/ diggers etc.), 23 pool cars and 73 leased cars.

5. In order to operate any goods vehicle exceeding 3.5 tonnes Gross Vehicle Weight (GVW) the Council must hold an Operators' Licence which is granted by the Traffic Commissioner on the understanding that the Council will meet certain conditions. Failure to comply with these conditions could result in the loss, suspension or curtailment of the licence following attendance at a public inquiry.

6. Driving at work is regulated by the Drivers and Vehicles Standards Agency (DVSA), the Health and Safety Executive (HSE) and the Department for Transport (DfT).

7. The DVSA is responsible for enforcing applicable European and domestic requirements for driving as part of employment which specify daily allowable and working hour limits. These include specific requirements for continuous driving, length of working day, daily and fortnightly rest periods.

8. The Council has a significant number of employees who are required to drive as part of their employment. In addition to permanent and temporary Council staff, the Council also uses temporary (contractors) staff from external agencies. In 2018/19, 1,450 employees were reimbursed for approximately three million miles of business journeys. The total cost of the mileage claims to the Council exceeded £1m.

9. Roads & Infrastructure Services 'inherited' the fleet of pool cars in July last year and have been focusing on some minor procedural improvements. There are currently 23 pool cars available for all staff to use for the purposes of business travel. The Council's pool car policy states that

all services should actively promote alternative ways of carrying out business to minimise travel requirements, not simply on the basis of cost but in the interest of reducing pollution, saving time and minimising risk. Where travel is unavoidable the use of pool cars should be promoted ensuring all employees are aware of the appropriate booking procedures.

Scope

10. The scope of the audit is to review the key controls in place to ensure compliance with driver hour legislation, the procedures for driving licence checks and review the effectiveness of the use of pool cars as outlined in the Terms of Reference agreed with the Head of Roads and Infrastructure Services on 25 November 2019.

Risks

11. The risks considered throughout the audit were:

- **Audit Risk 1:** The Council does not meet its legal responsibilities
- **Audit Risk 2:** Breach in legislation resulting in financial penalties or loss of operator's licence
- **Audit Risk 3**: Business journeys are not carried out in a manner which delivers best value for money

Audit Opinion

12. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

13. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

14. We have highlighted two medium priority recommendations, two low priority recommendation and two value for money recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- key policies and procedures should be subject to periodic review and approval
- infringements should be followed up in a timely manner
- driving hours for all fleet drivers should be recorded using electronic driver cards
- driver license checks for fleet drivers should be carried out in compliance with established policy
- consideration should be given to the cost and benefit of introducing electric/hydrogen vehicles to the pool car fleet
- management of the pool car fleet should be reviewed to deliver revenue savings to the Council via more efficient use of pool cars.

15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

16. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Procedures are in place to ensure compliance with driver hour legislation	Audit Risk 1 Audit Risk 2	Reasonable	Existing procedures facilitate compliance with legislative requirements however they require review and updating to ensure they are still fit for purpose. Driver hour infringements need to be followed up in a timelier manner and efficiency savings could possibly be made by introducing electronic driver cards for all fleet drivers.
2	Procedures are in place and operating effectively to ensure driving licence checks are complete	Audit Risk 1	Reasonable	Driving licence record checks are in place within the fleet service, including licence check procedures for the use of pool cars and, more widely for all staff through their annual performance reviews. We did however identify that driver licence checks for fleet drivers were not always carried out in compliance with established policy.
3	Usage of pool cars is delivering value for money	Audit Risk 3	Limited	The Council are not currently maximising the value that can be obtained from the pool car fleet. Furthermore, there is merit in exploring the potential benefit of introducing electric and/or hydrogen cars into the pool car fleet.

17. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Procedures are in place to ensure compliance with driver hour legislation

18. The Council has policies and procedures to record and review driver hours to facilitate compliance with relevant legislation. The Fleet Inspector/Procurement Officer, is added to the Operators Licence for the Council and is responsible for ensuring that procedures are adhered to. The Drivers Handbook has not been reviewed since 2016 and the pool car protocol contained within the handbook has not been updated since 2014.

Action Plan 1

19. Drivers are provided with information and booklets regarding driving, including drivers hour regulations when they commence working for the Council. Driver's handbooks are reissued as part of the follow up process when driver hour infringements are identified. Information on *'driving at work'* is available on the HUB.

20. There are also procedures to ensure fleet drivers record their driving and work activities. Depending on the size, type and operations of the vehicle there is legislation governing the amount of time you can legally drive the vehicle and limits on your duty time. This legislation will be set out in either 'Domestic Rules' or 'EU Rules'.

21. Drivers of goods vehicles or combinations of vehicle and trailers of more than 3.5 tonnes, unless covered by a specific EU-wide exemption or a national derogation, are required to comply with EU drivers' hours rules and the working time directive. The Council have three fleet drivers who are subject to EU driving rules; most other fleet drivers are subject to domestic hour legislation.

22. The Council, consistent with a legal requirement, fit tachographs on all fleet vehicles over 3.5 tonnes Digital tachographs store journey information in their memory and on the driver's smart card. Driver's working under EU regulations are required to use tachographs and driver cards to record their journeys. We confirmed that the three drivers working under EU rules are complying with this requirement.

23. The Council require drivers to download their driver cards on a weekly basis, although legally they are only required to do this every 28 days. The Council are members of the Freight Transport Association (FTA) and pay an additional fee to access reports from the FTA regarding driver activities. Monthly reports detail driver hours and work activity and include details of any infringements (EU driver hours). Reports are analysed by the Fleet Inspector/Procurement Officer who follow up on any reported infringements.

24. We reviewed four driver infringements highlighted on the FTA reports for October 2019, November 2019, December 2019 and January 2020. There was evidence of appropriate action being taken for the October and November infringements. However, at the time of the audit fieldwork (February 2020) follow up of the December and January infringements was outstanding by the service user

Action Plan 2

25. Fleet drivers not subject to EU driver rules fall under domestic rules. This allows for driving records to be maintained manually in record books. The Council issue two part driver record books and drivers are required to record their driving hours and work activity on a daily basis. The books are handed to supervisors on a weekly basis to check and sign. The top copy is retained and filed for a period of 12 months. This manual system is resource intensive and can be subject to human error. There would be clear process efficiency gains and less risk of error if driver cards were used for all drivers, not just those requiring to comply with EU regulations.

Action Plan 3

Procedures are in place and operating effectively to ensure driving licence checks are complete

26. The Council has procedures to ensure driving licence checks are carried out. We reviewed procedures within fleet management, pool car use and across the wider Council in respect of employees who are required to drive in the course of their duties.

27. Fleet Services check driving licences of fleet drivers prior to staff commencing work in line with VOSA guidelines. The Council has a policy of performing further checks on fleet driver licences every six months. The Fleet Inspector/Procurement Officer sends reminder emails to the area supervisors asking them to complete the checks. The area supervisors have access to the gov.uk (DVLA) website where, with the permission of the driver, they can access driving licence information. This provides a comprehensive view of the driving licence record. Completed checks are recorded on Tranman (the fleet management data base). A review of records held on Tranman for six ground maintenance staff (covering all of the four Council administrative areas) highlighted that four out of the six had not had their driving licence checks completed within the agreed timeframe.

Action Plan 4

28. For pool car users driving licence checks are undertaken by area pool car administrators prior to a member of staff using a pool car. Staff are required to log on to the gov.uk-view driving licence website which allows sharing of driving licence information with their employer on production of a unique driving licence check code. Staff print a copy of the information including status of licence, vehicles permitted to drive and endorsements and provide this to the pool car administrator along with their driving licence photo card when collecting the pool car for the first time and every six months thereafter. Completed driving licence checks are recorded on Tranman.

29. On an annual basis all staff are required to provide a copy of their driving licence during their Performance, Review and Development (PRD) meeting with their line manager.

Usage of pool cars is delivering value for money

30. Pool car information, including the pool car protocol is available on the HUB, however does not have a prominent position or significant profile. The Stopford Facility Booking System is used to book all Council meeting rooms, pool cars and hot desks for staff, and for council minibuses, grass pitches and publically available meeting rooms for customers. Pool car booking information is found within the meeting room booking facility and there are several stages/links/clicks required before you access the pool car availability calendar. You then need to contact a member of staff to finalise the booking. We concluded that the pool car booking system is not particularly user friendly and possibly discourages people from considering using them.

31. Pool cars are located in, and their administration decentralised to, the four Council administrative areas. Administration is predominantly done by social work staff and written comments in the staff survey, referenced at paragraph 40 below, indicated a perception that social work staff were prioritised when allocating pool cars. There is no central control of pool car use and, whilst Fleet Services are responsible for pool cars, they do not have a record of who the area administrators are.

32. We reviewed pool car usage for the 17 pool cars in use and fitted with a tracker and staff mileage claims for the period April 2019 to September 2019. In addition a pool car survey was

undertaken to gather feedback on staff awareness of pool car protocols, staff use of pool cars and any perceived barriers to the use of pool cars. The following paragraphs set out they key messages from this work.

33. Our analysis of pool car usage strongly suggests they could be delivering better value for money for the Council. Over the period reviewed the total mileage travelled and journeys undertaken by all pool cars fitted with a tracker was 139,409 miles for 12,794 journeys. This is an average of 10.9 miles per journey. This is broken down in Exhibit 2.

Exhibit 2 – Pool Car Usage – April to September 2019

Area	No of Cars	Miles	Journeys	Miles per Journey
Campbeltown	2	19,848	3,542	5.6
Dunoon	6	40,166	3,468	11.58
Helensburgh	2	25,727	1,170	21.98
Lochgilphead	4	37,960	3,146	12.06
Oban	1	4,247	289	14.69
Rothesay	2	11,461	1,179	9.72
Totals	**17**	**139,409**	**12,794**	**10.9**

34. Exhibit 2 highlights that, on average, pool cars are used for relatively short journeys. This suggests there may be benefit in introducing electric and/or hydrogen vehicles to the pool car fleet. Not only might this deliver savings to the Council it would also reduce the Council's carbon footprint and would be a venture aligned to the need for all public service bodies to be aware of the climate challenge emergency. There are organisations who can assist with projects to examine the cost and benefit of introducing electric/hydrogen vehicles to the pool car fleet (for example the Energy Savings Trust) and it is recommended that the Fleet Service give consideration to this. There are also strong indications from the Scottish Government that grant funding may be available to support projects of this nature and it would be beneficial for the Council to be well prepared to apply for them should the opportunity arise.

Action Plan 5

35. Analysis of mileage claims submitted by staff (for journeys using their own vehicles) over the same period highlighted that 986,517 miles were claimed (approximately £390,000) for 15,836 journeys – an average of 62.30 miles per journey.

36. To identify examples of where staff could be making more effective use of pool cars we reviewed pool car use against a limited number of staff travel claims over a period of six randomly selected dates. This highlighted a number of examples where multiple staff members claimed mileage to travel to the same location on the same day when a pool car was available and examples where staff members were claiming for journeys in their own cars when people in their own service were making the same journey in a pool car. These examples and others like them provide an indication that better communication regarding travelling plans and a clearer pool car diary could result in more effective use of pool cars.

37. Whilst this analysis is relatively high level it would suggest that the Council could generate considerable savings through more efficient use of pool cars. The service should explore this further via a more detailed review which should consider the potential benefits of:

- a more centralised approach to the administration and booking of pool cars

- better promotion of the use of pool cars
- providing greater visibility of bookings and destinations to encourage pool car sharing
- implementing or developing a pool car booking system (Dumfries and Galloway Council did this effectively using the Tranman system)
- identifying ways of transferring the balance of pool car usage from shorter journeys to longer ones

Action Plan 6

38. In order to try and identify some of the possible reasons why pool cars are not being used more effectively we issued a survey to the 183 staff who had submitted mileage claims in excess of 3,000 miles in the 2018/19 financial year. We received 60 responses (33% response rate). Exhibit 3 summarises the results.

39. A key point noted was that, despite being heavy business mileage users, 38% of the respondents would not consider using a pool car and 45% have never checked the availability of pool cars before making a business journey. This despite 80% of respondents seeming to be aware of the pool car option.

Exhibit 3 – Pool Car Survey Responses

Question	Yes	No
Have you used a council pool car?	43 (72%)	17 (28%)
Are you aware of the Council's pool car protocol?	48 (80%)	12 (20%)
When required to travel in the course of your duties, do you consider the alternative options to travel? (for example; telephone/video conferencing or car sharing)	57 (95%)	3 (5%)
When required to travel in the course of your duties, do you consider the use of a council pool car?	37 (62%)	23 (38%)
When required to travel in the course of your duties, do you check the availability of pool cars?	33 (55%)	27 (45%)

40. To explore some of the potential barriers to pool car use the survey also asked staff to identify the reason why they don't wouldn't use pool cars. Exhibit 4 summarises the responses received into three overarching themes.

Exhibit 4 – Pool Car Survey – Barriers to Use

Theme	Examples of Comments
Collecting and returning pool car	• Adds additional time, distance and stress to an already busy day • For overnight stays I would not be happy leaving my car at office • Too restrictive about where the car needs to be parked overnight

	• Difficulty accessing car keys due to early starts or returning them after office hours
Pool car availability	• General experience that cars are not available • No priority over demand (long v short distances) • Cars can be booked too far in advance (i.e. a certain day every week for six months) • Social work staff are prioritised and tend to block book even if unsure of need • Often issues require immediate attendance so advance booking not practical
Pool car condition	There were a number of comments about the general condition that cars are left in making them an unattractive option. There were references to lack of cleanliness, mould, dampness, odours, litter, poor state of repair and cars left with very limited fuel in the tank. There was also come comments about the quality, suitability and general comfort of the pool cars.

41. The feedback from the survey should be used to inform the detailed review suggested at paragraph 37.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Policies and Procedures** Policies and procedures are in place to facilitate compliance with legislation, however the Drivers Handbook has not been reviewed and updated since 2016 and the pool car protocol was last updated in 2014.	Policies, procedures and working practices may not be aligning to current legislation.	Policies and procedures will be reviewed and updated.	Procurement/ Technical Officer 31 December 2020
Medium	2	**Infringements** Appropriate action has been taken for the October and November infringements however, at the time of the audit fieldwork (February 2020) follow up of the December and January infringements was outstanding.	Failure to follow up infringements on a timely basis increases the risk of investigation and fines.	Infringements will continue to be monitored. Designated officer will liaise with service users to ensure compliance with requirements. Communications will be incorporated into the process.	Procurement/ Technical Officer 31 December 2020
Low	3	**Driving Hours Compliance** Fleet drivers not subject to EU legislation maintain manual driving records which are handed to supervisors on a weekly basis to check and sign. This is a resource intensive process which is subject to human error. There would be clear process efficiency gains and less risk of error if the Council adopted the system already in place for fleet drivers subject to EU legislation and rolled out electronic driver cards to all fleet drivers.	Errors in recording driving hours may result in breaches of driver hour legislation.	The key officer will ensure that all drivers hold and use tachograph cards to move away from the paper book records.	Procurement/ Technical Officer 31 December 2020

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	4	**Driving Licence Checks** Fleet Services check driving licences of fleet drivers prior to staff commencing work in line with DVSA guidelines. The Council has a policy of performing further checks on fleet driver licenses every six months. A review of records held on Tranman for six ground maintenance staff highlighted that four out of the six had not had their driving licence checks completed within the agreed timeframe.	The Council may not be aware of the current status of licences for drivers using their fleet.	The key officer will ensure a review takes place relating to the driver licence checks. Measures will then be implemented to ensure that all checks take place.	Procurement/ Technical Officer 31 December 2020
VFM	4	**Electric and/or Hydrogen Vehicles** Analysis shows that pool cars are generally used for short journeys which suggests there may be benefit in introducing electric and/or hydrogen vehicles to the pool car fleet. This could benefit the Council by delivering revenue savings and reducing the Council's carbon footprint at a time when public service bodies are expected to be aware of, and react to, the climate challenge emergency. There are also strong indications from the Scottish Government that grant funding may be available to support projects of this nature and it would be beneficial for the Council to be well prepared to apply for these funds should the opportunity arise. Fleet Services should give consideration to the cost and benefit of introducing electric/hydrogen vehicles to the pool car fleet.	The pool car fleet may not deliver best value and could be detrimental to the Council's ambition to reduce its carbon footprint.	The Council currently have electric vehicles within the fleet. Further investigation will take place in relation to hydrogen vehicles. Transport Scotland will be approached to access funding to increase the electric fleet further.	Procurement/ Technical Officer 31 December 2021

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
VFM	5	**Management of Pool Cars** A high level analysis of the use of pool cars suggests the Council could generate considerable savings through more efficient use of pool cars. Fleet Services should explore this further via a more detailed review which should consider the potential benefits of: • a more centralised approach to the administration and booking of pool cars • better promotion of the use of pool cars • providing greater visibility of bookings and destinations to encourage pool car sharing • implementing or developing a pool car booking system • identifying ways of transferring the balance of pool car usage from shorter journeys to longer ones .	The pool car fleet may not deliver best value for money.	The pool car module will be released through Tranman. The pool car module offers a centralised approach to bookings and visibility. The Council's internal communications department will be contacted to highlight the use of the pool cars. Work will be undertaken to increase usage.	Procurement/ Technical Officer 30 September 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the Council to achieve better value for money.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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Argyll and Bute Council

Internal Audit Report

February 2020

Final

Information Asset Registers

Audit Opinion: Reasonable

	High	Medium	Low
Number of Findings	**1**	**2**	**0**

Contents

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Information Asset Registers (IARs).

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Under the Public Records (Scotland) Act 2011 (PRSA), Scottish public authorities are required to produce a Records Management Plan (RMP), which sets out the arrangements for managing public records.

5. The Council creates, collects, uses and disposes of a large amount of information during the course of carrying out its public duties. Managing this information carefully helps ensure the record of its activities is accurate and complete.

6. The Council's approach to records and information management is established by the Information Management Strategy (IMS), approved by Council in March 2015, and the Corporate Records Management Policy, which takes into account the PRSA requirements.

7. As part of the implementation of the IMS, the Council have established IARs. Information assets are items which are received, gathered or generated and then retained for the purposes of:

   - supporting provision of a service to the public
   - supporting the general democratic process
   - assisting in meeting external statutory obligations
   - helping to evidence compliance in response to external regulatory processes.

Scope

8. The scope of the audit was to ensure arrangements for managing information assets are robust as outlined in the terms of reference agreed with the Governance, Risk & Safety Manager on 13 January 2020.

Risks

9. The risks considered throughout the audit were:

- **Legal & Regulatory: ORR02**: failure to ensure Council compliance with governance and information management arrangements
- **Audit Risk 1:** Information Asset Register guidance and training is not available or adequate to support officers in their duties
- **Audit Risk 2**: IARs do not comply with relevant legislation
- **Audit Risk 3:** IARs are not regularly updated, reviewed and approved

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

11. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

12. We have highlighted one high priority recommendations and two medium priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

    - Social Work IARs should be completed and all IARs should be updated to reflect all legislative requirements including the General Data Protection Regulation (GDPR), clarity is also required over responsibility for the Live Argyll IAR
    - IARs should be aligned to the revised Council structure, reviewed and agreed annually at Departmental Management Team (DMT) meetings and have corresponding action plans
    - policies and procedures should be reviewed within the prescribed timescales to ensure they reflect current legislation and best practice.

13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
CO1	The Council has appropriate procedures/guidance which align with legislative requirements	ORR02 Audit Risk 1 Audit Risk 2	Reasonable	The Council has an IMS, Records Management Policy, and a RMP. All three were found to be comprehensive and set out the Council's arrangements for records management. Both the Records Management Policy and RMP have

				not been formally reviewed since 2016 and 2017 respectively. A revised draft of the IMS strategy 2018-21 has been approved by the ICT steering group and is awaiting approval by the Strategic Management Team (SMT).
CO2	Appropriate training on IARs is available to relevant staff	ORR02 Audit Risk 1	Substantial	Appropriate training has been delivered to the IAR 'champions' who are responsible for ensuring that IARs are maintained. The Governance, Risk & Safety Manager has also attended relevant training.
CO3	IARs comply with relevant legislation and Council procedures/ guidance	ORR02 Audit Risk 2	Reasonable	Of the 12 IARs two relating to social work services were not available for review, six fully complied with the requirements of the PRSA and four partially complied. Clarification should be sought on responsibility for the LiveArgyll IAR.
CO4	IARs are subject to regular review and approval	ORR02 Audit Risk 3	Limited	Seven of the 12 IARs have been agreed by the relevant DMT, for four there was no evidence of DMT agreement and for the remaining one there was evidence of review but not agreement. Furthermore only two of the 12 IARs had an action plan as required by the RMP. The IARs need to be updated to reflect the revised Council structure.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

The Council has appropriate procedures/guidance which align with legislative requirements

16. The Council has a Records Management Policy which seeks to ensure it effectively and efficiently manages information in order to support its legal, fiscal, business and administrative requirements. The policy clearly defines the roles and responsibilities of Council officers and elected members and establishes the Council's objectives as being to:

- create awareness of records management principles and responsibilities throughout the Council
- comply with the Public Records Scotland Act 2011 and other relevant legislation
- promote a consistent approach to records management across all service areas
- ensure information is being managed in the most efficient and effective way
- provide guidance to all staff to allow them to adopt more efficient ways of working
- provide best practice guidance in respect of records.

17. The policy was approved by the SMT on 8 February 2016 but has not been subject to further review since. Consequently it does not provide any reference to the GDPR which was implemented in May 2018

Action Plan 3

18. In compliance with the requirements of the PRSA the Council has a RMP which is comprehensive and sets out the Council's arrangements for managing public records. The RMP is supposed to be reviewed annually however no formal review has taken place since it was approved by the SMT in February 2017.

Action Plan 3

19. The Council has an IMS for the period 2014-18 which details the:

- definition of what information is
- definition and aims of information management
- Council priorities and objectives regarding information management
- requirement for services to monitor IARs.

20. A revised draft of the IMS strategy 2018-21 has been prepared and was approved by the ICT steering board in July 2018. Approval from SMT is outstanding.

Action Plan 3

21. The IMS also sets out the governance and roles for records management and specifically outlines the role of 'IAR Champions' who are responsible for ensuring service IARs are properly maintained. The Council Hub details the contact information for each Council service IAR champion.

22. There are supporting documents which provide guidance on key areas such as approving and maintaining IARs, preparing action plans to update IARs and record disposal.

Appropriate training on IARs is available to relevant staff

23. The Governance, Risk & Safety Manager has day-to-day responsibility for records management. It is a requirement of the post that the post holder has a sound knowledge of records management theory and practice, including current standards and recognised best practice. Whilst the Governance, Risk & Safety Manager last attended formal records management training in March 2017 he is a member of the Information and Records Management society and also the online Knowledge HUB forum used for sharing best practice. Furthermore his team attends PRSA events held throughout the year which provide current guidance and advice.

24. All existing IAR Champions attended record management training in May 2018 which focused on:

- legislative requirements
- records management plan
- information asset registers
- data protection law
- GDPR.

25. Consideration is currently being given to making online records management training available to all Council staff.

IARs comply with relevant legislation and Council procedures/guidance

26. To comply with the PRSA and ensure the Council adheres to its RMP, each service IAR should detail:

    - what information the service holds
    - where it is held
    - how long it should be kept for
    - includes information relating to GDPR requirements e.g. legal basis for processing of data, is privacy notice in place and compliant with GDPR requirements, internal data sharing etc.

27. The Council has a total of 12 IARs, which includes two for the Social Work services within the Health and Social Care Partnership. We reviewed the 10 available Council IARs to ensure they complied with the requirements detailed in paragraph 26. Our review confirmed that, of those 10, 6 fully complied but 4 only partially complied as they did not include the relevant GDPR information. The two Social Work IARs have not been completed due to lack of resource within Social Work services and as such have not been reviewed as part of this audit.

Action Plan 1

28. The Live Argyll IAR was not considered as part of this audit however there is a lack of clarity over whether the Live Argyll IAR comes under the remit of the Governance, Risk & Safety Manager's responsibility.

Action Plan 1

IARs are subject to regular review and approval

29. The IMS requires DMTs to review their relevant IAR annually. A review of the 12 IARs highlighted that for:

    - seven there was evidence of DMT agreement
    - four there was no evidence of DMT agreement
    - one there was evidence of review but not agreement.

Action Plan 2

30. The Council has recently introduced a new structure which has resulted in some changes of remit for Heads of Service (HoS). The current IARs reflect the business assets assigned to each HoS prior to the restructure and therefore need updated.

Action Plan 2

31. It is a requirement of the RMP that IARs should have a corresponding action plan which '*are designed to capture all tasks required in relation to the IAR entries, implementation of retention periods, and provide an audit trail of changes made to the IAR*'.

32. A review of the 12 IARs highlighted that:

    - two had a corresponding action which met the prescribed requirements
    - two had action plans which did not meet the prescribed requirements e.g. did not provide an audit trail of changes
    - eight had no action plan.

Action Plan 2

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	**Information Asset Registers** The two Social Work IARs were not available for review or located on the designated sharepoint site. Of the remaining ten, four require to be updated to reflect the latest GDPR requirements. Clarity over whether the Live Argyll IAR comes under the remit of the Governance, Risk & Safety Manager's responsibility is required.	Failure by the HSCP to provide sufficient resources to have the Social Work IARs in place and available for all relevant services may lead to non-compliance with legislation	Social Work IARs to be completed and approved by appropriate management teams Clarify where responsibility for Live Argyll IAR lies and have it completed and approved by appropriate management team	Governance, Risk & Safety Manager 31 December 2020 Governance, Risk & Safety Manager 31 December 2020
Medium	2	**Periodic Review and Agreement of Information Asset Registers** For four of the 12 IARs there was no evidence they had been agreed by the relevant DMT. Furthermore IARs need to be reviewed to ensure they are aligned to the new Corporate structure. The RMP requires that IAR's should have a complete action plan to document required changes. Two of the 12 IARs had an action plan, two had action plans that did not fully meet the requirements of the RMP and eight had no action plan.	IARs may not be complete and accurate with a clear audit trail of changes made and agreed.	Review IARs and realign information to current Service structure Obtain annual approval from DMTs for all completed IARs Action plans for all IARs to be put in place and agreed by management teams	Governance, Risk & Safety Manager 30 September 2020 Governance, Risk & Safety Manager 30 September Governance, Risk & Safety Manager 30 September 2020

Medium	3	**Review of Policies and Procedures** Whilst our review of governance documents concluded they were comprehensive they all require review to ensure they are still current and fit for purpose. In particular they were last reviewed and approved in : • Records Management Policy - February 2016 • Records Management Plan – February 2017 • Information Management Strategy - (reviewed July 2018, not approved)	Key governance documents may not reflect current legislation and procedures	Key records management documents to be reviewed and approved	Governance, Risk and Safety Manager 30 September 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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Argyll and Bute Council

Internal Audit Report

February 2020

FINAL

Pupil Equity Fund

Audit Opinion: Limited

	High	Medium	Low
Number of Findings	**1**	**2**	**1**

Contents

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to the Pupil Equity Fund (PEF).

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. The Scottish Government allocate PEF to local authorities to fund initiatives aimed at closing the poverty related attainment gap. Schools are allocated £1,200 for each child on their roll from primary one to third year who are registered for free school meals.

5. The total PEF allocated to the Council was £1,372,000 for 2019/20, £1,401,600 for 2020/21, and £1,315,200 for 2021/22. On average, in Argyll and Bute, 70-75% is allocated to primary schools and 25-30% to secondary schools.

6. Examples of PEF funded activities and interventions within Argyll and Bute are:

    - engaging with children and young people beyond school
    - partnership working
    - professional learning/leadership learning
    - research and associated evaluation to measure impact.
    - early Intervention and prevention
    - social and emotional wellbeing
    - targeted approached to literacy and numeracy
    - promoting a high quality learning experience.

7. Requirements for the Council to evaluate the impact of the funding are set out in the Scottish Government's National Operational Guidance, with local guidance issued to headteachers by the Council's Education Service as part of its Advice on School Self Evaluation and Improvement Planning 2017/18.

Scope

8. The scope of the audit was to ensure there is an adequate system of control to ensure the accuracy and integrity of the administration of PEF and appropriate budgetary controls.

Risks

9. The risks considered throughout the audit were:

- **Audit Risk 1**: Local guidance is not available, or adequate, to supplement the Scottish Government's national guidance
- **Audit Risk 2**: Council recruitment procedures are not followed when appointing temporary staff
- **Audit Risk 3**: The impact of PEF funding is not evaluated, demonstrable or measurable
- **Audit Risk 4**: PEF funding not delivering desired outcomes is not reviewed
- **Audit Risk 5**: PEF expenditure is not subject to appropriate monitoring.

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

11. Our overall audit opinion for this audit is that we can take a limited level of assurance. This means that internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.

Recommendations

12. We have highlighted one high priority recommendation, two medium priority recommendations and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- PEF plans that comply with national guidelines should be prepared for all schools and be subject to internal review procedures
- local PEF guidance should provide greater clarity over specific roles and responsibilities
- the timetable for the Quality Improvement Team (QIT) visits to schools should be adhered to with issues identified translated into documented improvement actions
- the PEF training plan in place for 2019/20 should be delivered and monitored.

13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
CO1	Appropriate local guidance exists which supplements the	Audit Risk 1	Reasonable	The Council has local guidance which supplements national guidance and is available to headteachers. The guidance could be strengthened by

	Scottish Government's national guidance			providing greater clarity over roles and responsibilities. Training for all school staff with responsibility for planning, leading and contributing to PEF being developed and delivered.
CO2	Recruitment procedures are applied when recruiting temporary staff	Audit Risk 2	High	The Council has appropriate guidance for the employment of staff using PEF funding. PEF funded posts are checked by a finance officer and approved by the Head of Service.
CO3	The impact of PEF funding and evidence of improvement is evaluated with clear targets for success set	Audit Risk 3 Audit Risk 4	No assurance	Detailed 2019/20 PEF plans have not been completed by the majority of schools and procedures to review and feedback on draft plans are not being carried out. The timetable for QIT visits to schools are not always complied with. Furthermore where QIT visits identify that a SIP required improvement required corrective action had not been documented in the action section of the evaluation sheet.
CO4	Spend is monitored in line with Council budget monitoring arrangements	Audit Risk 5	Substantial	Each school has a separate cost centre against which PEF budgets and expenditure are recorded. Assistant Finance Administrator (AFA) meet with headteachers to discuss financial monitoring.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Appropriate local guidance exists which supplements the Scottish Government's national guidance

16. The Scottish Government issued National Operational Guidance which sets out key principles that schools must adhere to if they are allocated PEF. In particular it requires that:

- headteachers have access to the full PEF allocation
- schools use PEF to deliver activities which are clearly additional to those already planned
- headteachers work in partnership with each other and their local authority to agree PEF use
- PEF should be closely aligned to existing planning and reporting procedures e.g. through school improvement planning with clarity provided to stakeholders on how PEF is used
- parents, carers, children, young people and other key stakeholders are involved in planning
- headteachers provide a clear rationale for PEF use based on robust contextual analysis
- school have plans in place at the outset to evaluate the impact of PEF which outline clear outcomes to be achieved and how progress towards these, and the impact on closing the poverty related attainment gap, will be measured.

17. The Council has drafted local guidance which is available to all headteachers and supplements the national guidance. It includes links to documents such as school planning templates to help schools complete their PEF plans.

18. The local guidance refers generically to the responsibilities of schools in regard to PEF but provides no clarity over the specific roles and responsibilities of the education management team and AFA's.

Action Plan 2

19. There is a PEF template entitled "School report on PEF expenditure and impact 2019/20" which requires schools to detail:

    - what they are planning to do with their PEF allocation
    - when and how progress will be measured
    - which of the 12 intervention areas they are addressing
    - how they are reporting on impact in 2019/20.

20. The template complies with the principles contained in the national guidance.

21. During 2019 a presentation was delivered to headteachers on the general PEF principles including which groups should be targeted and what would be deemed relevant PEF expenditure. The Council's PEF Education officer is still to develop a training work plan for all school staff with responsibility for planning, leading and contributing to PEF.

Action Plan 4

Recruitment procedures are applied when recruiting temporary staff

22. The Council has guidance for the employment of staff using PEF funding which covers the use of PEF funding for ring fencing positions for current employees, new employees, seconding an employee and temporary posts.

23. All proposed PEF funded posts are signed off by the Head of Service and checked by a finance officer to ensure there is sufficient PEF funding for the post.

24. There is no requirement for a redundancy provision as all teachers recruited using PEF funding are either in a full time employment post or on a fixed term contract.

The impact of PEF funding and evidence of improvement is evaluated with clear targets for success set

25. One of the key principles in the national guidance is that "*schools must have plans in place at the outset to evaluate the impact of PEF funding*" It requires those PEF plans to outline clear outcomes to be achieved, how progress towards these, and the impact on closing the poverty related attainment gap, will be measured and, if as a result of the ongoing monitoring, the plans are not achieving the results intended, that the plans should be amended.

26. Out of a sample of nine schools covering three of the four administrative areas within Argyll and Bute (representing 18% of the total 2019/20 PEF budget), eight did not have PEF plans which complied with the national guidance. For example a requirement of the national guidelines is that PEF should be closely aligned to existing planning and reporting procedures e.g. through school improvement planning with clarity to stakeholders on how PEF is used. Whilst all schools prepare an annual School Improvement Plan (SIP) a review of the SIPs for the nine sampled

schools highlighted that only two made reference to PEF and, even for those two, the detail was not sufficient to provide clarity to stakeholders over the use of PEF.

27. Subsequent discussions with relevant officers confirmed that detailed 2019/20 PEF plans had not been completed by the majority of schools despite the local guidance detailing the timeline that schools should have followed for the reporting of 2019/20 PEF plans. In particular the local guidance requires:

    - schools to draft plans in consultation with colleagues, partners, children and young people and parents with support from the central team as required
    - schools to submit plans to argyllhousereception@argyll-bute.gov.uk as part of the School Improvement Plan no later than Friday 21 June 2019
    - education management team to discuss PEF planning and contact schools for further information if required
    - school plans to be revised as appropriate through school quality improvement visits in consultation with link Education Officers.

    This process has not been consistently followed in 2019/20.

Action Plan 1

28. In September 2019 the PEF Education officer compiled a survey which all PEF funded schools were requested to complete. The purpose of the survey was to:

    - collate information on the type of PEF interventions being employed across the authority, to assess common themes and to analyse their impact and success
    - share information with schools about the types of intervention being used and to share best practice across schools
    - gather information about when interventions are measured and how they are reported which will facilitate discussions with schools.

29. The survey included a series of questions including:

    - How did you decide on PEF projects/interventions?
    - Which stakeholders did you consult with in relation to PEF?
    - What improvement areas have you focussed on?
    - Which of the 12 interventions relating to PEF are relevant to your plan?
    - Specify what measures you will use to measure the impact of your PEF intervention/project
    - Identify when you measure each intervention?
    - How will you report on progress and impact?

30. As at early November 2019, of the 73 schools who received PEF funding, 29 (40%) have completed the survey. Once all schools have completed the survey the information gathered will be useful in assessing the impact of PEF across the school estate and also identifying good practice and areas for improvement. However the survey does not address the issue of assessing compliance with the national guidelines and is not a robust mechanism for PEF planning.

31. Of the 29 who have replied to the survey, nine had not consulted with parents/families during PEF planning which is contrary to one of the key principles of the national guidance.

Action Plan 1

32. The QIT are required to perform quality improvement visits to all schools three times per year with PEF progress specifically assessed during visits 2 and 3. An assessment of each visit is

recorded by the Quality Information Officer (QIO). A review of visits for the academic year 2018/19 for the nine sampled schools highlighted:

- two schools had received the two required PEF assessments
- six only received one PEF assessment
- one had no PEF assessment.

33. QIOs are responsible for assessing SIPs with the assessment forms having an 'action section' detailing action required by schools where their SIP is assessed as needing improvement. A review of the QIO assessment for the nine sampled schools highlighted that where the QIO identified no reference to PEF in the SIP there was no documented corrective action for the school.

Action Plan 3

Spend is monitored in line with Council budget monitoring arrangements

34. The Scottish Government advise the Council of the level of PEF on an annual basis and finance officers check that allocations have been correctly calculated to each school.

35. The Council's general ledger system has a separate cost centre for each school against which their PEF budget and expenditure is recorded. PEF financial monitoring reviews consider planned PEF spend, actual spend to date, and the forecast final spend as at 31 March. Spreadsheets are updated every two months by finance officers and issued to schools to allow them to monitor PEF expenditure.

36. Each school has an AFA who regularly meets with the headteacher to discuss financial monitoring and to ensure that each school cost centre reflects the appropriate budget spend.

37. As at 31 March 2019 the Council's 2018/19 PEF allocation (£1,372,920) was underspent by £465,310 (34%). As PEF funding relates to the academic year rather than the financial year the national guidance states "*Where schools are unable to spend their full allocation during the financial year, any underspent funds can be carried forward to the new financial year. We would expect that, other than in exceptional circumstances, it should be spent within the current academic year.*" At the end of the 2018/19 academic year the under spend had reduced to £116,410 (8%). As this has reduced to under 10% no audit matter has been raised.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	**Creation of PEF Plans** Out of a sample of nine schools, eight did not have PEF plans which complied with the Scottish Government's national guidance. Discussions with officers confirmed the majority of schools had not created detailed 2019/20 PEF plans. Procedures, with associated timescales, exist for draft plans to be created and submitted to the education management team for review however these were not complied with in 2019/20.	PEF may not be utilised for appropriate activity in line with national guidance and the Council may not be able to demonstrate PEF has been used appropriately with impact measured and monitored.	PEF plans will be in place for all school for the 2020/21 academic year and will be compliant with Scottish Government's national guidance.	Education Manager Education Officer 30 September 2020
Medium	2	**Local PEF Guidance** The Council has local PEF guidance which refers generically to the responsibilities of schools in regard to PEF but provides no clarity over the specific roles and responsibilities of the education management team and AFA's.	There may be a lack of clarity over the roles and responsibilities of officers in relation to the management and administration of PEF.	Further information will be inserted into the Guidance which forms the first section of Argyll and Bute's PEF Information Pack. The additions will detail specific roles and responsibilities of Education Officers and Managers in the context of PEF planning, implementation and monitoring, with accompanying timelines. The role and responsibilities of AFAs will also be included.	Education Manager Education Officer 31 March 2020

Medium	3	**School Quality Improvement Visits** QIOs are required to perform quality improvement visits to schools three times per year with PEF progress assessed during visits 2 and 3. Seven out of nine sampled schools did not receive the required number of PEF assessments during 2018/19. QIOs are responsible for reviewing SIPs with the assessment forms having an 'action section' detailing action required by schools where their SIP is assessed as needing improvement. A review of the QIO evaluation summary sheets for nine sampled schools highlighted that where the QIO identified no reference to PEF in the SIP the required corrective action had not been documented in the action section of the evaluation sheet.	PEF plans and progress may not be subject to appropriate monitoring or a robust process of review and improvement.	The Central Team recognises the importance of QI Visits to schools in the context of ongoing tracking and evaluation of PEF, and acknowledges the consequences of such visits not occurring. The Central Team will ensure all schools receive at least two visits which include discussion around PEF planning, implementation and spend in this and future academic sessions. Visits to be tracked by named Manager/Officer via discussion at regular Education Team Meetings. Education officers will ensure that any required actions are included in the assessment forms action section	Education Manager Education Officer 30 June 2020

Low	4	**PEF Training** During 2019 a presentation was delivered to headteachers on general PEF principles however wider training for all school staff with responsibility for planning, leading and contributing to PEF is still to be developed and delivered.	PEF may not be managed in an efficient, effective and consistent manner.	Training will be offered in March 2020 for school staff with responsibility for PEF planning/delivery. Training Resources will be centrally available and support offered whenever required by Central Team. The authority will ensure that a refresh of knowledge and skills is offered annually to those responsible for PEF planning and implementation, employing the most appropriate means of communication and delivery. PEF documentation will also be refreshed and updated as necessary on an annual basis. These measures will be reflected in the Annual Education Plan.	Education Officer 31 March 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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LiveArgyll

Internal Audit Report

February 2020

Final

Performance Management

Audit Opinion: Substantial

	High	Medium	Low	VFM
Number of Findings	0	1	0	0

Contents

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of LiveArgyll's system of internal control and governance in relation to Performance Management.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with relevant officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the LiveArgyll.

3. The contents of this report have been agreed with the appropriate officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. LiveArgyll was launched in October 2017 and is responsible for services including libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets. LiveArgyll has been granted charitable status, is a company limited by guarantee and a wholly owned subsidiary of Argyll and Bute Council.

5. Effective performance reporting ensures that LiveArgyll's Board (the Board) and the Business and Performance sub-committee have appropriate information to enable them to effectively scrutinize performance against agreed key priorities and objectives.

Scope

6. The scope of the audit was to assess the adequacy of LiveArgyll performance and reporting arrangements as outlined in the Terms of Reference agreed with the General Manager on 5 February 2020**.**

Risks

7. The risks considered throughout the audit were:

   - **Audit Risk 1:** Financial and operational performance and reporting arrangements have not been established and embedded
   - **Audit Risk 2**: Performance targets are not aligned to organisational objectives, focused on improvement and subject to periodic review
   - **Audit Risk 3**: Staff performance and development is not aligned to organisational objectives with performance appraisal performed regularly.

Audit Opinion

8. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

9. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Recommendations

10. We have highlighted one medium priority recommendations where we believe there is scope to strengthen the control and governance environment. This is summarised below:

    - existing performance reporting processes should be reviewed to ensure they are efficient, that outcomes are being measured and assessed appropriately and that performance measures are consistent with operational requirements and current working practices

11. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

12. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
C01	There are appropriate arrangements to ensure effective financial and operational performance management	Audit Risk 1	Substantial	LiveArgyll has an overarching and comprehensive business plan covering 2017-2021 and two sub business plans for Leisure and Sport and for Libraries. Collection of the data to report against the performance measures in the plans is labour intensive and potentially subject to human error. Appropriate measures are in place to allow customers to provide feedback on the service provided and for assessing financial performance.
C02	Performance measures and targets are aligned to organisational objectives and focus on	Audit Risk 1 Audit Risk 2	High	Business plans set out a suite of performance measures and targets which are aligned to organisational objectives and priority areas.

	improvement in priority areas			
CO3	There are effective performance management review and reporting arrangements.	Audit Risk 1 Audit Risk 2	Substantial	Performance monitoring reports are regularly considered by the Board and the Business and Performance sub-committee. Some historic performance measures are still referenced in plans but no longer being reported on and similarly, some additional performance measures are included in performance reports which are not in plans.
CO4	There is an effective and well managed approach to staff performance appraisals	Audit Risk 3	High	Annual staff appraisals have been introduced with appropriate guidance established.

13. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There are appropriate arrangements to ensure effective financial and operational performance management

14. LiveArgyll has an overarching and comprehensive business plan covering 2017-2021. It was approved in January 2018 and provides a clear strategic direction of travel. In addition there are two sub business plans, one for Leisure and Sport and one for Libraries. There are appropriate committee structures to manage the performance and business of the company with the roles and responsibilities of committees periodically reviewed by the Board.

15. LiveArgyll have a range of performance monitoring arrangements in place at various reporting levels. Whilst these were found to be adequate in terms of frequency and content, collation of these reports tends to be undertaken on a manual basis and is labour intensive. The collation and reporting methodology of figures may increase the risk of human error.

Action Plan 1

16. There are comprehensive financial and security regulations which detail roles and responsibilities in relation to financial matters, budget monitoring & control and virement between cost centres.

17. LiveArgyll have a complaints procedure which clearly sets out how a customer can raise a complaint about LiveArgyll or the standard of service provided by or on behalf of LiveArgyll. The procedure also establishes the appropriate timescales for each stage of the process.

18. LiveArgyll commissioned an external body to carry out a survey of customers at Helensburgh Leisure Centre which was completed in January 2020. The survey concluded that "*overall customers are extremely satisfied with the service they are receiving at Helensburgh Leisure*

Centre. The main positives being the level of customer service extended to them by front of house staff. The fitness class timetable and swimming lessons programme are also very popular amongst service users." Surveys on all other facilities have been commissioned and will be conducted in 2020.

19. The LiveArgyll website has a link to a comments page and to Argyll and Bute Council's (the Council) complaints procedure to allow customers to comment on facilities or service received. In addition comment cards are available in facilities. Complaints/comments are discussed at staff meetings and action taken where appropriate.

20. The agenda and minutes of Board meetings are published on the LiveArgyll website.

Performance measures and targets are aligned to organisational objectives and focus on improvement in priority areas

21. The business plans for Leisure and Sport and for Libraries set out:

    - strategic priorities
    - desired outcomes
    - supporting objective
    - performance measures.

22. Each business plan has a performance reporting section that establishes the performance measures that should be reported to the senior management team and the Board. These are aligned to the strategic priorities and outcomes. The performance measures included in the two sub business plans are set out in exhibit 2.

Exhibit 2 – Performance Measures Established by Business Plans

Leisure and Sport	Libraries
• leisure memberships split by pool, gym and health suite per facility	• active borrowers as a percentage of population
• facility usage split by gym usage, heath suite usage, pool usage and fitness class	• number of visits to libraries per 1000 of population
• swimming lessons split by number of private lessons, ABC swim scheme and school lessons	• number of lending hours borrowed
• attendance at events and functions in halls split by functions, live entertainment, internal and external meeting and sports bookings and fitness classes	• number of times libraries are used by external organisations*
	• percentage of published opening hours achieved*
	• percentage of requested items satisfied within 30 days*
	• percentage of library users satisfied with the service*

There are effective performance management review and reporting arrangements

23. It is a requirement of the service level agreement between LiveArgyll and the Council that, twice a year, LiveArgyll present operational performance information to the Council. A report was presented to the Council's Community Services Committee entitled 'LiveArgyll-Monitoring and

Reporting Performance' in September 2019 which concluded 'there are no areas of significant concern.'

24. Performance monitoring reports are considered by the Board and the Business and Performance sub-committee. The reports have a RAG rating (Red Amber Green) which provide an indicator of current performance, i.e. off-track, needing monitored or intervention and on-track. Summary commentary is provided against each performance measure and, where appropriate, details of planned, new or on-going improvement actions.

25. A review of the performance reports taken to the Board highlighted that:

    - performance reporting is occurring and includes appropriate key performance measures
    - in a small number of instances historic performance measures are still referenced in plans although no longer being reported on
    - similarly there are some additional performance measures being reported on which are not referenced in plans.

26. When plans are next reviewed they should be updated to reflect the current agreed suite of performance measures.

Action Plan 1

27. LiveArgyll also report to the Board and the Business and Performance sub-committee on progress against their strategic priorities. The report outlines initiatives that have been introduced, how LiveArgyll will measure whether it has been successful and a commentary is provided that identifies further required action to meet priorities.

28. The Council provides LiveArgyll with monthly financial monitoring reports that compare budget and actual expenditure for all LiveArgyll cost centres. LiveArgyll officers review these reports and, where appropriate, provide explanations for variances.

29. An annual report is prepared and made available on the LiveArgyll website which provides an overview of activity, highlights and achievements during the year and includes the annual financial statements.

There is an effective and well managed approach to staff performance appraisals

30. In May 2019 LiveArgyll introduced an annual 'staff training and review' (STAR) process for all staff. Previously only office based staff received an annual staff appraisal. A guidance note has been prepared which provides a comprehensive overview of the process.

31. Completion of annual appraisals is tracked via a spreadsheet which details when each staff member is due an appraisal and when they received it.

32. A standard appraisal template has been established which includes an action section to improve performance relating to:

    - attendance
    - quality and accuracy of work
    - customer service
    - understanding duties and responsibilities
    - understanding policies and procedures.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Performance Reporting Arrangements** LiveArgyll's business and sector plans are comprehensive and include a number of supporting performance measures. Collection of the data to report against these performance measures is labour intensive and subject to the risk of human error. There is scope to improve existing processes to ensure all current outcomes are being measured and assessed appropriately. This includes consideration of ways to better automate performance reporting and ensuring the suite of performance measures used are consistent with operational requirements and current working practices.	Processes which require manual reporting and manipulation of data may not be efficient and also increases the risk of human error resulting in to increased risk of inaccuracy.	Management are exploring options in respect of a replacement Leisure Management System which amongst other things will support management reporting by allowing automated reporting which will support consistency, accuracy and timely reporting. Measures no longer being reported on will be removed from reporting schedules and associated documents updated.	Business Support Manager 30 September 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL

1. SUMMARY

1.1 This report outlines the proposed changes to the Internal Audit Charter and Internal Audit Manual. Both have been updated to reflect changes in the working practices within Internal Audit.

2. RECOMMENDATIONS

2.1 To approve the amended Internal Audit Charter (Appendix 1).

2.2 To approve the amended Internal Audit Manual (Appendix 2).

3.0 DETAIL

3.1 Under the Public Sector Internal Audit Standards (PSIAS) Internal Audit is required to prepare an Internal Audit Charter, consistent with the Mission of Internal Audit that defines internal audit's purpose, authority and responsibility.

3.2 However just having a Charter is not sufficient to comply with the requirements of PSIAS. The requirement for a Charter is just one element of PSIAS. Full compliance requires the adoption of a range of principles and working practices which are closely aligned to the requirements as set out in PSIAS.

3.3 Whilst there is no written requirement, within PSIAS, for an Internal Audit Manual to be created, in general, it is considered good practice to develop a manual to help guide the overall management and administration of the department and the audit approach adopted. Given the mandatory nature of PSIAS it also makes sense for that manual to be consistent with the requirements of PSIAS.

3.4 The Charter and Manual were both fully revised by the CIA in 2018 and were reviewed in 2019. The tables below provide a summary of changes to both documents:

Internal Audit Charter

Page	Para	Summary of change
Front	N/A	Date updated.
3	6	Changed titles to reflect new Council structure.
4 & 5	13	Added reference to counter fraud arrangements and the option to use a CIA from another local authority to oversee an audit

5	16	New paragraph to reflect the introduction of a register of interests in 2019.
5	19	Changed titles to reflect new Council structure.
6	30	Paragraph revised to reflect the establishment of the new Counter Fraud team.
8	42	17 March 2020 committee date added.

Internal Audit Manual

Page	Para	Summary of change
Front	N/A	Date updated.
4	6	Changed titles to reflect new Council structure
5	8	Sentence added '*All members of the internal audit team, on an annual basis, self-assess their compliance with ethical principles and relevant Argyll and Bute Council policies by completing a Fit and Proper form. This is submitted to the CIA.'* This was introduced in 2019.
11	46	Changed date from 2019/20 to 2020/21.
16	90	Changed titles to reflect new Council structure.
16	94	Updated to reflect that IA follow up process is now quarterly rather than monthly.

4.0 CONCLUSION

4.1 The Internal Audit Team has updated the Internal Audit Charter and Internal Audit Manual in line with the requirements of the PSIAS.

5.0 IMPLICATIONS

5.1 Policy - Internal Audit continues to adopt a risk based approach to activity
5.2 Financial -None
5.3 Legal -None
5.4 HR - None
5.5 Fairer Scotland Duty - None
5.5.1 Equalities – None
5.5.2 Socio-Economic Duty – None
5.5.3 Islands Duty - None
5.6 Risk – A consistent audit approach helps reduce the Council's risk exposure
5.7 Customer Service - None

Laurence Slavin
Chief Internal Auditor
17 March 2020

For further information please contact: Internal Audit (01436 657694)

Appendices:

1. **Internal Audit Charter**
2. **Internal Audit Manual**

Argyll and Bute Council

Internal Audit Charter

March 2020

Contents

Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (the Standards), which came into effect in April 2013, and were updated in April 2017.

2. The Standards require the Argyll and Bute Council (the Council) to have an Internal Audit Charter (the Charter), consistent with the Mission of Internal Audit, that defines internal audit's purpose, authority and responsibility.

Internal Audit Mission (PSIAS Section 3)

3. It is internal audit's mission to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Auditing (PSIAS Section 4)

4. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Definition of Roles

5. The Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of Internal Audit work:

   - **Board** - refers to the Council's Audit and Scrutiny Committee (the Committee) which has delegated responsibility for overseeing the work of Internal Audit
   - **Senior management** - is defined as the Chief Executive and members of the Council's Senior Management Team (SMT)
   - **Chief Audit Executive** - refers to the Chief Internal Auditor (CIA).

Purpose of Internal Audit

6. The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, Internal Audit will also:

   - support the Head of Financial Services (s95 officer) and the Committee in the discharge of their duties
   - support the Council's Monitoring Officer
   - support the Council's anti-fraud and corruption arrangements
   - provide advice and guidance on control implications for new or changed systems where appropriate
   - support the Council and the SMT during key transformational / change projects.

7. Internal Audit may also provide an independent and objective consultancy service, which is advisory in nature and generally performed at the specific request of service management. The aim of the consultancy service is to help line management improve the Council's risk management, governance and internal control. A specific contingency will be made in the internal audit plan to allow for management requests and consultancy work. The CIA will consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. Such consultancy work will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Committee before any significant unplanned consultancy work is accepted.

8. The Internal Audit activity is established by the Committee with Internal Audit's responsibilities defined by the Committee as part of their oversight role.

Authority and Scope

9. Internal audit, with strict accountability for confidentiality and safeguarding records and information, has authorised full, free, and unrestricted access to any and all of the Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit, through the CIA, will also have free and unrestricted access to the Committee. Designated auditors are entitled, without necessarily giving prior notice, to require and receive:

    - access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature
    - access at all reasonable times to any land, premises, officers and members of the Council
    - the production of any cash, stores or other property of the Council under an officer's and member's control
    - explanations concerning any matter under investigation.

10. Where the Council works in partnership with other organisations, the role of internal audit will be defined on an individual basis. Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Committee and in consultation with the SMT to ensure that appropriate audit resources are available to provide assurance over the Council's activities. Internal Audit currently provide audit services to LiveArgyll, the arrangements for internal audit have been agreed with LiveArgyll's General Manager who reports to LiveArgyll's Finance and Audit Sub-Committee.

Independence and Objectivity

11. Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content. This will ensure that the work of Internal Audit is independent and objective.

12. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

13. The CIA has additional responsibilities for risk management and counter fraud arrangements. The CIA will declare an interest for audit assignments in these areas with the next most senior internal

audit team member taking additional reporting responsibilities where such conflicts arise. This arrangement will address the recognised independence issues arising from the CIA's other responsibilities. A further option, if required, is for the CIA of another local authority to provide oversight of an audit where there is a possible conflict of interest.

14. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, as detailed in the Chartered Institute of Internal Audit's Code of Ethics.

15. Internal auditors must also make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments, as detailed in the 7 Principles of Public Life (the 'Nolan principles').

16. Each member of the Internal Audit team completes a register of interest and updates it, at a minimum, on an annual basis.

17. The CIA will confirm to the committee, at least annually, the organisational independence of Internal Audit.

Organisation

18. The CIA is the officer responsible to the Committee for the provision of an independent Internal Audit service. The CIA will discharge this responsibility through the direct application of internal audit resources.

19. The CIA reports, on an administrative basis, to the Head of Financial Services who is the Council's nominated Section 95 Officer and a member of the SMT. However the CIA also has unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors including the Executive Director who is the Council's Monitoring Officer.

20. The CIA has direct access to the Chair of the Committee to discuss any matters the Committee or auditors believe should be raised privately. One of the functions of the Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Officers of the Council is afforded to all members of the Internal Audit service.

21. The CIA is required to hold a professional qualification and be suitably experienced with other team members having suitable experience and/or be working towards a relevant qualification.

Resourcing

22. The CIPFA Local Government Application note for applying PSIAS states that '*No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage'.*

23. It is the CIA's responsibility to ensure that resourcing arrangements are in place to deliver the annual risk based internal audit plan and that those resources are flexible enough to cope with special requests. Where applicable the CIA may seek additional input from external providers.

24. The internal audit plan will document the budgeted resource requirements for the audit year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the Committee.

Responsibility and Scope

25. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives. This recognises that Internal Audit's remit extends to the entire control environment of the organisation.

26. Internal Audit is not a substitute for the operation of effective internal controls, which are the direct and sole responsibility of management. However, Internal Audit's specific commitments do include (but are not necessarily limited to) the following:

    - examining and evaluating the adequacy of the Council's system of internal control, including those pertaining to the deterrence, detection and investigation of fraudulent or illegal acts
    - reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information
    - reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations
    - reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets
    - appraising the economy and efficiency with which resources are employed and the quality of performance in carrying out assigned responsibilities
    - coordinating Internal Audit activities with the work of the External Auditors and assisting them as required.

27. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Committee and the SMT including fraud risks, governance issues, and other matters needed or requested by the Committee.

Fraud and Corruption

28. Managing the risk of fraud and corruption is the responsibility of the SMT. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.

29. Audit procedures alone cannot guarantee that fraud and corruption will be detected, nor does Internal Audit have the responsibility for prevention and detection of fraud. However, individual auditors will be alert in their work to risks and exposures that could allow a fraud, irregularity or corrupt practice to take place.

30. Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service / Executive Director will notify the Council's Monitoring Officer, Head of Financial Services and the CIA for consideration of appropriate action. Further guidance can be found in the Council's Anti-Fraud strategy and Public Interest Disclosure Policy. The Council's Counter Fraud Team (established 1 April 2020) reports directly to the CIA so the CIA will be involved in overseeing any investigation and will liaise with the Council's Monitoring Officer during the investigation of the alleged fraud and in particular:

    - examine current Council policies, procedures and financial controls, their current working and effectiveness in relation to the alleged fraud

- report to the SMT in relation to the adequacy of current Council policies, procedures and financial controls in relation to the alleged fraud and make recommendations for their revision
- provide advice and assistance to the Monitoring Officer in relation to Council policies, procedures and financial controls and control issues relevant to the investigation of the alleged fraud.

Professionalism

31. Internal Audit will adhere to the Standards, which are based on the Chartered Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit's performance.
32. Other professional guidance will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and Internal Audit's manual.
33. A programme of personal review and development (PRD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Internal Audit Plan

34. At least annually, the CIA will submit an Internal Audit plan that includes risk assessment criteria to the Committee for review and approval. The CIA will communicate the impact of any resource limitations and significant interim changes to the SMT and the Committee.
35. The Internal Audit plan will be developed based on a prioritisation of those key risks facing the Council including input of the SMT and the Committee. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:
    - the Council's risk registers and risk management framework
    - a balance of coverage across all operational areas (this constitutes the assurance nature of the plan ensuring an adequate level of internal audit review annually within each service)
    - experience gained from previous Internal Audit activity
    - the impact of national issues (e.g. economic factors, the introduction of new legislation)
    - the impact of local issues (e.g. corporate or service action plans)
    - periodic review of core financial and operational systems
    - the available audit resource and skills
    - staff development and training
    - time needed for the management of the Internal Audit service
    - contingency set aside for consultancy, reviews or investigations
    - liaison with other assurance providers such as the External Auditor and other scrutiny bodies.

Reporting and Monitoring

36. Following the conclusion of each Internal Audit engagement, a written report will be prepared, reviewed by the CIA and distributed as appropriate. Internal Audit reports will also be presented to the Committee. LiveArgyll audit reports will also be presented to their Finance and Audit Sub-Committee by the LiveArgyll General Manager.

37. The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific issues and risks. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

38. Internal Audit will be responsible for appropriate follow-up on engagement findings and actions. All findings will remain open until appropriate action is demonstrably taken by management or the risk of no action is formally accepted.

Periodic Assessment

39. Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of Internal Audit activity. This consists of an internal annual self-assessment of the service and its compliance with the Standards and ongoing performance monitoring. The adequacy of Internal Audit is also assessed on an annual basis by the Council’s external auditors.

40. External assessments against the Standards will be conducted at least once every five years by a suitably qualified, independent assessor. These reviews form part of a national peer review programme administered by the Scottish Local Authorities Chief Internal Auditor Group.

41. The conclusions of all internal and external assessments will be reported to the Committee.

Approval

42. This Charter was reported to and approved by the Committee at its meeting on 17 March 2020 and shall be subject to regular review by the CIA and the Committee.

Argyll and Bute Council

Internal Audit Manual

March 2020

Contents

Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013, and were updated in April 2017.

2. This Internal Audit Manual (the Manual) has been created to provide guidance to the Internal Audit section of Argyll and Bute Council (the Council) on the administration of the department and audit approach to be adopted. The contents are guided by the requirement of PSIAS with the key sections cross referenced to the appropriate section in PSIAS.

Internal Audit Mission (PSIAS Section 3)

3. It is Internal Audit's mission to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Auditing (PSIAS Section 4)

4. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Ethics (PSIAS Section 6)

Overview

5. The purpose of a '*Code of Ethics'* is to promote an ethical culture within the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, governance and control. A '*Code of Ethics'* extends beyond the definition of internal auditing to include two essential components:

   - principles that are relevant to the profession and practice of internal auditing
   - rules of conduct that describe behaviour norms expected of internal auditors.

Applicability and Enforcement

6. A '*Code of Ethics'* applies to all of those who are commissioned to provide internal audit services to the Council. Suspected or known breaches of the '*Code of Ethics'* should be referred to at least one of the following, as considered appropriate:

   - Chief Internal Auditor (CIA)
   - Head of Financial Services (Section 95 Officer)
   - Monitoring Officer
   - Audit and Scrutiny Committee (the Committee).

7. The fact that a particular piece of 'behaviour' which has been identified as being possibly inappropriate is not specifically covered by, or mentioned within, the Council's own 'Code of Conduct', does not necessarily prevent it from being unacceptable, discreditable or indeed unprofessional.

8. For members of the Chartered Institute of Internal Auditors, breaches of the '*Code of Ethics'* will be evaluated and administered in line with the Institute's disciplinary procedures. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation. Such procedures are without prejudice to the Council's own disciplinary procedures. All members of the internal audit team, on an annual basis, self-assess their compliance with ethical principles and relevant Argyll and Bute Council policies by completing a Fit and Proper form. This is submitted to the CIA.

Relevant Codes

9. Qualified internal auditors could be members of one or more of the following institutions: Chartered Institute of Public Finance & Accountancy (CIPFA), the Chartered Institute of Management Accountants (CIMA), the Chartered Institute of Internal Auditors (IIA) and the Association of Chartered Certified Accountants (ACCA). Each of these bodies have their own Code of Ethics which members are expected to comply with.

Integrity

10. Internal auditors should:

- perform their work with honesty, diligence and responsibility
- observe the law and make disclosures expected by the law and the profession
- not knowingly be a party to any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation
- respect and contribute to the legitimate and ethical objectives of the Council.

Objectivity

11. Internal auditors should:

- not take part in any activity or relationship that may impair or be presumed to impair their unbiased assessment
- not accept anything that may impair or be presumed to impair their professional judgement
- disclose all material facts known to them that, if not disclosed, may distort the reporting or activities under review.

Confidentiality

12. Internal auditors should:

- act prudently when using information acquired in the course of their duties and protect that information
- not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council.

Competency

13. Internal auditors should:

- only carry out services for which they have the necessary knowledge, skills and experience
- perform services in accordance with the International Standards for the Professional Practice of Internal Auditing (as applied in the PSIAS)
- continually improve the proficiency and effectiveness and quality of their services, for example through the Council's Performance Review and Development (PRD) scheme.

Principles of Public Life

14. In all dealings Internal Audit will adhere to Nolan's seven principles of public life as set out in Exhibit 1.

Exhibit 1– Nolan's Seven Principles of Public life

Principle	Description
Selflessness	Holders of public office should take decisions solely in terms of the public interest.
Integrity	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends.
Objectivity	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openness	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
Honesty	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	Holders of public office should promote and support these principles by leadership and example.

PSIAS Attributes

Internal Audit Charter (PSIAS 1000 - 1120)

15. The Internal Audit Charter (the Charter), which has been agreed by the Committee, and is subject to annual review and approval, provides the required information to comply with the PSIAS attributes listed in Exhibit 2. As such this detail is not repeated in the Manual. The Manual will cover all other requirements of PSIAS.

Exhibit 2– PSIAS Attributes Detailed in the Internal Audit Charter

PSIAS Reference	Attribute
PSIAS 1000	Purpose, Authority & Responsibility
PSIAS 1100	Independence & Objectivity
PSIAS 1110	Organisational Independence
PSIAS 1120	Individual Objectivity

Proficiency (PSIAS 1210)

16. The Internal Audit team will work with proficiency and due professional care. The CIA shall be a CCAB accountant or CMIIA internal auditor with suitable experience.

17. The CIA is responsible for recruiting appropriate internal audit staff in accordance with the Council's recruitment processes. As part of the role the CIA shall:

- ensure that internal audit collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities
- obtain competent advice and assistance where internal audit does not possess the skills, knowledge and other competencies required to perform its responsibilities
- ensure that internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation
- ensure that internal auditors have sufficient knowledge of key information technology risks and controls
- ensure that internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work.

Due Professional Care (PSIAS 1220)

18. In completing planning activities and subsequent audit work internal auditors shall consider the:
    - extent of work needed to achieve the engagement's objectives
    - relative complexity, materiality or significance of matters to which assurance procedures are applied
    - adequacy and effectiveness of governance, risk management and control processes
    - probability of significant errors, fraud, or non-compliance
    - cost of assurance in relation to potential benefits.
19. In addition internal auditors exercise due professional care during a consulting engagement by considering the:
    - needs and expectations of clients, including the nature, timing and communication of engagement results
    - relative complexity and extent of work needed to achieve the engagement's objectives
    - cost of the consulting engagement in relation to potential benefits.
20. The CIA will ensure that PRD meetings are conducted in line with the Council's prescribed frequency and quality.

Quality Assurance and Improvement Programme (PSIAS 1300)

21. The Institute of Internal Auditors (IIA) Practice Guide "Quality Assurance and Improvement Programme" (QAIP) defines a quality assurance and improvement programme as:

    "An ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. These ongoing and periodic assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. This also includes ongoing measurement and analyses of performance metrics (e.g. internal audit plan accomplishment, recommendations accepted and customer satisfaction). If the assessments' results indicate areas for improvement by the internal audit activity, the chief audit executive will implement the improvements through the QAIP."

Requirements of the Quality Assurance and Improvement Programme (PSIAS 1310)

22. In accordance with the requirements of PSIAS the CIA has developed and maintains a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.

23. The QAIP assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This assessment takes into account quality improvement from both internal and external assessments.

Internal Assessments (PSIAS 1311)

24. At an audit activity level written policies and procedures, covering both technical and administrative matters are formally documented to guide audit staff in consistent conformance with PSIAS and the Code of Ethics. This is demonstrated by:

    - an annual assessment is undertaken, which is reported to the Committee, in order to determine the extent to which Internal Audit conforms to the Standards
    - maintenance of the Charter, setting out the purpose, authority and responsibility of Internal Audit
    - maintenance of the Manual, providing guidance on working practices.

25. Audit work conforms to written policies and procedures. This is demonstrated by:

    - all audit working papers being subject to formal review by the CIA
    - draft and final reports are checked and approved by the CIA and appropriate officers
    - this Manual setting out the various processes to ensure consistent conformance with PSIAS and the Code of Ethics.

26. Post-engagement client surveys to inform lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed. These are issued at the end of each audit engagement with results acted upon and reported to the Committee.

External Assessments (PSIAS 1312)

27. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) has developed a framework for undertaking external assessments as follows:

    - each local authority will be reviewed once every five years
    - the SLACIAG Committee oversee the framework's implementation and provide a level of scrutiny and quality assurance to ensure the adequacy of the process and to arbitrate over any disputed outcomes as required
    - each authority is allocated another authority to assess
    - each Council's CIA may appoint a team to undertake the assessment of the body to whom it has been appointed, with the CIA being responsible for authorising the final report
    - a qualified assessor, or assessment team, needs to demonstrate competence in two areas: the professional practice of internal auditing; and the external assessment process, and it is for the CIA of the body being assessed to determine whether the assessor or team is sufficiently competent. Where a team is undertaking the inspection, these competencies must be held by the team collectively and not necessarily by all individuals within the team.

28. External assessors express an opinion on the entire spectrum of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in carrying out its charter and meeting the expectations of stakeholders.

Reporting on the Quality Assurance and Improvement Programme (PSIAS 1320)

29. The CIA will report the results of the QAIP, via Committee papers, to the SMT and the Committee.

International Standards for the Professional Practice of Internal Auditing' (PSIAS 1321)

30. The CIA shall only state that the internal audit activity conforms with PSIAS if the results of the QAIP support this.

Disclosure of Non-conformance (PSIAS 1322)

31. The CIA shall report any instances of non-conformance with the PSIAS to the Committee and consider including any significant deviations from the PSIAS in the governance statement where there is evidence to support this.

Performance

Managing the Internal Audit Activity (PSIAS 2000)

32. The work of Internal Audit is specified to deliver upon the requirements of the Annual Internal Audit Plan in accordance with the Charter and this Manual.

33. Internal audit activities are reviewed as part of the each audit assignment prior to the issuing of reports. This is to ensure that the work continues to reflect the definitions per the Charter and the Manual. The Manual in this iteration has been specified to reflect the requirements of the PSIAS published in April 2017.

Planning (PSIAS 2010)

34. The Annual Internal Audit Plan is based on a documented risk assessment process. The Internal Audit plan will be developed based on a prioritisation of those key risks facing the Council including input of the SMT and the Committee. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:

- the Council's risk registers and risk management framework
- a balance of coverage across all operational areas (this constitutes the assurance nature of the plan ensuring an adequate level of internal audit review annually within each service)
- experience gained from previous Internal Audit activity
- the impact of national issues (e.g. economic factors, the introduction of new legislation)
- the impact of local issues (e.g. corporate or service action plans)
- periodic review of core financial and operational systems
- the available audit resource and skills
- staff development and training
- time needed for the management of the Internal Audit service
- contingency set aside for consultancy, reviews or investigations
- liaison with other assurance providers such as the External Auditor and other scrutiny bodies.

35. The risk based plan will include suitable flexibility to reflect the changing risks and priorities of the organisation with this being kept under review by the CIA during the course of the year. Such action may be taken in response to changes in the Council's business, risks, operations, programmes, systems and controls.

36. Internal Audit may also provide consultancy work on the basis that it improves the management of risks, adds value and improves the Council's operations. A specific contingency will be made in the internal audit plan to allow for management requests and consultancy work. The CIA will consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. Such consultancy work will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Committee before any significant unplanned consultancy work is accepted.

Communication and Approval (PSIAS 2020)

37. The CIA communicates the planned internal audit activities, along with the resource requirements to the Committee for approval. Any significant revisions in the plan, resource limitations or requirements for additional resources shall be communicated to the SMT and the Committee for approval.

Resource Management (PSIAS 2030)

38. The CIPFA Local Government Application note for applying PSIAS states that '*No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage'.*

39. It is the CIA's responsibility to ensure that resourcing arrangements are in place to deliver the annual risk based internal audit plan and that those resources are flexible enough to cope with special requests. Where applicable the CIA may seek additional input from external providers.

40. The internal audit plan will document the budgeted resource requirements for the audit year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the Committee.

Policies and Procedures (PSIAS 2040)

41. This Manual serves as the Internal Audit's policies and procedures. The Manual is specifically aligned to the provisions of the PSIAS and in complying with the Manual the team are demonstrating compliance with the standards. The Manual is reviewed, and presented to the Committee for approval, on an annual basis.

Coordination and Reliance (PSIAS 2050)

42. The CIA is required to share information as appropriate with other providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

43. In preparing the Internal Audit Annual Plan, the CIA shall seek to establish the extent to which assurance can be placed on the work planned by external scrutiny bodies such as the Council's External Auditors, Audit Scotland or the Local Area Network and also any internal control reviews undertaken by local management. This work informs our planned activities for the year with other sources of assurance being used to inform the annual assurance statement as well as future audit

planning. However, the CIA accepts their accountability and responsibility for ensuring adequate support for conclusions and opinions reached by the assurance activity, no matter the source.

Reporting to Senior Management and the Board (PSIAS 2060)

44. The CIA shall prepare and present performance reports to each sitting of the Committee. Performance reports will capture the activities of Internal Audit relative to the plan.

45. Ongoing reporting will also highlight specific issues as they relate to risk exposures, control issues, fraud, governance or any other matters that the CIA deems appropriate for consideration by the Committee. Significant issues will also be captured within the annual internal audit report.

External Provider & Organisational Responsibility for Internal Auditing (PSIAS 2070)

46. Under any circumstances where an external internal audit service provider acts as the internal audit activity, the provider shall ensure that the Council is aware that the responsibility for maintaining an effective internal audit activity remains the responsibility of the Council. This is not applicable in the financial year 2020/21.

Nature of the Work

47. Internal audit activity shall evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach as outlined in the Charter.

48. Planned audit work includes consideration of a number of different types of audit assignments including systems, regularity, performance, consultancy, risk and IT. This varied application of audit resources ensures that different aspects of Council business have been subjected to testing with assurances being sought over a range of activities.

Governance (PSIAS 2110)

49. The work of Internal Audit will include reviews to improve the Council's governance processes for:

    - making strategic and operational decisions
    - overseeing risk management and control
    - promoting appropriate ethics and values within the Council
    - ensuring effective organisational performance management and accountability
    - communicating risk and control information to appropriate areas of the Council
    - coordinating the activities of and communicating information among the Committee, external and internal auditors, other assurance providers and management.

50. The work of Internal Audit shall also consider the design, implementation, and effectiveness of the Council's ethics-related objectives, programmes and activities and that the Council's information technology governance supports the organisation's strategies and objectives.

Risk Management (PSIAS 2120)

51. The work of Internal Audit shall evaluate the effectiveness of the Council's risk management processes by determining whether:

    - organisational objectives support and align with the Council's mission
    - significant risks are identified and assessed
    - appropriate risk responses are selected that align risks with the Council's risk appetite

- relevant risk information is captured and communicated in a timely manner across the Council, thus enabling the staff, management and the board to carry out their responsibilities.

52. Internal Audit will evaluate the risk exposure relating to the Council's governance, operations and information systems regarding the:

- achievement the Council's strategic objectives.
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

53. The consideration of risk shall be included in all audit assignments including those consultancy reports to ensure that they are consistent with the objectives of the engagement.

54. In completing audit assignments internal auditors shall also be alert to other significant risks and note these accordingly – informing management of possible work outside the scope of the audit where appropriate.

55. When assisting management in establishing or improving risk management processes, internal auditors must refrain from managing risks themselves, which would in effect lead to them taking on management responsibility,

Control (PSIAS 2130)

56. The work of Internal Audit evaluates the adequacy and effectiveness of controls in the Council's governance, operations and information systems regarding the:

- achievement of the Council's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts.

57. Internal auditors will utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes.

Engagement Planning

Engagement Objectives (PSIAS 2210)

58. Auditors are required to ensure that objectives have been agreed for each engagement. Inherent in this process is the need to carry out a preliminary risk assessment and a consideration of the probability of the following, when developing the engagement objectives:

- significant errors
- fraud
- non-compliance
- any other risks

59. At the start of all engagements (including consulting engagements), a Terms of Reference document showing the scope, objectives and associated risks of the review, plus anticipated timelines will be

created. This will be agreed between the CIA and the Internal Audit team member assigned the audit. The Terms of Reference document will also be agreed by the appropriate Head of Service or delegated audit contact.

Engagement Scope (PSIAS 2220)

60. The scope of the audit work should be established so that it is sufficient to satisfy the engagement's objectives. The engagement scope should consider the following relevant areas of the Council (this should also consider relevant areas under the controls of outside parties):

- systems
- records
- personnel
- physical properties.

61. Where significant consulting opportunities have arisen during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be developed and agreed with the CIA.

62. It is accepted that not all areas of a process will be reviewed at each audit, which might include geographical areas; the scope should be sufficient to satisfy the engagement objectives, but should also state, where appropriate, which areas are not covered.

63. For a consulting engagement, the scope of the engagement should be sufficient to address any agreed-upon objectives. If the internal auditors develop any reservations about the scope of a consulting engagement while undertaking that engagement, they are required to discuss those reservations with the relevant officer and the CIA to determine whether to continue with the engagement.

64. During consulting engagements, internal auditors are required to address the controls that are consistent with the objectives of those engagements.

Engagement Resource Allocation (PSIAS 2230)

65. The CIA is required to decide upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on the nature and complexity of each individual engagement, time constraints and the resources available.

66. An initial consideration of the resources required is in the audit plan, but this should be reviewed when the scope and objectives of the engagement are determined.

Engagement Work Programme (PSIAS 2240)

67. The CIA has developed a template work programme which provides a clear link between the programme and the agreed terms of reference and Internal Auditors should use this template for all assignments. The template demonstrates how the work performed meets the agreed engagement objectives.

68. The work programme should be created by the internal audit team member assigned the audit, in discussion with the CIA, and include procedures for identifying, analysing, evaluating and documenting information. Work programmes for consulting engagements may vary in form and content depending on the nature of the engagement. This will require the approval of the CIA.

69. Work programmes must be approved by the CIA prior to implementation for each engagement and amended as necessary.

Performing the Engagement

Identifying Information (PSIAS 2310)

70. Internal auditors are required to identify sufficient, reliable, relevant and useful information to achieve each engagement's objectives.

71. Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

Analysis and Evaluation (PSIAS 2320)

72. When performing audits, internal auditors are required to base their conclusions and engagement results on appropriate analysis and evaluation whilst remaining alert to the possibility of:

    - intentional or unintentional wrongdoing
    - errors and omissions
    - poor value for money
    - failure to comply with Council policy
    - conflicts of interest.

Documenting Information (PSIAS 2330)

73. Internal auditors are required to document the relevant information required to support engagement conclusions and results. This includes the need to ensure that working papers are sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.

74. Records management must be consistent with the Council's overall document retention policy, which is in turn consistent with the requirements of the Information Commissioner's Office. Internal Audit record keeping must also be consistent with the specific requirements of the area audited, for example EU audits require documents to be kept for 7 years after the last payment has been made.

75. Electronic engagement records are kept in a restricted folder and on Sharepoint. ICT are responsible for the security controls, and the CIA is responsible for specifying who should have access to this.

76. The CIA shall obtain the approval of senior management and/or legal counsel as appropriate before releasing any engagement records to external parties.

Engagement Supervision (PSIAS 2340)

77. All internal audit engagements shall be properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed.

78. Appropriate evidence of supervision and management review should be documented and retained for each engagement.

Communicating Results

79. Communicating the results of our internal audit work is a crucial aspect of the audit process and is the key link to our stakeholders including the SMT, Heads of Service, Elected Members, the Committee and (where appropriate) the public.

Criteria for Communicating (PSIAS 2410)

80. All audit reports are to be drafted using the template developed by the CIA. This template requires, as a minimum, the overall audit opinion, executive summary, objectives and summary assessment, detailed findings, and an action plan. Any deviation from the template report requires approval by the CIA.

81. Prior to issuing the draft report internal auditors are required to discuss the draft findings with the appropriate officers to confirm factual accuracy. This will generally be carried out at a clearance meetings and a template has been created to facilitate and document that meeting.

82. Where auditors make recommendations and include an action plan, such recommendations are graded to allow the significance of findings to be ascertained.

83. Action plans will include a management response that sets out the agreed action and timescales for the completion of improvement actions. Internal Audit will enter the agreed actions and timescales in the internal audit follow up database.

84. Where there are any areas of disagreement between the internal auditors and management, which cannot be resolved by discussion, such disagreements should be recorded in the action plan and the residual risk highlighted. As all audit reports are reported to the Committee in their entirety this disagreement will be reported to the Committee as and when the report is presented.

85. In completing audit activities auditors are required to include and disclose all material facts identified as part of their audit work and subsequent reports which, if not disclosed, could distort their reports or conceal unlawful practice. Such disclosures should be made with reference to confidentiality requirements or other considerations that may preclude the release of information into the public domain.

Quality of Communications (PSIAS 2420)

86. The work of Internal Audit should always seek to ensure that communications are accurate, objective, clear, concise, constructive, complete, and timely.

Errors and Omissions (PSIAS 2421)

87. It is the CIA's responsibility to ensure that where a final report contains a significant error or omission, subsequent changes, revisions or corrections are communicated to all parties who received the original communication.

Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' (PSIAS 2430)

88. Internal Audit planning and the production of the audit reports will include reference to work being carried out 'in conformance with the PSIAS'. Such disclosure requires underlying activities, such as the results of any QAIP and an assessment of conformance with the Manual. Such a statement can only be made where there is work to support this disclosure.

Engagement Disclosure of Non-Conformance (PSIAS 2431)

89. Where any non-conformance with the PSIAS or Code of Ethics has impacted on a specific engagement, the communication of the results should include the following disclosures:

    - the principle(s) or rule(s) of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved
    - the reason(s) for non-conformance
    - the impact of non-conformance on the engagement and the engagement results.

Disseminating Results (PSIAS 2440)

90. The CIA is responsible for determining the circulation of audit reports within the Council. This circulation should be mindful of confidentiality or the possibility of other legislative requirements. Standard practice is for the report to be issued to the:

- Chief Executive
- relevant Executive Director
- Head of Financial Services
- SMT Admin (for inclusion in SMT meeting)
- key audit contact
- external audit
- the Committee.

91. The CIA shall determine whether there is any specific reason for the distribution list to be amended for any specific report. All audit reports are submitted in their entirety to the Committee which, through the transparent provision of committee papers, makes them public documents. In the event that the report contains sensitive information they may be restricted however this decision will only be taken in consultation with senior management and legal counsel as appropriate.

Overall Opinion (PSIAS 2450)

92. The CIA will deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement.

93. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and include a statement on conformance with the PSIAS and the results of the QAIP.

Monitoring Progress (PSIAS 2500)

94. Internal Audit are responsible for following up on agreed action plans to ensure those actions are properly implemented. On a quarterly basis services are contacted and asked to provide an update on progress against all open action plan points (which are recorded in an internal audit database). This is reported to the SMT on a quarterly basis and as a standard agenda item to the Committee. Where a service reports an action has been closed Internal Audit ask for evidence to support that status. All action plan points will remain open until appropriate action is demonstrably taken by management or the risk of no action is formally accepted.

ARGYLL AND BUTE COUNCIL
FINANCIAL SERVICES

AUDIT & SCRUTINY COMMITTEE
17 MARCH 2020

2020/21 INTERNAL AUDIT ANNUAL PLAN

1. SUMMARY

1.1 This report introduces the 2020/21 Internal Audit Annual Audit Plan.

2. RECOMMENDATIONS

2.1 To agree and approve the Internal Audit Annual Plan 2020/21 (Appendix 1)

3. DETAILS

3.1 The Public Sector Internal Audit Standards (PSIAS) stipulate that the Council's Internal Audit plan must be risk based and focused on governance, risk and controls to allow the Chief Internal Auditor (CIA) to provide an annual opinion on the Council's internal control framework, based on the work undertake during the year. This annual opinion informs the Annual Governance Statement.

3.2 The draft 2020/21 Internal Audit annual plan was presented to the Audit & Scrutiny Committee on 24 January 2020 and there have been no changes to that draft plan.

3.3 The methodology followed to identify the reviews in the draft audit plan is as reported to the Audit & Scrutiny Committee on 24 January 2020 so has not been repeated in this paper.

4. CONCLUSION

4.1 The annual audit plan is risk based and is informed by the Council's long term outcomes, corporate objectives and strategic risk register. The plan incorporates continuous monitoring and verification activity sections.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Legal:	None
5.4	HR:	None
5.5	Fairer Scotland Duty:	None
5.5.1	Equalities:	None
5.5.2	Socio-Economic Duty:	None
5.5.3	Islands Duty:	None
5.6	Risk:	None

5.7 Customer Service: None

For further information please contact Internal Audit (01436 657694)

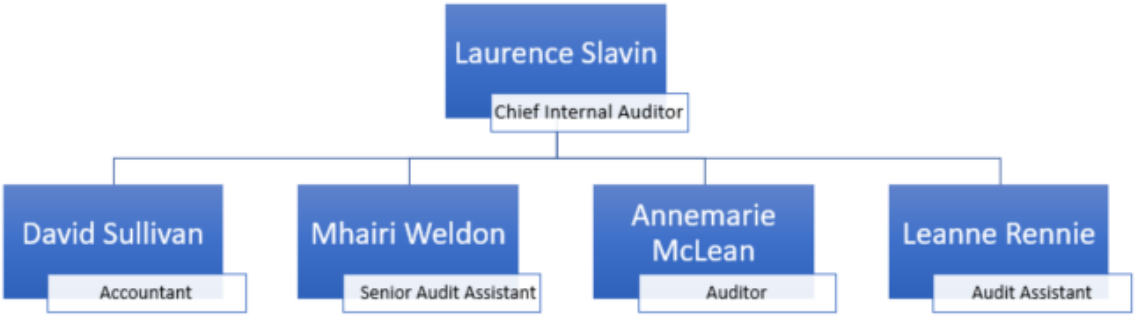
Laurence Slavin
Chief Internal Auditor
17 March 2020

Appendices:
1. 2020/21 Internal Audit Annual Plan

Argyll and Bute Council

FINAL Internal Audit Plan

2020/21



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Definition of Internal Audit

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

   Source: Section 4: Definition of Internal Auditing: Public Sector Internal Audit Standards

Purpose of Internal Audit

2. The main objective of internal audit is to provide a high quality, independent audit service to Argyll and Bute Council (the Council) which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, internal audit will also:

   - support the Head of Financial Services (S95 Officer) and the Audit & Scrutiny Committee (the Committee) in the discharge of their duties
   - support the Council's Monitoring Officer
   - support the Council's anti-fraud and corruption arrangements
   - provide guidance on control implications for new or changed systems where appropriate
   - support the Council and the Strategic Management Team during key transformational / change projects.

Public Sector Internal Audit Standards (PSIAS) Requirements

3. PSIAS sets out the requirement for the:

   - Chief Internal Auditor (CIA) to prepare a risk-based audit plan which takes into account the Council's strategic objectives, associated risks and the views of senior management and the Committee
   - CIA to review and adjust the plan as necessary in response to changes in the Council's business, risks, operations and priorities
   - audit plan to incorporate or be linked to a strategic or high-level statement of how internal audit will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

Risk Assessment

4. Internal audit's approach to annual audit planning is risk-based with all areas which may be subject to audit review contained within an audit universe which is subject to formal review, at least annually. The audit universe includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

5. The audit universe is risk assessed each year to help determine the annual audit plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Note however that that the audit universe, whilst a key factor, is not the only consideration

when determining the audit plan. Senior management have been consulted on priority areas for review, and cognisance is taken of the plans of external audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance.

6. The audit universe risk assessment is based upon a matrix taking account of scores for each potential audit area in respect of:

   - materiality (based on expenditure)
   - sensitivity (based on whether a service is a statutory duty, statutory power or non-statutory, is customer facing and whether it features as a specific challenge in the Council's service plans)
   - time elapsed since it was last subject to review
   - overall audit assessment when it was last subject to review.

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

Strategic Risks

8. The Strategic Risk Register records the Council's own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the annual audit plan with identified reviews cross referenced to the strategic risk register. An abridged version of the strategic risk register (version dated October 2019) is included in appendix 3 for reference.

Resourcing the Plan

9. Internal audit has a core establishment of five full time equivalent officers including two professionally qualified members of staff. Available audit days have been calculated as 865 days (including 110 days of management and administration time), following the deduction of annual leave, training, a small provision for sickness and 90 days to deliver scrutiny work. This 865 days total includes the CIA's input to audit reviews and the running of the internal audit team and a contingency of 75 days.

10. Given the range and complexity of areas to be reviewed it is important that suitably qualified, experienced and trained individuals are appointed to internal audit positions. The CIA, in compliance with PSIAS holds an appropriate professional qualification (CIPFA). Also within the internal audit section we have one CIMA qualified team member, one AAT qualified member who is also training for IIA and one training for CIPFA.

11. Internal audit officers identify training needs as part of their annual appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development.

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

Confirmation of Independence

13. PSIAS requires internal audit to communicate, on a timely basis, all facts and matters that may have a bearing on our independence. We can confirm that the staff members identified to

complete the reviews in the 2020/21 annual audit plan are independent and objectivity is not compromised.

2020/21 Internal Audit Plan

14. Appendix 1 presents the internal audit plan for 2020/21. As our internal audit approach is informed by risks, where appropriate, the plan is cross-referenced to the strategic risk register contained at appendix 3. Appendix 3 also demonstrates the strategic risks that were subject to audit focus in 2019/20 and those we are projecting to cover in the period 2020/21-2021/22. This provides assurance to the Committee that all strategic key risks are subject to audit coverage over a three year cycle. Note that the projected timescales in appendix 3 are provisional as these may change to reflect changes in the Council's risk environment.

15. Appendix 2 presents the 2020/21 internal audit plan in a different format to provide assurance to the Committee that it provides appropriate coverage across all the Council's directorates and head of service's areas of service delivery.

Monitoring the Plan

16. Internal audit reports on performance to the Committee on a quarterly basis including full copies of audit reports issued, progress implementing audit recommendations, performance against agreed performance indicators and a summary of all internal audit activity in the previous quarter.

Quality Assurance and Improvement Programme

17. The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme (QAIP) based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.

18. The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's internal audit team has participated in this framework and an external validation of its own self-assessment took place during 2018/19 which concluded that we demonstrated overall compliance with PSIAS with many areas of strong practice. The next scheduled external assessment will be conducted in 2022.

19. In 2019/20 internal audit carried out an internal self-assessment against PSIAS which was reported to Committee in September 2019. It confirmed the service fully conformed to PSIAS in 11 of the 14 assessment areas. The three areas where they were self-assessed as 'Generally Conforming' is due to the identification of areas for improvement which are fairly minor in nature. These improvements have been built into the service's QAIP.

20. The internal audit team review their QAIP on a quarterly basis and report it to the Committee as part of the standard agenda item 'Internal Audit Summary of Activities.' The programme details all improvement activity being progressed by the team.

Appendix 1 – 2020/21 Internal Audit Plan

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Cross Cutting	Continuous Monitoring Programme	Fraud	15	Participation in National Fraud Initiative	
		Budgeting	15	Cyclical review of key controls over an 18 month programme of audit testing	
		General Ledger	15		
		Creditors	20		
		Debtors	15		
		Payroll	25		
		Treasury management	15		
		Council Tax and NDR	20		
		VAT	15		
		Follow–up	40	Compliance	
Pippa Milne	Strategic Finance	Capital Monitoring	25	Assess the revised capital monitoring procedures and controls	SRR02
	Revenues and Benefits	Scottish Welfare Fund	20	Assess the arrangements for managing the Scottish Welfare Fund Crisis Grants and Community Care Grants	
Douglas Hendry	Education	Primary and Early Years Security	30	Review the controls in place to mitigate the risk of unauthorised access to primary schools and early years establishments and of pupils exiting school premises without authorisation	
	Education	Pupil Work Placements	25	Establish and assess the procedures the Council have for safeguarding school pupils on work experience placements	
	Advice Services	Welfare Rights	25	Assess compliance with statutory requirements and Council policy	
	Trading Standards	Trading Standards	20	Assess the controls relating to the application of statutory requirements and Council policy	
	Procurement, Commissioning and Contracts	Contract Management	25	Review the controls in place to mitigate the risk of the Council not being able to deliver services due to the business failure of a key contracted supplier	SRR06
	Major Project Management	CHORD Project Management	20	Provide audit resource to support a lessons learned review being led by the Head of Commercial Services. This is considered to be consultancy rather than an audit. There will be no formal audit report output however the Chief Internal Auditor will inform the Audit and	SRR02

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
				Scrutiny Committee of any key findings from the review	
	Property Services	Management of Contracts	25	Assess the arrangements for managing and monitoring property contracts	SRR02
Kirsty Flanagan	ICT	Disaster Recovery Planning	25	Assess the adequacy and effectiveness of the Council's disaster recovery arrangements	SRR08
	Human Resources	Sickness Absence	25	Assess the adequacy and effectiveness of the Council's sickness absence arrangements	
	Organisational Development	Workforce Planning	25	Confirm the Council's arrangements for workforce planning and associated processes are appropriate and operating as expected	SRR03 SRR06
	Operations (Roads and Amenity)	Street Cleaning	20	Review of control environment and compliance with relevant policies and procedures	
	Operations (Roads and Amenity	Warden Service	20	Assess the controls relating to the application of statutory requirements and Council policy	
	Strategic Transportation	Oban Airport	12	Assess compliance with the aerodrome operating manual	
	Economic Development	LEADER	10	Assess compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement	
	Housing	Homelessness	25	Ensure appropriate arrangements are in place for the provision of accommodation to homeless clients	
Joanna MacDonald	H&SCP	Charging for Non-Residential Services	25	Assess the charging arrangements for non-residential care services	SRR07
	H&SCP	Learning Disability Care Packages	25	Assess the arrangements for managing learning disability care packages	SRR07
Kevin Anderson	LiveArgyll	Intercompany Controls / Budget Monitoring	20	Assess the controls to ensure expenditure and payroll transactions are appropriately split between company 1 (Argyll and Bute Council) and company 2 (Live Argyll)	
	LiveArgyll	Event Management	15	Assess procedures to manage events hosted in Live Argyll venues including controls over revenue, expenditure, risk management and insurance	

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
	LiveArgyll	Establishment visits	10	Cyclical audit approach to assess LiveArgyll establishment's	
Verification Activity	LGBF	Accuracy	8	Accuracy of submission	
	Stores	Stock count	5	Assess stock count procedures	

Summary of Days

Directorate Contact	Number of Days
Cross Cutting – Continuous Monitoring	195
Pippa Milne	45
Douglas Hendry	170
Kirsty Flanagan	162
Joanna MacDonald	50
LiveArgyll	45
Verification Activity	13
Contingency	75
Total	**755**

Appendix 2 – 2020/21 Internal Audit Plan by Council Directorate / Head of Service

Pippa Milne	Douglas Hendry			Kirsty Flanagan			Joanna MacDonald
Financial Services	Education	Legal & Regulatory	Commercial Services	Customer Support	Roads & Infrastructure	Development & Economic	Health & Social Care Partnership
Capital Monitoring Scottish Welfare Fund	Primary and Early Years Security Pupil Work Placements	Trading Standards Contract Management Welfare Rights	Management of Contracts **CHORD Project Management**	Disaster Recovery Planning Sickness Absence Workforce Planning	Street Cleaning Warden Services	Oban Airport Homelessness LEADER	Charging for Care Services Learning Disability Care Packages
Continuous Monitoring Programme Budgeting, General Ledger, Creditors, Debtors, Payroll, Treasury Management, Council Tax & Non-Domestic Rates, VAT							
Live Argyll Events Management Intercompany Controls / Budget Monitoring Establishment Visits				Other Activity NFI Follow Up Local Government Benchmarking Framework			

Appendix 3 – Strategic Risk Register (Abridged)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
1	**Population and Economic Decline** Failure to identify relevant factors contributing to the decline and failure to develop strategies and actions targeting these factors.	20	1. Local outcome improvement plan targets population and economic recovery 2. Economic Forum 3. Maximise external funding opportunities 4. Strategic economic development action plan 5. Strategic infrastructure plan 6. Area economic development action plans 7.Promote and Market Argyll and Bute 8. Maximise social-eco benefits via effective partnership working 9. Single Investment Plan	16	Treat	1. Deliver Rural Growth Deal (Initial Phase March 2020) 2.Lobbying activity in pursuit of regional immigration policies and related strategies 3. Consider the findings of the scrutiny review of the economic strategy (March 2020)	2019//20 (Scrutiny) 2021/22

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
2	**Condition and suitability of Infrastructure & Asset Base** Infrastructure and asset base does not meet current and future requirements and is not being used or managed efficiently and effectively.	16	1. Asset management board 2.Robust capital planning and monitoring 3. Asset management work plan 4. Business case modelling including sustainability, development and strategic change 5. Intelligence and best practice sharing via Heads of Property Group. 6. New schools programme 7.Smarter Places 8. Community Empowerment and Community Asset Transfer – Arrangements in place to evaluate and determine requests. 9. Roads Asset Management Plan 10. Status and Options Report 11. R&A Services control hub and joint operations team 12. One Council Property Approach	12	Treat	1. Development of capital strategy (February 2020)	2020/21

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
3	**Financial Sustainability** Insufficient resource to meet current and future service requirement. Budget not aligned / does not support business outcomes.	16	1. Longer term financial planning. 2. Income generation activity 3. Robust budget preparation and budget monitoring protocols 4. Maintaining adequate contingency with reserves. 5. Digital transformation 6. Develop Effective workforce planning model 7. Transformation Programme. 8. RPIF / Business Outcomes	12	Treat	1. Implement SF resilience building project including knowledge sharing and development of guidance notes (March 2020) 2. Complete review of financial strategy (March 2020) 3. Development of medium to longer term savings options (Feb 2020) 4. Deliver Rural Growth Deal (Initial Phase March 2020) 5. Review of HSCP Scheme of Integration (June 2020)	2019//20 (Scrutiny) 2020/21 Ongoing via Continuous Monitoring
4	**Governance and Leadership** Governance and leadership arrangements are not conducive to effective working and lead to a lack of strategic direction.	16	1. Administration in place with working majority 2. Members Seminar programmes 3. Mentoring and Coaching Support for policy leads and Senior Management 4. Priorities agreed by Council 5.Corporate Plan sets out objectives 7. Performance Improvement Framework and Service Planning. 8. Leadership development programme. 9. Council constitution regularly reviewed and updated. 10. Established partnership governance arrangements 11. Scrutiny arrangements in respect of Police, Fire and Health. 12. Governance arrangements for scrutiny	12	Treat	1. Consider the findings of the BV3 review (June 2020)	2019/20

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
			established				
5	**Engagement and Understanding the needs of the Community** The Council fails to understand service user needs and emerging demographic trends and does not align service delivery to meet these.	12	1. Community Planning partnership 2. Community Engagement Strategy 3.Customer Service Board 4. Operation and development of panels and forums. Young people's plan, citizen's panel 5. Budget Consultation 6.Comprehensive Complaints Protocols 7.Demographic and end user analysis 8. Conducted future of public services roadshows Summer 2018	6	Tolerate		2021/22

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
6	**Service Delivery** Insufficient resources to ensure effective service delivery	9	1. Performance Improvement Framework 2.Service Improvement plans 3.Argyll and Bute Manager programme 4. Customer needs analysis Protocols 5.Demographic and end user analysis 6.Workforce Planning 7.Internal and External Scrutiny Arrangements 8.Complaints process	6	Tolerate		2020/21
7	**Health and Social Care Partnership** Failure to deliver strategic objectives and integrate Health and Social Care services in an efficient and effective manner exposes the Council, as a key partner, to unacceptable financial and reputational risk.	20	1. HSCP integration scheme approved by Scottish government 2. Strategic Plan in place 3. Performance and Financial reporting arrangements in place 4. Independent audit arrangements in place. 5. Integrated Joint board with elected member representation including Council Leader 6.Chief Officer member of ABC Senior Management Team with co-location of officers 7. Tripartite leadership agreement 8. Monitoring of HSCP financial position.	15	Treat	1. Develop options to deliver sustainability of future years budgets (March 2020 and ongoing) 2. Deliver the financial recovery plan (March 2020)	2019/20 2020/21 Assurance also taken from IJB internal audit function

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
8	**Civil Contingency & Business continuity** arrangements are not effective.	8	1. Emergency Planning Test events 2. Critical Activity Recovery Plans 3. Roll out of Community resilience partnership programme 4. Peer review of major exercises undertaken to provide external validation of planning process 5. West of Scotland local resilience partnership 6.Cross sector expertise and partnership working 7. Emergency Management Support Team (EMST) meetings 8. Training 9. EU Withdrawal Tactical Working Group with arrangements for daily reporting to the West of Scotland Resilience Partnership	6	Treat	1. Develop a business continuity policy (March 2020)	2019/20 2020/21
9	**Welfare Reform** Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis	20	1. Welfare reform group established. 2. Joint working with DWP, CPP and other agencies. 3. Money Skills Argyll	12	Treat	1. Engage with partners, BIG and other project leads on compliance framework /requirements.	2019/20

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
10	**Waste Management** Unable to dispose of waste in landfill sites due to the implications of the biodegradable municipal waste (BMW) landfill ban in 2025	20	1. Helensburgh and Lomond waste solution available via third party offtakers 2. Waste strategy	16	Treat	1. Seek Island impact assessment and funding necessary to achieve compliance 2. Seek derogation from Scottish Government for contractual and island waste.	2021/22
11	**Service Delivery - Cyber Security** Unable to deliver services to customers because of failure of ICT systems following major cyber security breach	15	1. ICT Security & compliance officer in post, producing weekly threat analyses, member of CiSP 2. PSN and Cyber Essentials Plus accreditations for corporate network 3. Regular patching regimes in place 4. ICT Disaster recovery plans tested regularly 5. All critical activities have recovery plans developed (CARP's)	6	Treat	1. Consider the findings of Internal Audit's Cyber Security Audit (April 2020)	2019/20
12	**Withdrawal from the EU** Insufficient preparedness for exit from the European Union	15	1. Establishment of tactical team with direct reports to Chief Executive as Strategic Lead 2. Regular reporting to the Strategic Management Team and the Industry and Regional Development Sounding Board as the strategic group. 3. Tactical team via the Civil Contingencies Manager liaising/ collaborating with Regional Resilience Partnerships and other resilience partners.	10	Treat	1. Development and regular review of dedicated risk register with input from representatives across the organisation and the Health and Social Care Partnership. 2. Preparation of Brexit workplan 3. Standing item on agenda for Strategic Management Team. Deadline - ongoing.	Ongoing – CIA sits on the tactical team

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Agenda Item 9

Argyll and Bute Council

Annual Audit Plan 2019/20

AUDIT SCOTLAND

Prepared for by Argyll and Bute Council

March 2020

Contents

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to Argyll and Bute Council (the Council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Council promote improved standards of governance, better management and decision making and more effective use of resources. For example, we have already provided feedback to the Head of Financial Services on proposals for re-profiling loan fund payments.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the Council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in Exhibit 1.

Exhibit 1
2019/20 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks			
1	**Management override of controls** Auditing Standards require that audit work is planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to fraudulently misrepresent the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	• Detailed testing of journal entries focussing on authorisation and approval. • Review of accounting estimates and evaluation of the impact of any variability in key assumptions. • Focussed testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Year-end cut-off testing.

	Audit Risk	Source of assurance	Planned audit work
2	**Fraud in expenditure** As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. The Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.	Clear schemes of delegation and authorisation limits, separation of duties and f duties and workflow associated with expenditure. A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members. The internal audit plan includes a programme of continuous testing across expenditure systems.	• We will carry out testing and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Analytical procedures on expenditure transactions. • Year-end cut-off testing.
3	**Estimation and judgements** There is a significant degree of subjectivity in the measurement or valuation of the following material account areas: - Non-current asset valuations are significant estimates, based on specialist and management assumptions - Provisions (including equal pay claims) - Pension liabilities: The council's share of the Strathclyde Pension Fund net liability at 31 March 2019 was £113.768 million. This value is an estimate based on a number of assumptions - Loans fund repayments /borrowings: loans fund advance repayments are being rescheduled based on an average useful life for underlying assets, rather than on actual useful lives for the specific assets. The results from applying the revised basis are revenue savings of c£2.5m pa for the t**en**	Any significant estimates and judgements are clearly explained in the Notes to the Accounts. Non-current assets are professionally valued by Royal Institute of Chartered Surveyors (RICS) qualified surveyors in accordance with instructions issued by the Council. Provisions are reviewed by finance officers in consultation with the council's legal service. Pension liabilities are derived from valuation calculations prepared by actuaries appointed by Strathclyde Pension Fund. Capital Finance and Accounting Regulations 2016 allow local authorities to vary periods or amounts of repayments if considered prudent.	• Completion of 'review of the work of management's expert' for the internal professional valuer. • Review of revaluations carried out, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals. • Confirm non-current asset revaluations in surveyor's report are correctly reflected within the 2019/20 accounts. • Work to assess the reasonableness of the valuations in the surveyor's report. • Completion of 'review of the work of management's expert' for actuary. • Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts. • Review and assess the reasonableness of actuary's valuations and assumptions. • Assess the reasonableness of judgements and estimates applied in rescheduling loans fund advance repayments.

	Audit Risk	Source of assurance	Planned audit work
	years from 2019/20, and a one off reprofiling gain of £2**0.5**m. The subjectivity of each of these areas of estimation or judgement presents an increased risk of misstatement in the financial statements.		
Wider dimension risks			
4	**Financial sustainability – budget gap** Councils continue to face significant financial challenges with pressures on funding and increasing demand for services. As at February 2020, the Council's budget estimates are for a mid-range budget gap of £5.014 million for 2021/22, rising to £12.907 million by end of 2022/23, with a balanced budget position for 2020/21, after recognition of all agreed, and estimated, measures available. Beyond this there remain significant budget gaps in future years. This represents a financial sustainability risk for the council as the level of necessary budget savings may adversely affect the level and quality of service provision.	Continued delivery of savings options which align available budget with the council's priorities. Regular monitoring and reporting on the delivery of savings options. Medium to long term financial strategy already in place will be further developed.	• Review of the council's annual budget setting arrangements. • Assessment of the council's medium to long term financial strategy. • Review and assessment of budget monitoring arrangements with a focus on reports to senior officers and members on financial position. • On-going review of the council's financial position and delivery of planned savings.
5	**Financial sustainability- savings plans** As at February 2020, a potential shortfall in savings, planned for 2019/20, of £0.555m had been identified. There is a risk that future planned savings and budget balance will become increasingly more difficult to deliver.	Transformation Board continuing to oversee the implementation of savings options, while exploring shared services and other alternative service delivery models. Structured programme of service redesign, with a focus on greater digital transformation and commercialisation.	• Appraise savings plans and assess whether they are realistic and achievable. • Comment on progress in delivering identified operational and policy savings options.
6	**Financial management – impact of Integration Joint Board overspend** The most recent budget monitoring report to members in February 2020 shows a projected overspend of £1.310 million for social work services commissioned by Argyll and Bute Integration Joint Board (IJB). The latest IJB financial recovery plan has identified further savings options,	Written assurances from HSCP Chief Officer confirming emergency financial controls in place.	• Review and assess recovery actions being taken by the Council to reduce overspends within Social Services.

	Audit Risk	Source of assurance	Planned audit work
	however, it still seems likely that the outturn noted above will not be significantly improved by year end. There is a risk that services cannot continue to be fully provided on behalf of the IJB within the council's budget, without adverse impact on Council General Fund contingency reserves.		
7	**Governance – Internal Auditor independence** From January 2020, until potentially end of June 2020, the Chief Internal Auditor (CIA) has taken on some of the responsibilities of the Head of Financial Services, who is acting as Executive Director on an interim basis. There is a risk of the CIA's independence being compromised by these arrangements, and of the Internal Audit Plan 2019/20 not being completed.	Head of Financial Services will retain the role of S.95 Officer throughout the period of these arrangements. Measures in place to manage any potential conflicts of interest, including possible review of internal audit assignments by a chief internal auditor from another council, if considered necessary. Options for backfilling the CIA's time will be considered if deemed necessary.	• Review and assess practical operation of the arrangements put in place to mitigate risk to CIA independence.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. We have rebutted the risk of material misstatement caused by fraud in income recognition for 2019/20, because a significant element of the Council's income is from central government grant, council tax and NDR, all of which have predictable income patterns which limits the potential for manipulation. We therefore do not incorporate specific work into our audit plan in this area, over and above our standard fraud procedures.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in Exhibit 2, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

8. We will provide an independent auditor's report to the Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2
2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 March 2020	17 March 2020
Management Report	9 June 2020	16 June 2020
Independent Auditor's Report (proposed)	15 September 2020	22 September 2020
Annual Audit Report	15 September 2020	22 September 2020

Source: Audit Scotland

9. In addition to the above outputs we also audit several grant claims which have specified certification dates. These are the Education Maintenance Allowance (31 July 2020); Non-Domestic Rates (9 October 2020) and Housing Benefits Subsidy (30 November 2020). We have planned our audit work to ensure that these grant claims are signed off by the required dates.

The audit of trusts registered as Scottish charities

10. Members of Argyll and Bute Council are sole trustees for seven trusts and one common good fund, registered as Scottish charities, with total assets of some £7.139 million as at 31 March 2019. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006

11. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each register charity where members of the Council are sole trustees, irrespective of the size of the charity.

Audit fee

12. The agreed audit fee for the 2019/20 audit of the Council is £263,220 (£258,050 in 2018/19). This includes £3,650 (£3,500 in 2018/19) for the audit of the Council's charitable trusts. In determining the audit fee, we have taken account of the risk exposure of the Council, the planned management assurances in place and the extent to which we can use the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 26 June 2020.

13. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts or being unable to make use of planned internal audit work, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

14. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

15. The audit of the annual accounts does not relieve management or the Audit and Scrutiny Committee as those charged with governance, of their responsibilities.

Appointed auditor

16. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

17. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

18. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

19. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended, in accordance with applicable law and the 2019/20 Code;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Statutory other information in the annual account

20. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. The materiality values for the Council are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2019.	£6.242 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have set performance materiality at 60% of planning materiality.	£3.745 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.100 million

Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at Exhibit 4.

Exhibit 4
Annual accounts timetable

Key stage	Date
Consideration of unaudited annual report and accounts by those charged with governance	16 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package by the council to the auditor	26 June 2020
Latest date for receipt of assurances from Group Component Auditors	31 August 2020
Latest date for final clearance meeting with Head of Financial Services	8 September 2020
Issue of Letter of Representation and proposed independent auditor's report	22 September 2020
Agreement of audited unsigned annual report and accounts	22 September 2020
Issue of Annual Audit Report to those charged with governance	22 September 2020
Independent auditor's report signed by Audit Scotland	By 30 September 2020
Latest date for signing of WGA return	By 30 September 2020

Internal audit

25. Audit Scotland's Code of Audit Practice recognises the importance of internal and external auditors working together closely to make best use of available audit

resources and avoid duplication of effort. We will consider the findings from internal audit work to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

26. Internal audit's plans include testing of the council's main financial systems as part of a continuous programme of testing of financial controls. We will take account of their findings when determining sample sizes for our substantive testing of financial transactions. Also, we will review internal audit's arrangements for supporting the annual governance statement reported in the annual accounts.

27. In terms of our wider dimension responsibilities we plan to consider other areas of internal audit work including;

- Risk Management
- Following the Public Pound
- Business Continuity Planning
- Information Asset Management
- Cyber Security.

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

Exhibit 5
Audit dimensions

Source: Code of Audit Practice

29. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

30. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

31. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial

sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

32. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the Council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

33. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Council can demonstrate that the governance arrangements in place are appropriate and operating effectively including services delivered by, or in partnership with, others such as ALEOs
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

34. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Council can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

35. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided

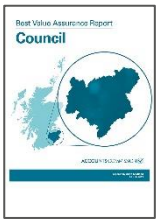
with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

36. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

37. The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in Exhibit 6. Reports will be considered by the Accounts Commission in the period between March and November 2020.

Exhibit 6
2019/20 Best Value Assurance Reports



Aberdeenshire Council	Dundee Council
Argyll and Bute Council	Falkirk Council
City of Edinburgh Council	Moray Council
North Ayrshire Council	

Source: Audit Scotland

38. During 2019/20, a Best Value review of the council will be completed. The work has focused on the council's arrangements for demonstrating Best Value by reviewing the following:

- The council's vision and strategic direction
- Outcomes/performance and the reporting of these, including the council's public performance reporting
- Financial planning, workforce planning and digital agenda
- Partnership and collaborative working
- Community planning and engagement
- Continuous improvement, including progress with the council's transformation programme.

39. This work will contribute to our conclusions on the audit dimensions that we report in our 2019/20 Annual Audit Report.

Independence and objectivity

40. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

41. The engagement lead (i.e. appointed auditor) for the Council is John Cornett, Audit Director (Audit Scotland's Audit Services Group). Auditing and ethical standards require the appointed auditor John Cornett to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Council.

Quality control

42. International Standard on Quality Control (UK) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

43. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

44. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1

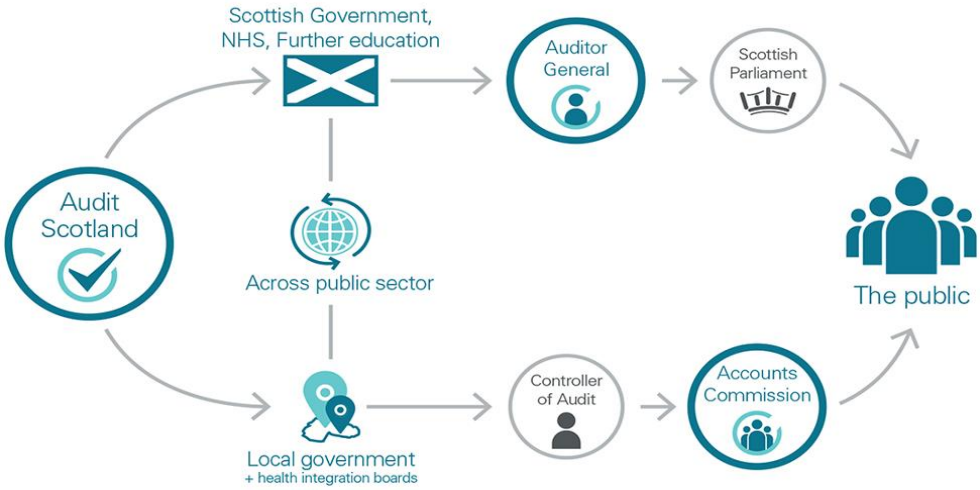
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Argyll and Bute Council

Annual Audit Plan 2019/20

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ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

SCRUTINY – LESSONS LEARNED

1. INTRODUCTION

1.1 The objective of the report is to provide the Audit and Scrutiny Committee with a summary of the lessons learned from scrutiny activity since the roll out of the new scrutiny approach which commenced in the summer of 2018.

2. RECOMMENDATIONS

2.1 The Audit and Scrutiny Committee is asked to:

2.1.1 Endorse this report.

2.1.2 Discuss and provide feedback on the 'process' learning points set out in paragraph 3.4

2.1.3 Note the administrative learning points in paragraph 3.5

2.1.4 Consider any further feedback they wish to provide on the scrutiny process.

2.1.5 Note that the Chief Internal Auditor (CIA) will amend the Scrutiny Framework and Scrutiny Manual to reflect the changes set out in this report and bring it back to a future meeting of the Audit and Scrutiny Committee for approval.

3 DETAIL

3.1 On 20 March 2018 the Audit and Scrutiny Committee (the Committee) approved the Council's new scrutiny framework designed to complement our Performance Improvement Framework and the scrutiny already taking place at service and area committees.

3.2 Scrutiny is a key component of good governance which, if carried out well, will help improve our decision making, policy development & implementation and service delivery.

3.3 As the process is new and there is only a finite amount of resource available to perform scrutiny it is important that the process is subject to continuous improvement. As the reviews have been carried out, members, officers and panel attendees have identified areas for improvement or change and these have been recorded as lessons learned. These learning points have categorises as either 'Process' points for discussion with the Committee and 'Administrative' points which are more for the scrutiny officers to reflect on.

Process Learning Points

3.4 Points about the process are summarised in the bullet points below for

discussion.

1. Scrutiny panel engagement with scrutiny officers is essential, in particular responding to queries about the objectives of panel meetings, availability for panels and agreement with panel minutes.

2. After a panel has determined the review scope and objectives they should be shared with all Committee members for consideration. This will be done by e-mail as waiting for the next meeting of the Committee might result in too much time passing.

3. Current practice is to provide panel attendees with the full list of questions to be covered. Recent experience has been that this results in attendees having prepared answers which can make it harder to fully explore the subject area. It is still important that attendees are properly briefed prior to a panel however providing them with key themes rather than the specific questions may provide for fuller discussion of the topic under review.

4. Initially the scrutiny manual stated that *"At the end of a review a draft report should be produced which provides a full picture of the issues under consideration and contains conclusions (key findings) and clear recommendations.*" After a review of other authority scrutiny reports and discussions between the Chair and Vice-Chair of the Committee and the CIA it was agreed that reports would not include recommendations but rather findings and learning points.

5. The scrutiny manual also stated that "*All recommendations and any agreed action will be entered into the internal audit follow up database and followed up on using the established process for following up internal audit action points"*. As recommendations will not be raised in scrutiny reports, this step is no longer required.

6. There has been discussions between the Chair and Vice-Chair of the Committee and the CIA regarding the report clearance process. There is recognition that the process may be slightly different for each review. Reports will be checked for factual accuracy with appropriate officers however there is recognition of the Committee's independence and it is not for officers to challenge the scrutiny panel's judgements.

7. So far all scrutiny panels have been made up of three members of the Audit and Scrutiny Committee. The Committee may wish to consider whether this practice should be maintained going forward or whether they wish to consider inviting other elected members to sit on panels where appropriate. As a practice it might be advisable to ensure that there are always two members of the Audit and Scrutiny Committee on any panel of three.

8. To date all scrutiny activity has involved the 'full panel' approach which is appropriate for large scale reviews however may be less

appropriate if the Committee want to review an emerging issue which is not part of the annual scrutiny plan and/or which doesn't necessarily require a full panel approach. The Committee may want to consider, when appropriate, a 'scrutiny light' approach for specific topics which emerge. This may involve inviting officers to prepare a report on a particular topic for Committee to consider or attending a development session for a more informal discussion.

3.5 *Administrative Learning Points*

Administrative learning points are summarised in the bullet points below:

- When agreeing potential timescales for panels, be realistic especially when dealing with external parties. Doodle poll is a free scheduling tool available on the internet and has proved useful.

- After initial briefing meeting create a provisional plan of key stages with indicative timescales for panels and when documents will be distributed to stakeholders.

- Do not have scrutiny panels too close together. There needs to be time to write up and agree minutes and follow up on any action points before the next panel meeting.

- It is important that scrutiny officers know when a minute of a panel has been agreed as this forms the evidence base and allows them to progress a review. Going forward, when issuing minutes, officers will add text indicating that if no response is received by a defined date there will be assumption of agreement.

- When the scrutiny plan involves scrutiny of service areas that fall within the remit of Social Work we must ensure the IJB are notified.

- Revise terminology in scrutiny framework regarding 'SLA' with HSCP. "The Council does not have an SLA with the A&B HSCP. Instead there is an Integration Scheme between the Council and NHS Highland through which the Council has delegated certain functions to the IJB.

- There have been occasions when minutes of panel meetings have not been issued promptly following meetings. This is often due to resource pressures for scrutiny officers. To help address this issue, and provide support with the administrative activity involved in the scrutiny process, it has been decided to trial the use of a secretarial assistant who is an experienced minute taker and meeting organiser to assist with the ongoing Economic Strategy review. If this proves successful it will be rolled out for all scrutiny reviews. This will have the additional benefit of allowing scrutiny officers to be more involved in the panel meetings rather than focusing on taking notes.

3.6 Some of the learning points detailed at paragraphs 3.4 and 3.5 will require

amendments to the Scrutiny Framework and Scrutiny Manual. These will be processed and both documents brought back for Committee approval at a future meeting.

4. CONCLUSION

4.1 The scrutiny process is new and evolving as each review is progressed. Members and officers continue to identify areas for improvement and these will be addressed as they are raised.

5 IMPLICATIONS

5.1 **Policy - None**
5.2 Financial -None
5.3 Legal -None
5.4 HR - None
5.5 Fairer Scotland Duty - None
5.5.1 Equalities – None
5.5.2 Socio-Economic Duty – None
5.5.3 Islands Duty - None
5.6 Risk – None
5.7 Customer Service - None

Laurence Slavin
Chief Internal Auditor
17 March 2020

For further information contact:
Laurence Slavin, Chief Internal Auditor (01436 657694)

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

SCRUTINY OF BUSINESS CASE REVIEW (ROTHESAY PAVILION)

1. SUMMARY

1.1 The 24 January 2020 Audit and Scrutiny Committee meeting asked the Chief Internal Auditor (CIA) to carry out initial scoping for a possible scrutiny topic relating to Rothesay Pavilion and bring a report to the next meeting.

1.2 The report provides background information, presents an outline of an indicative scope and sets out some further factors for consideration.

1.3 Reports on the Rothesay Pavilion taken to various Council committee meetings have contained commercially sensitive information so have been tabled as exempt items. Commercially sensitive information has not been replicated in this report to avoid the need for it to be treated as an exempt item. The information contained in this report is information which is already publically available.

1.4 Should the Audit and Scrutiny Committee determine that a scrutiny review focused on the Rothesay Pavilion business case should be conducted then care will need to be taken in terms of what information is made available in any publically available report.

2. RECOMMENDATIONS

2.1 The Audit and Scrutiny Committee is asked to:

2.1.1 Consider the indicative scope and objectives of a scrutiny review of the process followed to assess the Rothesay Pavilion business case.

2.1.2 Consider the factors highlighted which may reduce the capacity of the scrutiny process to be robust and well evidenced.

2.1.3 Consider an alternative area of focus relating to guidance on the award of external funding and review of future business cases.

2.1.4 Determine whether they wish to conduct a review and, if so, the focus of the review, how they wish to proceed and the scale of the review to be conducted.

3. DETAIL

Background

3.1 In 2007, the Council decided to take each of the town centre and waterfront projects as part of the larger CHORD programme to Outline Business Case (OBC) stage and that these would be subject to independent scrutiny. It was agreed that one consultancy firm be appointed to prepare the OBC for all town

centre and waterfront projects and a separate firm appointed to score them against revised scoring criteria agreed by the Council in 2008.

3.2 Project boards of key stakeholders were established for each project comprising of relevant Councillors, officials and local stakeholders to work with the consultants and sign off their OBC.

3.3 The process for taking forward the CHORD Programme was endorsed in December 2008 by the Executive Committee. Each Project Board was tasked to prepare a Project Initiation Document (PID). In June 2011 a report detailing each PID associated with the CHORD Programme was presented to the Programme Management Board for consideration. The PID for Rothesay Pavilion was approved at this meeting.

3.4 In July 2011 consideration was given to a report advising on the next steps to be taken by the Rothesay Project Team following completion of the interim full Business Case (FBC) for Rothesay Pavilion.

3.5 Full Council considered the FBC at their meeting on 23 April 2015 and agreed the recommendations contained within. This was an exempt item as there was commercial information contained within the report.

3.6 Full funding for the project was achieved in September 2017 and a construction contract of £10.7 million was awarded to Messrs CBC on 29 November 2017 with a contract completion date of 31 July 2019.

3.7 Capital funding for the project is being provided by the Council and a number of external funders, including Heritage Lottery Fund, Highlands and Islands Enterprise, European Regional Development Fund amongst others.

3.8 On completion the building will be managed by Rothesay Pavilion Charity (RPC) who will lease the building from the Council for a term of 25 years.

3.9 A business case was developed in respect of the operations of Rothesay Pavilion in August 2014 and financial estimates for the first 5 years, which included an annual contribution from the Council, demonstrated that the operations would return a small surplus each year.

3.10 On 25 September 2014 full Council considered a report that outlined the need for revenue funding for the continued operation of Rothesay Pavilion beyond the completion of the CHORD repair and upgrading project. This was an exempt item as there was commercial information contained within the report.

3.11 Officers from RPC have been liaising with Council officers since the summer of 2019 in respect of the cash flow position of Rothesay Pavilion both prior to opening and over the first five years of occupation. The RPC has issued a funding request to the Council to provide additional revenue support. This request was considered by Council on 27 February 2020 as part of the 2020/21 budget setting process.

3.12 Members of the Audit and Scrutiny Committee have raised concerns over whether:

- the original business case developed in 2014 was robust and realistic

- the business case was adequately assessed by the Council before the Council committed capital and revenue funds to the project.

3.13 The 24 January 2020 Audit and Scrutiny Committee meeting asked the CIA to carry out initial scoping for a possible scrutiny topic relating to Rothesay Pavilion and bring a report to the next meeting.

Indicative Scrutiny Scope and Objectives

3.14 **Indicative Scope:** Review the Council's approach to assessing the August 2014 Rothesay Pavilion business case, and the financial estimates for the first 5 years contained within it, to determine if the process was suitably robust and challenging.

3.15 When determining the wider objectives the Committee may wish to review whether the Council considered:

- business case structure
- clarity over the business case purpose, identified benefits, expenditure and funding streams
- benefits realisation
- required financial investment and project costs
- other external funding
- risk analysis
- stakeholder engagement

Restricting Factor

3.16 An extensive amount of time has elapsed since key decisions on the Rothesay Pavilion were taken. 14 years have passed since the original decision to take each of the town centre and waterfront projects as part of the larger CHORD programme to Outline Business Case (OBC) stage and seven years have elapsed since the Rothesay Pavilion business case was presented for review.

3.17 Whilst this does not mean that scrutiny of the process to review the business case will not be possible there is a risk that changes within the Council (including possibly key elected members and officers no longer being with the Council) might make it harder to gather the information required to come to an informed judgement.

3.18 In addition a number of the key people who were on the RPC Board at the time the business case was created have left and been replaced by new board members.

Potential Alternative Focus

3.19 Given the potential restrictions sets out in paragraphs 3.16-3.18 the Committee may wish to consider an alternative approach which would still focus on awarding Council funds to external parties and assessing business cases but would be a forward looking approach rather than retrospective.

3.20 When the Committee first considered the new approach to scrutiny there was a Committee development day held in November 2017 which set out some

broad ideas about what scrutiny might look like. As part of the presentation on that day it was considered that, broadly speaking, scrutiny can be divided into three categories

1. **horizon-scanning scrutiny** which looks ahead to changes that are likely to be necessary because of proposed developments usually external to the Council. The object of this being to inform the Council's preparations and put it in the best possible position to respond to likely challenges.

2. **pre-decision scrutiny** which examines the Council's proposals, objectives and draft programmes to inform their development before they are enacted. This can help the Council achieve optimum results by avoiding mistakes and making the best of opportunities.

3. **post-decision scrutiny** which looks at the implementation of Council policy, projects and performance in retrospect. This enables Scrutiny to review the effects of decision-making, policy and practice based on direct evidence of actual outcomes measured against intended goals. This enables the Council to identify mistakes, or unforeseen consequences so that the decision or activity can be refined and improved.

3.21 The scrutiny topics in the 2018/19 and 2019/20 annual scrutiny plans have focused predominantly on 'post-decision' scrutiny. There may be an opportunity for the Committee to consider the benefit of a piece of scrutiny that falls into the 'pre-decision' category'

3.22 On 24 January 2020 the Committee reviewed an audit report on Following the Public Pound (FTPP) which included a recommendation that a more comprehensive FTPP guidance document should be established which provides a more standardised and tiered approach providing greater clarity over roles and responsibilities and standardised templates for key stages in the process for assessing external funding requests. Work to develop that guidance is now underway and being led by the Council's Financial Services team.

Furthermore, review of business cases, including how they are scored, is something the Council's Strategic Asset Management Board have started looking at and are establishing a project team to take forward. It is important that the revised FTPP guidance reflects the conclusions of this work.

3.23 The Committee may wish to consider performing 'pre-decision' scrutiny of the revised FTPP guidance when it is completed so they can form an assessment of whether the Council's future approach to assessing external funding requests and business cases is robust before it is implemented.

4. CONCLUSION

4.1 There may be difficulties in scrutinising a decision and process taken seven years ago due to possible difficulty accessing the appropriate information and personnel. Whilst this does not mean it isn't possible there may be greater value in committing scrutiny time to a forward looking approach which focuses on proposed processes currently under development.

5 **IMPLICATIONS**

5.1 **Policy - None**
5.2 Financial -None
5.3 Legal -None
5.4 HR - None
5.5 Fairer Scotland Duty - None
5.5.1 Equalities – None
5.5.2 Socio-Economic Duty – None
5.5.3 Islands Duty - None
5.6 Risk – None
5.7 Customer Service - None

Laurence Slavin
Chief Internal Auditor
17 March 2020

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ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2018/19

1. SUMMARY

1.1 The purpose of this report is to present the main issues raised in the recent Local Government Financial Overview 2018/19 report by the Accounts Commission and to highlight relevant matters to the Committee.

1.2 The report is split into four parts:

- Part 1 comments on councils' income in 2018/19.
- Part 2 considers councils' financial position at the 2018/19 year end.
- Part 3 considers the financial outlook for councils in 2019/20
- Part 4 provides an overview of Integration Joint Boards' finances in 2018/19.

1.3 The report's key messages are listed on Page 7 of the document and are summarised as follows:

- Councils are under continued financial pressure with revenue funding from the Scottish Government reducing by 0.7% in real terms in 2018/19 resulting in a 7.6% reduction in real terms funding since 2013/14.

- Councils are using reserves and increasing Council Tax to balance their revenue budgets. The net draw on revenue reserves was £45 million in 2018/19, an increase of £27 million on the net draw in 2017/18.

- Medium term financial planning is in place but more work is needed on longer term financial plans.

- A majority of IJBs have underlying financial sustainability issues and either recorded a deficit or required additional funding from partners.

- Councils have made preparations for the impact of EU withdrawal but there are implications which cannot be planned for financially.

1.3 The report also contains a number of exhibits some of which show where the Council is placed compared to other councils. The body of this report provides some context and commentary for the Committee to consider.

1.4 The Accounts Commission has identified a number of example questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise performance. Appendix 1 notes these

questions with comments included against each question.

2. **RECOMMENDATIONS**

2.1 The Audit and Scrutiny Committee is asked to consider the contents of the Accounts Commission report and thereafter approve the officer assessment of where the Council is placed against the matters raised in Appendix 1.

3. DETAIL

Part 1 – Councils' Income in 2018/19 – Key Points

3.1 In 2018/19, the total revenue funding from the Scottish Government increased by 1.1% in cash terms and decreased by 0.7% in real terms.

3.2 Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6% over these six years, in real terms. Scottish Government revenue funding across other areas decreased by 0.4% over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.

3.3 The Commission commented that an increasing proportion of council budgets are committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities. The national policy initiatives are mainly initiatives linked to education and social care. Ring-fenced funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10% of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils' spending and, although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this extremely challenging.

Part 2 – Councils' Financial Position – Key Points

3.4 Councils' 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (3%). In 2017/18, the shortfall was £0.5 billion (4%). Councils planned to manage funding gaps through savings. On average, councils delivered 87% of planned savings. However, there was significant variation in how individual councils performed against their savings targets.

3.5 Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves. Reserves play an important role in good financial management, but they are a one-off resource so councils need to plan carefully for their use.

3.6 23 councils have reduced their general fund reserves over the last three years. Exhibit 8 on page 20 of the report shows that Argyll and Bute Council, is one of the 23 councils although our reduction is relatively small compared to a many others. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray

Council) would deplete its reserves within five years.

3.7 Capital expenditure increased by £62 million or 2.3% in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year. These two areas now account for 44% of total capital expenditure (39% in 2017/18). The proportion of capital expenditure on education has fallen from 27% in 2017/18 to 20% in 2018/19.

3.8 The report notes that there is variation in the relative underlying borrowing position of councils. This is set out in exhibit 10 on page 23 of the report which hows the size of debt and borrowing relative to "turnover". Argyll and Bute are ranked about mid-table.

Part 3 – Councils' Financial Outlook – Key Points

3.9 In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.84%). This includes Argyll and Bute.

3.10 Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Examples given include garden waste uplift and the expansion of parking charges. Some councils also continue to pursue new local taxes.

3.11 Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (3% of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors.

3.12 The report comments that all councils have medium-term financial planning covering three years or more but that long-term financial planning has not progressed since last year. However it does recognise that the:

- Scottish Government's commitment to set out multi-year budgets, which will assist councils with financial planning, has been delayed.
- Scottish budget is becoming increasingly complex and is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government.
- Scottish Government's second medium term financial strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge.

Part 4 – Overview of Integration Joint Boards– Key Points

3.16 The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.

3.17 A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.

3.18 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year

3.19 Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.

3.20 Over a third of IJB senior staff have changed during 2018/19.

3.21 Argyll and Bute IJB's position is largely consistent with these national messages. They had a 2018/19 deficit of £6.6m and financial planning which only extended to three years although it should be noted that this is consistent with most IJBs in Scotland.

They also had a changes at chief officer and chief financial officer level in 2018/19 however they now have a full complement within their Senior Leadership Team.

The A&B IJB however did manage to set a balanced budget for the start of the 2019/20 financial year.

4. CONCLUSION

4.1 The Local Government in Scotland Financial Overview 2018/19 report provides a useful analysis of the financial challenges facing all councils in Scotland. The supplementary questions, and officer responses, contained at appendix 1 to this report provide members of the Committee with additional information to better help them understand the Council's financial position.

5 IMPLICATIONS

5.1 **Policy - None**
5.2 Financial -None
5.3 Legal -None
5.4 HR - None
5.5 Fairer Scotland Duty - None
5.5.1 Equalities – None
5.5.2 Socio-Economic Duty – None
5.5.3 Islands Duty - None
5.6 Risk – None
5.7 Customer Service - None

Kirsty Flanagan
Section 95 Officer
17 March 2020

For further information contact:
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Appendix 1 – Questions for councillors to consider
Appendix 2 - Audit Scotland Local Government in Scotland Financial Overview 2018/19

Appendix 1 - Questions for councillors to consider

No	Question	A&B Position
Income		
1	How dependent is your council on the various sources of income compared to other councils – Scottish Government funding, grants, council tax and receipts from customers/clients?	The Council has a decreasing population which has a direct impact on Scottish Government funding. Furthermore we have one of the highest percentages of ringfenced funding of any Scottish council. Therefore we are disproportionately impacted by funding reductions. Furthermore we are one of a very small number of councils who has put all social care services into the IJB which means we are affected more by settlement commitments which restrict flexibility around HSCP funding levels.
Council Budget		
2	Is a budget agreed before the start of the financial year? If not, why not?	The Council's budget and Council tax rates are set in February each year.
3	How big is the funding gap for your council relative to the total budget?	The budget gap in 2021/22 (based on the mid-range scenario) is projected to be £8.241m This is 3.15% of the estimated expenditure in 2021/22 (£261.280m)
4	What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services or transformation, increased charges, use of reserves?	New savings were developed for 2020-21 and reported to Council on 17 October 2019 in advance of the budget process. The budget pack for 2020-21 confirms that officers will look to identify savings for future years, through a structured programme of service redesign. In particular there will be a focus on greater digital transformation and commercialisation.
5	Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?	All planned savings actions are clearly identified and quantified in policy savings templates which set out the impact of the proposal. This allows members to make an informed decision.
6	How well are you kept informed about progress against savings plans?	The Council has a current savings plan that is monitored and reported to the Policy and Resources Committee.
7	Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?	The Council has a Transformation Board which explores alternatives to service delivery by way of redesign or total transformation in order to meet any budget shortfall/gap.

8	How effectively are you engaged and informed about the transformation programme and kept informed about progress?	Members seminars are used to provide updates on Transformation Board activity
Reserves		
9	What is the council's reserve policy?	The Council's reserves policy is to hold 2% of the net expenditure budget as a contingency. This is reported to councillors on an annual basis as part of the annual budget setting process. A risk assessment is also carried out on an annual basis to ascertain whether 2% is still the appropriate level. .
10	Do committed/earmarked/specific reserves have clear purposes and projected cashflows or are they part of the general contingency or uncommitted general fund?	Earmarked reserves are for specific purposes and their levels are reported to the Policy and Resources Committee as part of the standard budget monitoring pack agenda item. A year-end report is also provided to Council as part of the annual budget pack.
11	Are these commitments reviewed annually to ensure they reflect the best use of the council's reserves?	The Strategic Management Team regularly review the reserves and transfer any that are no longer required into the General Fund balance
12	Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?	The Council's reserves have deteriorated slightly over the past three years however their adequacy is kept under review by considering the strategic, operational and financial risks facing the Council,. Furthermore should any of the 2% contingency have to be utilised then the s95 officer is required to put a recovery plan in place immediately to ensure the Councils contingency balance is restored. It is not anticipated that the reserves will be depleted in the medium or long term.
Capital		
13	What are your council's medium- and long-term plans for capital spending?	The capital plan is approved as part of the annual budget process and progress is monitored and reported to the Policy and Resources Committee
14	How well are you kept informed about progress against capital plans and how well do you understand the reasons for any underspend against the annual capital budget?	Progress against the capital plan is monitored and reported to the Policy and Resources Committee. This includes explanations for material variances.
Debt		
15	What is your council's current debt	The Council's treasury positon,

	position relative to its annual revenue?	including debt levels are monitored and reported to the Policy and Resources Committee
16	How much of the council's budget is used to pay interest and debt repayments?	Within the Treasury Strategy there is an indicator that identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream – it is 5.93% for 2019/20.
17	Are you given clear and sufficient information to understand risks and support decisions about future borrowing?	The treasury position is reported regularly to the Policy and Resources Committee and the Treasury Management Strategy is reported to Council and the Audit and Scrutiny Committee on an annual basis.
Business Cases for Severance		
18	Does the council prepare business cases for severance proposals and are these reported to councillors?	All severance proposals are subject to business cases and a payback period. The details of an individual case is not presented to councillors however all savings options that result in redundancies require council approval.
Transparency in Accounts		
19	Does the management commentary of the council accounts show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?	The management commentary is comprehensive and includes a section on the final revenue budget outturn that explains the variance from the planned budget. It also provides a reconciliation of the deficit on the provision of services to the revenue budget outturn. Progress on agreed savings plans are not reported in the management commentary but are freely available in public papers taken to the Policy and Resources Committee.
Financial Planning		
20	Does your council have medium- and long-term financial plans, and do they include a range of potential funding and financial scenarios?	The Council has a financial strategy with medium and long term plans including three scenarios, best case, worst case and mid-range.
21	Does the medium-term plan provide sufficient information on estimated Scottish Government funding (or host partner funding), projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?	The financial strategy uses scenarios, best case, worst case and mid-range scenarios for a range of financial factors including Scottish Government funding. This is applicable to both the revenue and capital budget.

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Local government in Scotland

Financial overview 2018/19

ACCOUNTS COMMISSION

Prepared by Audit Scotland
December 2019

The Accounts Commission

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

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

Our work includes:

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

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

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

Contents

Links

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Exhibit data

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

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

Audit team

The core audit team consisted of: Kathrine Sibbald, Lisa Duthie, Chris Lewis and Lucy Ross, with support from other colleagues and under the direction of Brian Howarth.

Key facts

Real terms reduction in Scottish Government revenue funding 2017/18 to 2018/19

0.7 per cent

IJBs' spending in 2018/19

£8.6 billion

Councils' income 2018/19

£17.7 billion

Council budgets delegated to IJBs in 2018/19

£2.5 billion

Councils' capital spending in 2018/19

£2.75 billion

Councils' net debt at 31 March 2019

£15.4 billion

Councils' usable reserves at 31 March 2019

£2.5 billion

£9.3 billion

Councils' share of the Local Government Pension Scheme deficit at 31 March 2019

Chair's introduction

This report, the Accounts Commission's overview of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. I believe our overview reports are an important tool to highlight to councillors, officers and the public the issues we are most concerned about.

Of particular note for us this year, Integration Joint Boards (IJBs) continue to face very significant challenges and they need to do much more to address their financial sustainability. The pace of progress with integration has been too slow and we have yet to see evidence of a significant shift in spending and services from hospitals to community and social care. I continue to be concerned about the significant turnover in senior staff in IJBs. This instability inevitably impacts on leadership capacity and the pace of progress. The Commission has a strong interest in the performance and development of IJBs and we are planning arrangements to review their progress in delivering Best Value for their communities.

Our report also sets out that councils face the increasing challenge of meeting changing and growing demands on their services, but their income is straining to keep pace. Although Scottish Government funding to councils has been relatively stable this year, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances. The Commission also notes that two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves. The signs of a trend in reducing reserves may be emerging. I have previously commented that ongoing use of reserves to manage funding gaps is not sustainable.

After several years of tightening budgets, we recognise councils have already made savings through restructuring and efficiencies, but transformation in terms of service redesign is required to deal with the further reductions forecast. The Commission will continue to have a close interest in how councils and IJBs are redesigning services to meet the needs of their communities.

I also encourage councils and IJBs to continue to do all they can to improve and develop their approaches to medium- and long-term financial planning. This is not easy, but it is a fundamental tool to support councillors and officers to make well-considered decisions and effectively manage the continuing challenges ahead. The Scottish Government has committed to providing three-year indicative budgets in the future, which the Commission welcomes, as this will support improved medium-term financial planning in councils and IJBs.

Finally, we note that again there has been some improvement with the quality of reporting on financial matters in councils. I encourage councils and IJBs to continue to improve the transparency and clarity of management commentaries and wider financial information provided to councillors and the public.

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

Graham Sharp
Chair of the Accounts Commission

Summary

Key messages

Councils:

1 In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).

2 Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6 per cent in real terms.

3 In 2018/19, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned.

4 Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Twenty-three councils have reduced their general fund reserves over the last three years.

5 Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.

6 All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.

7 Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

Integration Joint Boards (IJBs):

8 A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.

9 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.

10 Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.

11 Over a third of IJB senior staff have changed during 2018/19.

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during 2018/19 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published in April 2020.

2. Our primary sources of information for the financial overview are councils' 2018/19 audited accounts, including management commentaries and the 2018/19 external annual audit reports for each council. We have supplemented this with data submitted by councils through local audit teams and to the Scottish Government through the Capital Provisional Outturn and Budget Estimates (CPOBE).

3. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2018/19 prices, adjusted for inflation so that they are comparable. Similarly, where 2019/20 comparisons are made we have adjusted for inflation to 2019/20 prices. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

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

5. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. We have also produced a separate document *Supplement 2: Local Government Pension Scheme 2018/19*. We hope the data and LGPS supplement will be useful for senior council finance officers, their staff and other interested stakeholders.

Part 1

Councils' income in 2018/19

Key messages

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19 (0.7 per cent decrease in real terms).
- Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.
- A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.

In 2018/19, Scottish council revenue income totalled £17.7 billion

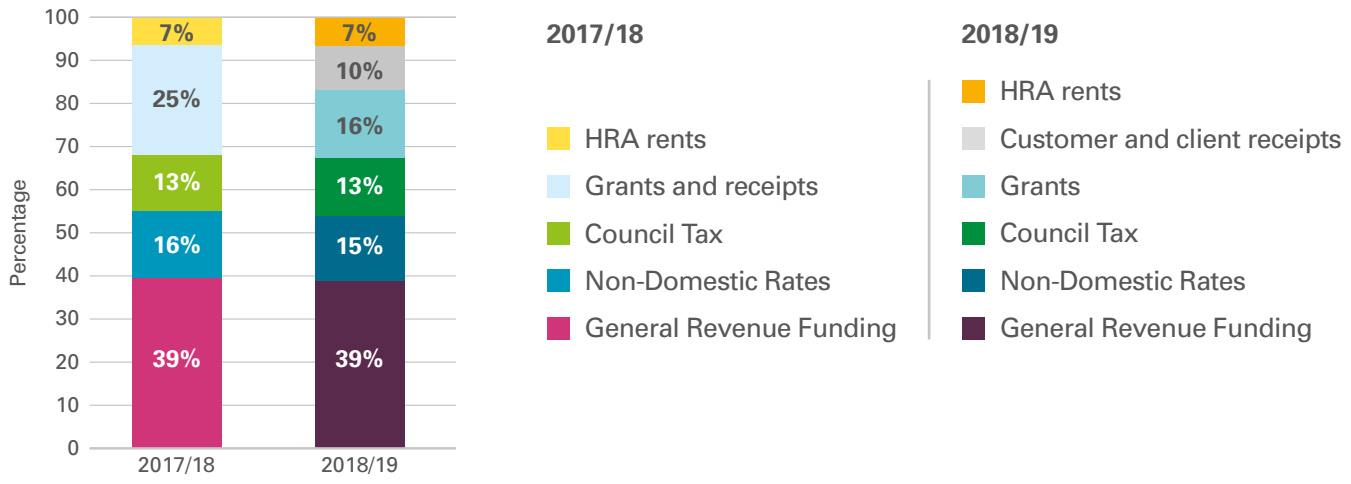
Councils' annual income increased slightly in 2018/19

6. Scottish councils get their annual funding and income from a range of sources (Exhibit 1). In 2018/19, these totalled £17.7 billion, which is an increase from 2017/18 (£17.3 billion). The main source of funding is the Scottish Government. In 2018/19, the Scottish Government provided £9.8 billion (compared to £9.7 billion in 2017/18).

Exhibit 1

Sources of council revenue income, 2018/19

Funding and income increased from last year to £17.7 billion.



Note: In the 2017/18 data, customer and client receipts are included in grants and receipts.
Source: Audited financial statements 2018/19 and 2017/18

Scottish Government funding

Scottish Government revenue funding fell by 0.7 per cent in real terms in 2018/19

7. In 2018/19, the **total revenue funding** ⓘ from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 0.7 per cent in real terms (Exhibit 2). The total revenue funding of £9.8 billion consists of the general revenue grant funding of £6.9 billion (70 per cent); Non-Domestic Rates (NDR) £2.6 billion (27 per cent); and specific grants making up the remaining £0.3 billion (3 per cent).

Exhibit 2

Changes in Scottish Government revenue funding in 2018/19

Scottish Government revenue funding reduced by 0.7 per cent in real terms in 2018/19.

	2017/18 £m	2018/19 £m	Cash %	Real %
Revenue Grant	7,019	7,159	2.0 ▲	0.2 ▲
NDR	2,666	2,636	-1.1 ▼	-2.9 ▼
Total revenue funding	**9,685**	**9,795**	**1.1 ▲**	**-0.7 ▼**
Health and Social Care funding via NHS	355	355		
	10,040	**10,150**	**1.1 ▲**	**-0.7 ▼**

Note: On 28 March 2018, the Scottish Government paid £34.5 million of additional funding to councils. This is included in the 2017/18 column above.

Source: Finance Circulars 4/2018 and 2/2019, and Scottish Government budget documents

Since 2013/14, Scottish Government revenue funding to councils has reduced more than to other areas

8. Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6 per cent over these six years, in real terms (Exhibit 3, page 11). Scottish Government revenue funding across other areas decreased by 0.4 per cent over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.

9. However, the gap between local government revenue funding and the rest of the Scottish Government revenue budget narrowed in the last year (between 2017/18 and 2018/19) to 7.2 per cent.

How Scottish Government funding is distributed is to become more transparent

10. Grant-aided Expenditure (GAE) is the main distributing methodology for determining Scottish Government revenue funding provided to councils. The remaining Scottish Government revenue funding is determined by a range of other separate non-GAE methodologies agreed by the Scottish Government and COSLA.[1] Over time, the proportion of the non-GAE element of funding has grown and in 2019/20 represents a third of the total funding.

Total revenue funding

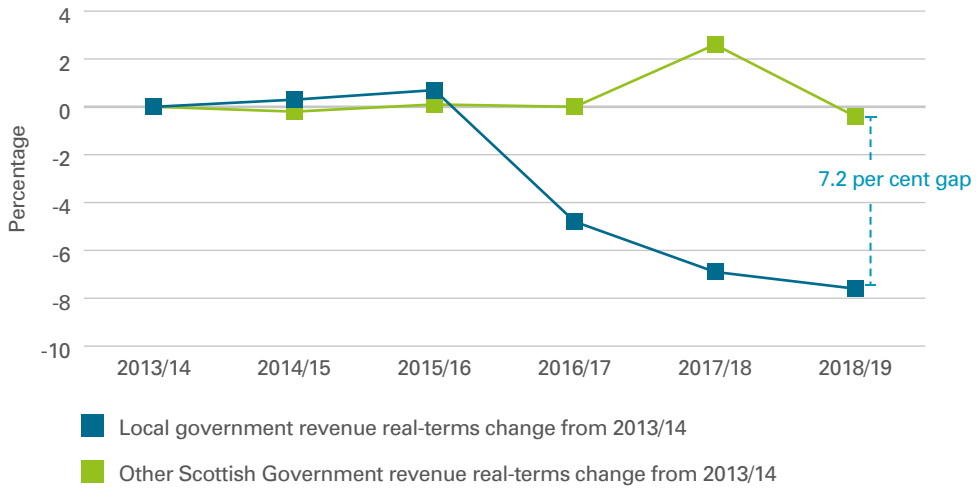
This consists of general resource grants, specific revenue grants (together known as revenue grants) and Non-Domestic Rates income (NDR).

It does not include health and social care funding paid to local government via the NHS.

Exhibit 3

A comparison of real-terms changes in local government and other Scottish Government revenue funding

Over the last six years local government revenue funding from the Scottish Government fell by 7.6 per cent, while other Scottish Government revenue funding fell by 0.4 per cent.



Source: Scottish Government budget documents and financial circulars

11. In our financial overview report in 2017/18, we reported on the lack of transparency of the calculations for the non-GAE distributions to individual councils. The Scottish Government has now provided this information to the Local Government and Communities Committee of the Parliament, SPICe[2] and COSLA. It is also planning to include the methodologies used for the specific revenue grants and other non-GAE funding within their annual Grant Aided Expenditure *Green Book* publication from 2020/21.

A growing proportion of funding is committed to national policy initiatives

12. The Commission commented in its report *Challenges and performance 2019* that an increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities. There are different approaches to describing the scope of this flexibility by stakeholders; different figures and language complicate this.

13. Within the £9.8 billion Scottish Government revenue funding, a relatively small, but growing, element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This money is ring-fenced to fund identified policies, such as the Pupil Equity Fund, Criminal Justice and Early Years Expansion. These grants totalled £0.3 billion in 2018/19 (£0.5 billion in 2019/20). The Scottish Government's view is that other funding is not ring-fenced and it is therefore at the discretion of councils how they deliver commitments and services with these funds.

An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities

14. In addition to specific revenue grants, funding for other national policy initiatives is set out in the annual settlement but not formally ring-fenced. These are mainly initiatives linked to education and social care. Collectively, ring-fenced and funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10 per cent of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils' spending and, 'although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging'.[3]

COSLA identifies reducing flexibility based on estimated expenditure

15. COSLA has also described its position on the flexibility of councils' budgets. It has taken a different and wider approach to this. It focuses on estimated expenditure. It identifies expenditure areas that have been ring-fenced or are protected through obligations created by current and past Scottish Government policy initiatives, demand pressures, or fixed obligations such as loan charges. For 2019/20, the most significant areas that COSLA identified included:

- primary and secondary teacher staff costs (£2.5 billion)
- all adult social work costs devolved to IJBs (£2.7 billion)
- loan charges (including PPP costs) (£0.7 billion)
- and other areas such as Council Tax Reduction Scheme (£0.4 billion) and Early Learning (£0.4 billion).

16. In its response to the Local Government and Communities Committee on the 2019/20 budget, COSLA's view is that Scottish Government policies and fixed commitments represented 58 per cent of local government revenue expenditure budgets in 2018/19; 60 per cent in 2019/20.

Other income

Council tax increases of three per cent increased total income slightly

17. As identified in our report *Challenges and performance 2019* all councils increased council tax rates by the maximum allowable three per cent in 2018/19. With increases in the number of properties, total council tax increased by £97 million (4.2 per cent increase) in 2018/19. As only 10 to 19 per cent of funding and income is raised through council tax, this only produces an increase of around 0.5 per cent.

Councils rely on a significant element of grant and NHS income

18. This year, for the first time, we have used financial statements and information collected from auditors, to provide an insight into the extent of grant income received by councils. In a small number of councils this was hampered by a lack of clarity in the accounts about grant income credited to services. Our analysis shows that £3.0 billion (16 per cent) of income was revenue grant income received by Scottish councils (and credited as income to services) in 2018/19.

How dependent is your council on the various sources of income compared to other councils, including: Scottish Government funding, grants, council tax and receipts from customers/clients?

Challenges and performance 2019
March 2019

19. The major components of this grant income include:

- Housing benefit grants from the Department of Work and Pensions totalling £1.4 billion.
- NHS income, £0.7 billion, including resource transfer and integration fund transfers.
- Scottish Government ring-fenced and other non-government grants of £0.9 billion (including criminal justice, pupil equity and attainment funding and early learning grants).

The proportion of income from each main source varies significantly across councils

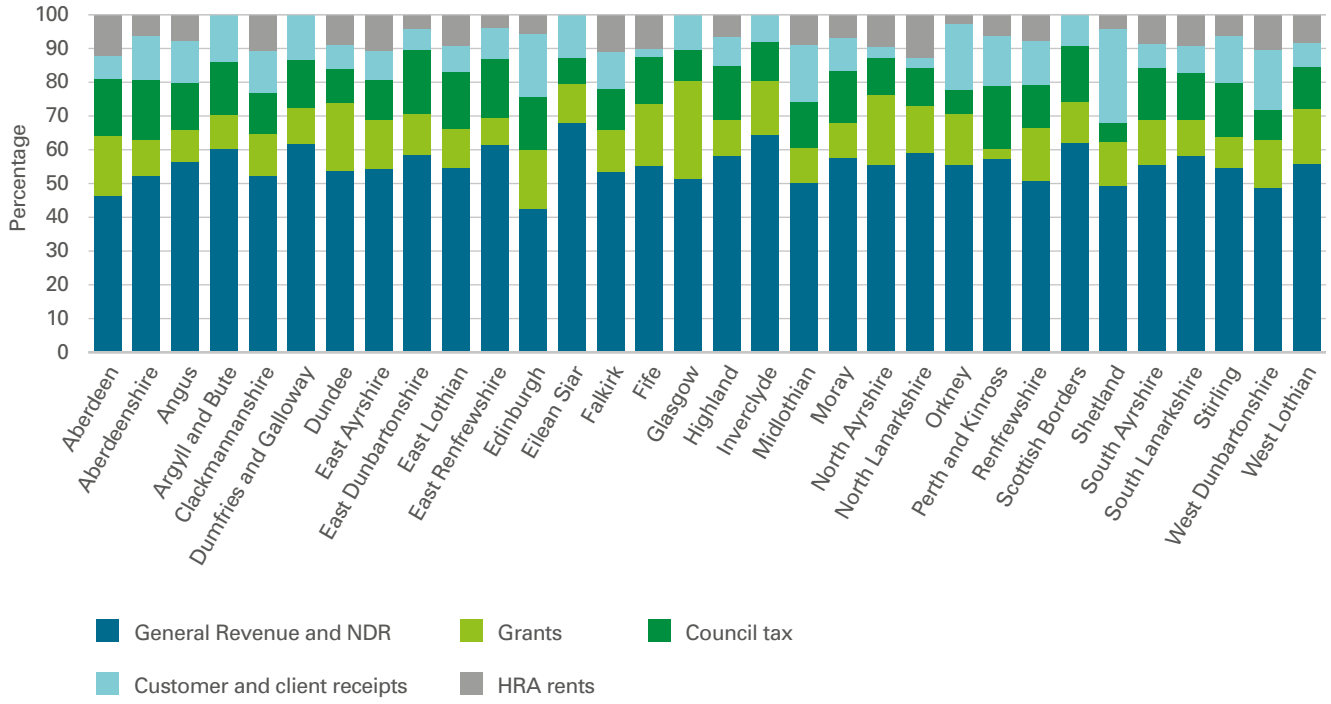
20. There are major differences between councils in the nature and scale of income (Exhibit 4, page 14). The most obvious of these is house rents, where six councils are not registered social housing providers, and so do not generate income from housing rents. However, there are other major differences between councils when looking at other sources of income:

- Some councils are less reliant on general revenue funding from the Scottish Government and NDR than others. This ranges from City of Edinburgh Council (43 per cent) to Eilean Siar (68 per cent).
- The other two islands authorities, Orkney and Shetland, have significant harbour activities which generate locally significant income streams of £15 million and £30 million, respectively.
- Some councils have relatively low income from fees and charges for services. There may be local policy reasons for this.
- Some councils generate relatively higher levels of income from council tax. East Dunbartonshire and Perth and Kinross councils rely on council tax to provide 19 per cent of their total income and funding (excluding HRA). In comparison, all three island authorities (Shetland, Orkney and Eilean Siar) realise less than 10 per cent of their total income from council tax.
- Some councils receive a greater proportion of income from grants and NHS funding. The most significant of these is Glasgow City Council which has 29 per cent (£680 million) of its total income from this source. This includes £329 million of housing benefit subsidy, £148 million from the NHS and £58 million of ring-fenced grants from the Scottish Government.

Exhibit 4

The proportion of income from each source for each council

Some sources of income are more important to each council.



Source: Audited financial statement 2018/19

Part 2

Councils' financial position in 2018/19

Key messages

- The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.
- Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.
- Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.
- Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.
- The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.
- Councils should continue to improve the transparency of the management commentary.

Council budgets and outturn 2018/19

The 2018/19 three per cent funding gap was less than the previous year

21. Councils' 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (three per cent). In 2017/18, the shortfall was £0.5 billion (four per cent).

22. Councils planned to manage funding gaps through savings. On average, councils delivered 87 per cent of planned savings. However, there was significant variation in how individual councils performed against their savings targets:

How big is the funding gap for your council relative to the total budget?

- Moray Council, which planned to deliver savings of £6.3 million, achieved savings of £7.2 million or 114 per cent of its target. Inverclyde, North Ayrshire and West Lothian councils also performed well against their savings targets.

- Shetland Islands Council, which planned to deliver savings of £1.9 million, achieved savings of £0.4 million or just 21 per cent of its target.

A higher proportion of the funding gap was met from reserves than planned

23. Some councils planned to use reserves to present balanced budgets. An analysis of data from a sample of 18 councils shows that planned use of reserves for 2018/19 was £52 million. The combined total funding gap for these councils was £272 million, of which planned use of reserves represented 19 per cent. The actual use of reserves by the sample of 18 councils was higher than planned at £71 million.

Usable reserves

24. All councils hold reserves but there is variation in the nature and value of these reserves. Reserves play an important role in good financial management of councils. They may be used to invest in a major project, transform services or respond to unexpected events. Reserves are a one-off resource so councils need to plan carefully for their use. Exhibit 5 (page 17) shows the nature and value of usable reserves in 2018/19. Over 77 per cent of the total balance is made up of revenue reserves which include the general fund, housing revenue account, insurance, repairs and renewals funds and other specific funds, eg harbour. The remainder relates to capital reserves which are used to support the costs associated with capital investment projects.

In 2018/19, 16 councils ended the year with a lower level of usable reserves

25. Across all councils there was a net decrease in usable reserves of £6 million to £2.5 billion. Sixteen councils ended the year with a lower level of usable reserves in 2018/19, which is relatively consistent with 2017/18 (18 councils).

26. Examples of councils with notable reductions in usable reserves in 2018/19 include:

- West Dunbartonshire reduced usable reserves by £6 million (or 28 per cent), which mostly related to the housing revenue account balance being used to fund capital expenditure.

- South Ayrshire used £7 million (or 17 per cent) of its reserves. This relates to a draw on its committed general fund in line with its budget plans.

- Moray drew down £4 million (or 16 per cent) from reserves, using its uncommitted general fund to support the 2018/19 financial position. This was part of the approved budget plan.

What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services, or transformation, increased charges, use of reserves?

Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?

How well are you kept informed about progress against savings plans?

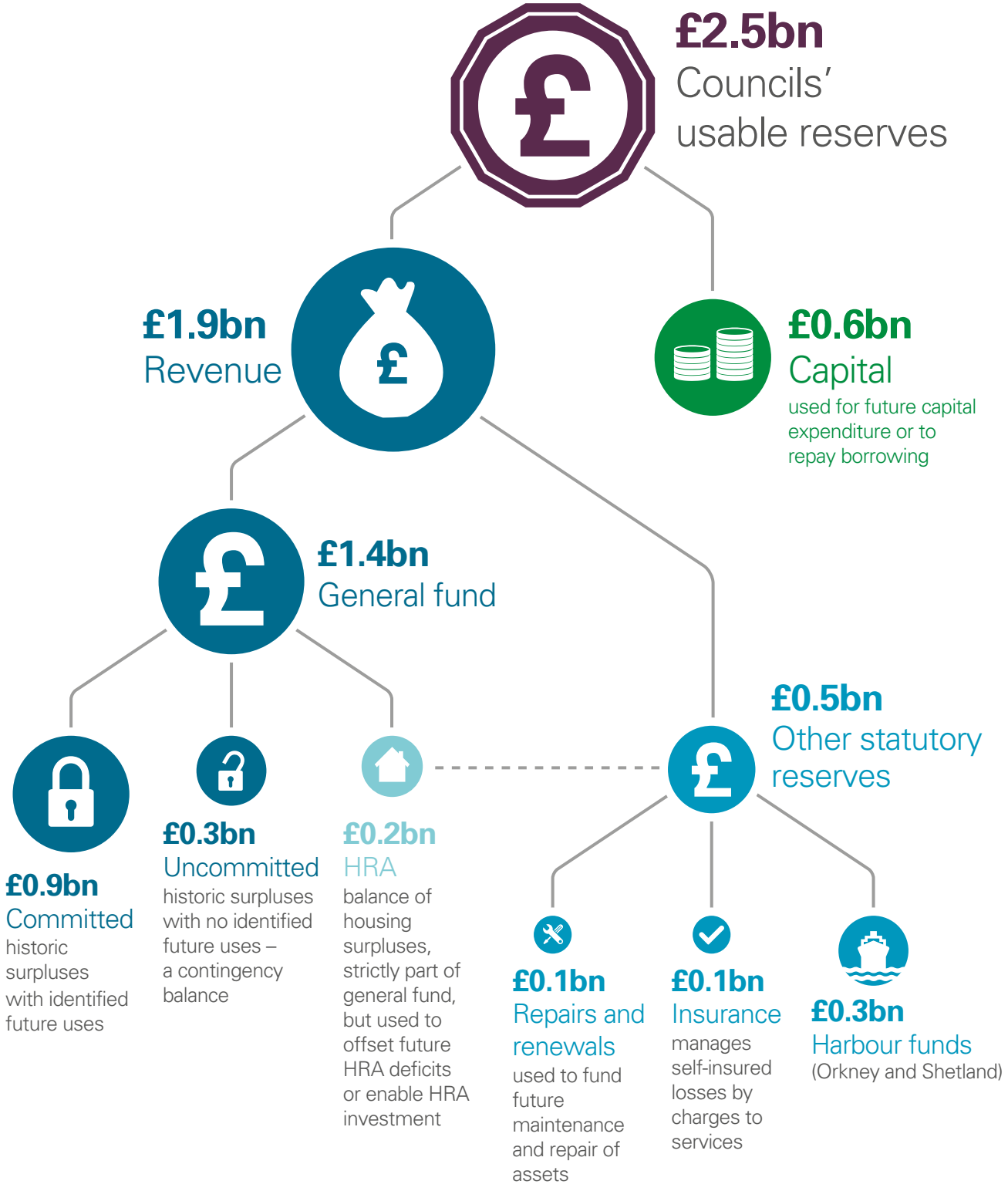
Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?

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

Exhibit 5

The relative size and nature of councils' usable reserves

In 2018/19, usable reserves held by councils totalled £2.5 billion.



Source: Audited financial statements 2018/19

Revenue reserves

Across Scotland councils increased their use of revenue reserves

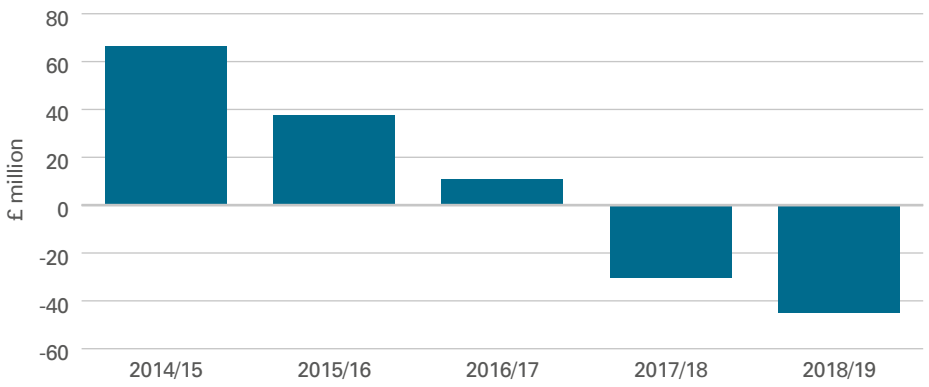
27. In recent years, councils have been increasingly turning to reserves to address funding gaps or apply to identified earmarked expenditure. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed from councils adding to revenue reserves to an increasing draw on their revenue reserves (Exhibit 6).

Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million.

Exhibit 6

The movement in usable revenue reserves

Councils have been increasing their use of (rather than adding to) revenue reserves over the last two years.



Source: Audited financial statements 2014/15–2018/19

General fund reserves

Councils have committed varying proportions of their general fund reserves

28. The total revenue reserve position includes a general fund reserve and councils can commit to using general fund balances for specific purposes in future years or maintain some as uncommitted. In last year's report, we highlighted the importance of councillors understanding the purpose of committed (or earmarked) reserves. We found that nearly all councils set out the purpose of their earmarked reserves, but the intended timing of this expenditure is not always clear. Knowing when the expenditure is likely to be incurred is an important part of understanding the need for these reserves.

29. The uncommitted element is used to provide against unforeseen circumstances and mitigate the financial impact of these. Councils have different strategies for managing the level at which they maintain an uncommitted balance (Exhibit 7, page 19). Most have a reserves policy that sets out a minimum level of uncommitted general fund to be maintained. This typically varies from one per cent to four per cent of expenditure across councils. Some councils, including North Lanarkshire and West Lothian, take a risk-based approach to identify an appropriate level for the uncommitted general fund each year. For both these councils this approach has led to a relatively low level of uncommitted general fund.

What is your council's reserves policy?

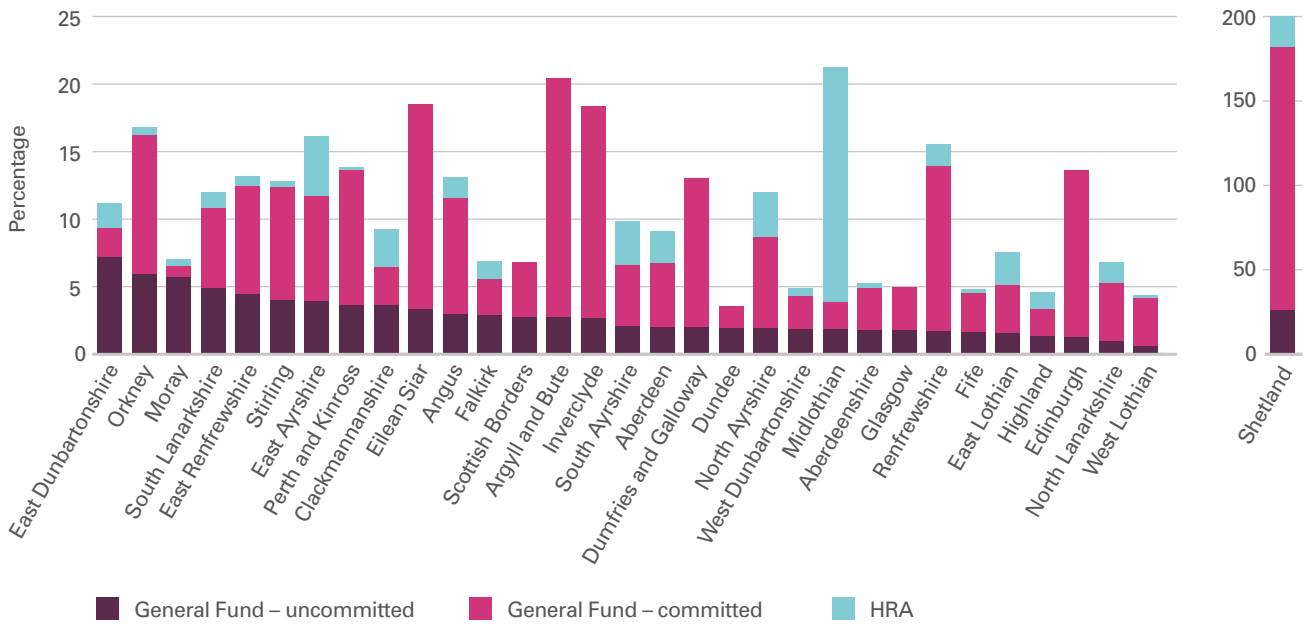
Do committed/earmarked/specific reserves have clear purpose and projected cashflows or are they part of the general contingency or uncommitted general fund?

30. The Best Value Assurance Reports for North Lanarkshire and West Lothian both comment on the low level of uncommitted general fund but recognise that it has been set at a desired level and successfully maintained over several years. However, councils with a low level of uncommitted general fund are more exposed to the risk of an unexpected change in circumstances.

Exhibit 7

General fund as a proportion of net annual revenue split between committed, uncommitted and HRA

All councils hold an uncommitted general fund to protect against unforeseen financial pressures.



Note: Orkney and Shetland also have significant harbour funds which are not included above.

Source: Audited financial statements 2018/19

Twenty-three councils have reduced their general fund reserves over the last three years

31. In recent years, there is significant variation in whether councils have added to, or drawn on, their general fund reserve (including the housing revenue balance). Exhibit 8 (page 20) shows the average annual movement on the general fund over the last three years (as a percentage of the total remaining balance at 31 March 2019). Shetland has experienced a relative increase in its general fund of 24 per cent while Moray has experienced a similar relative reduction.

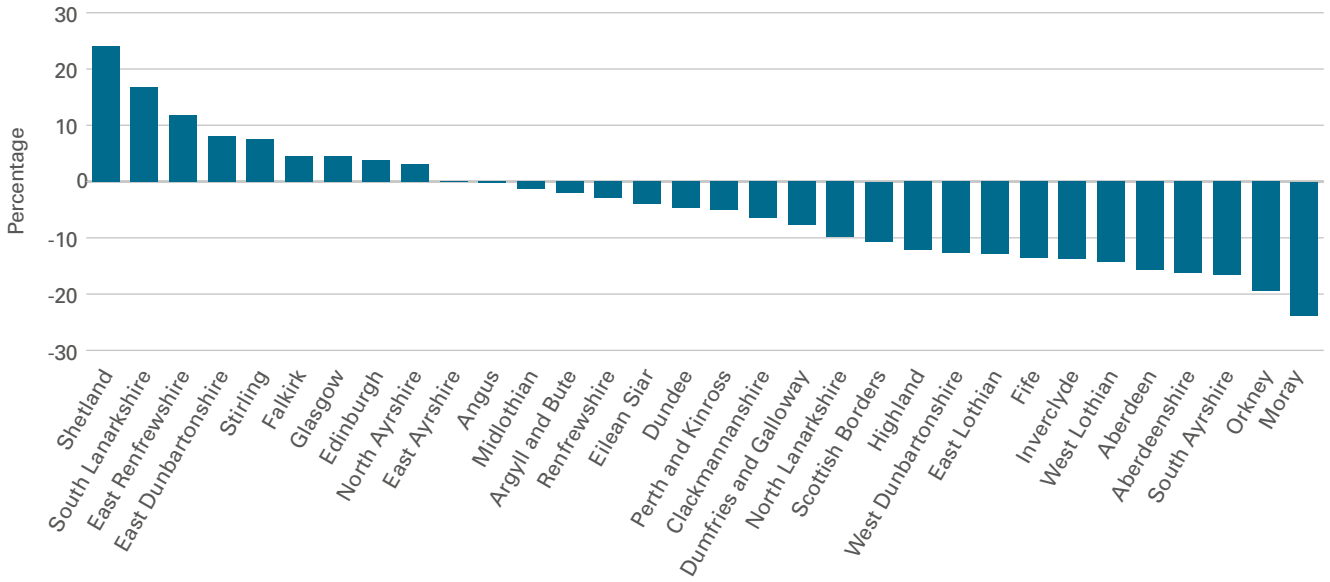
32. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray) would deplete its general fund within five years. The total general fund reserve is £14 million and Moray Council has identified that a further £3.7 million draw on reserves will be required to balance the 2019/20 budget (compared to £4.6 million in 2018/19 and an average of £3.6 million over each of the past three years). The council's budget papers clearly recognise that this approach to financial management is not sustainable and that funding gaps over the medium term will need to be funded from savings, which have not yet been identified.

Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?

Exhibit 8

Average annual movement in general fund over the last three years

Some councils are reducing general fund reserves by significant amounts.



Source: Audited financial statements 2015/16–2018/19

Capital

Total capital spending was £2.75 billion with more spent on housing and economic development and less on education

33. Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year (Exhibit 9, page 21). These two areas now account for 44 per cent of total capital expenditure (39 per cent in 2017/18). The proportion of capital expenditure on education has fallen from 27 per cent in 2017/18 to 20 per cent in 2018/19.

34. Some of the major new investments include:

- East Ayrshire Council – Barony Campus. This is the biggest capital investment project ever undertaken by East Ayrshire Council with an estimated total cost of £68 million. On the outskirts of Cumnock, the campus consolidates five schools into one campus.
- City of Edinburgh Council – Additional investment in educational properties, roads and social housing through the housing development fund with over 700 new homes under construction and a further 3,000 homes in design and development stages. The council is also providing funding for homes for mid-market rent from private developers through the National Housing Trust and through the Edinburgh Living LLP.

What are your council's medium-term and long-term plans for capital spending?

How well are you kept informed about progress against capital plans?

How well do you understand the reasons for any underspend against the annual capital budget?

- Midlothian Council – Newbattle Community Campus. A £38 million hub project opened in May 2018 as the council's first 'centre of excellence in digital technology' providing enhanced education and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

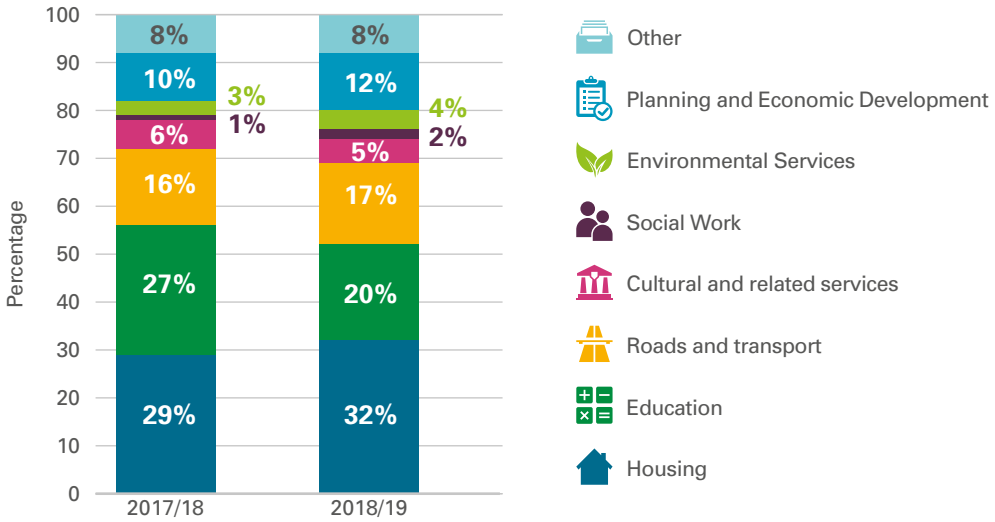
Investment has led to an increase in the number of council houses

35. Across Scotland, social housing is provided by a mix of housing associations and councils. Twenty-six councils in Scotland provide social housing. Fife and North Lanarkshire have the most housing stock (in excess of 30,000 properties each).

Exhibit 9

Capital expenditure by service area 2018/19 and 2017/18

A larger proportion was spent on housing and economic development and less on education in 2018/19.



Source: Scottish government CPOBE – capital provisional outturn (and budget expenditure)

36. We are now seeing the effect of housing investment and the end of the right-to-buy scheme leading to an increase in social housing stock. The total number of houses at 31 March 2019 has increased by 1,950 to 315,649. Edinburgh increased its housing stock by four per cent (719 properties) and West Lothian increased its housing stock by three per cent (434 properties). Falkirk, Highland, North Lanarkshire, Renfrewshire and South Lanarkshire have also increased their housing stock, each by more than 100 homes. East Ayrshire has experienced the biggest decrease, reducing its house numbers by 264.

Government grants and money from councils' revenue budget continue to be the main sources of funding for capital expenditure

37. The sources of capital expenditure funding in 2018/19 are mostly consistent with 2017/18 and include:

- £1.1 billion of government grants (£60 million or six per cent higher than 2017/18).
- £0.9 billion taken from council revenue (capital financed from current revenue and loans fund charges).
- £0.6 billion increase in the underlying need for councils to borrow.

Auditors reported underspends in annual capital budgets at a number of councils

38. A number of the local auditors in their annual audit reports identified that councils had significant underspends against their annual capital budgets:

- Aberdeen City's 37 per cent underspend is in part due to the reprofiling of four proposed new primary schools, delays with the Union Terrace Gardens Project and in settling land claims for the Aberdeen bypass.
- West Dunbartonshire underspent by 41 per cent. We reported in the *Best Value Assurance Report* (June 2018) that there has been a trend of significant levels of capital slippage at the council over a number of years and recommended that the council review its project management processes and consider performing self-assessments to identify areas for improvement.
- Orkney Islands' 50 per cent underspend is due to weaknesses in forward planning arrangements and the auditor reported a history of capital slippage. Capital projects which experienced slippage in 2018/19 include £3 million for the Scapa Flow Visitor Centre and Museum and £4 million for a new tug.

39. There can be local reasons for underspends against annual capital budgets that reflect the phasing of projects over a number of years. The key issue is that councillors understand whether annual underspends of budget are symptomatic of delays in overall capital project delivery and encourage officers to address these or refine the overall capital aspirations.

Debt

What is your council's current debt position relative to its annual revenue?

There is variation in the relative underlying borrowing position of councils

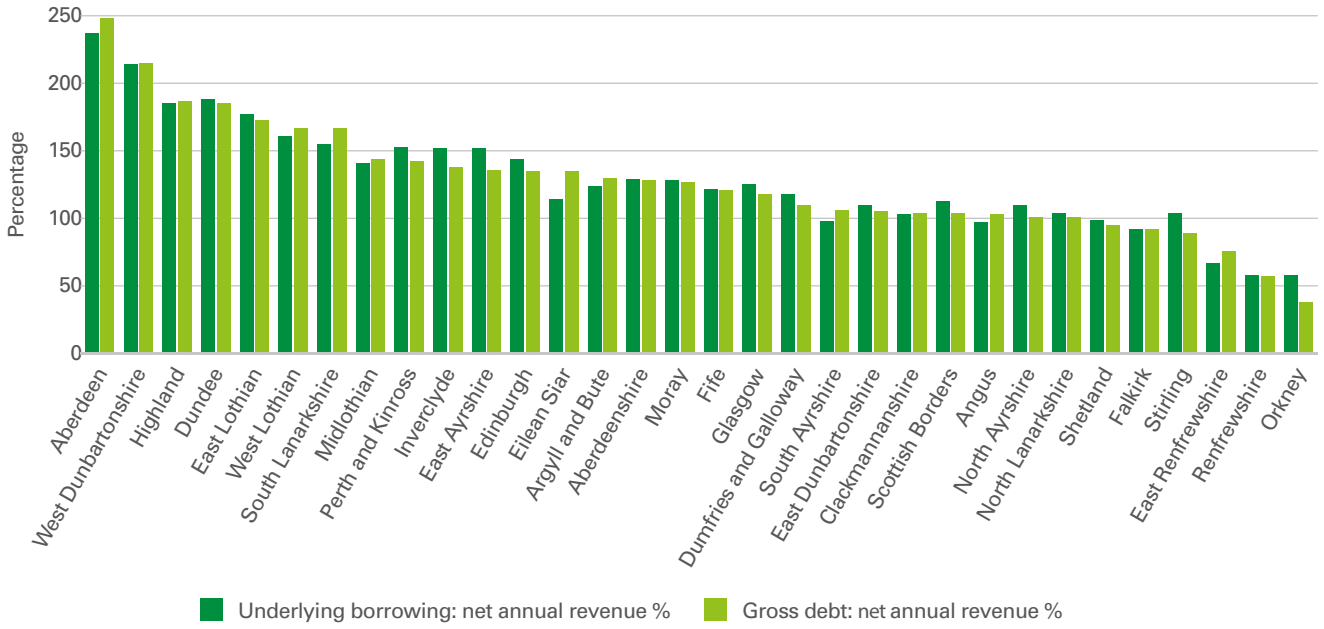
40. The underlying borrowing position of councils varies across Scotland from 58 per cent of net annual revenue in Renfrewshire and Orkney to 237 per cent in Aberdeen City (Exhibit 10, page 23). Overall gross debt levels have grown by £0.7 billion (or four per cent) in the last year. Councils with higher borrowing levels usually incur higher annual costs of servicing the debt and may have less headroom for further affordable borrowing.

41. The underlying borrowing position consists of the net debt of the councils at 31 March 2019 (total debt less investments and cash) adjusted for total usable reserves. This is because a council with significant reserves that are not cash-backed would need to borrow more in the future to realise these reserves.

Exhibit 10

Underlying borrowing and gross debt as a proportion of net annual revenue

The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



Source: Audited financial statements 2018/19

Total net debt across councils has increased by £0.3 billion, mainly due to three councils

42. The different sources of debt held by councils comprises:

- The Public Works Loans Board (PWLB), a UK Government agency that issues loans to local authorities and other specified bodies (56 per cent).
- Other market loans (27 per cent).
- Other long-term liabilities from assets acquired through public private partnerships including Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models (17 per cent).

43. Total net debt has increased by £0.3 billion (2.3 per cent), from £15.1 billion in 2017/18 to £15.4 billion in 2018/19. Three councils account for most of the movement in net debt this year:

- Aberdeen City Council – an increase of £203 million (21 per cent) due to an increase in PPP liabilities and short term borrowing from other local authorities to fund capital investment.
- East Ayrshire Council – increase of £67 million (20 per cent) due to an increase in finance lease liabilities for an NDP schools project that the council occupied in the year.
- Dundee City Council – increase of £66 million (10 per cent) due to an increase in borrowing to fund the council's capital programme, including £12.4 million for council housing.

The overall cost of servicing debt is unchanged but councils incur different levels of spend on their annual revenue

44. Total interest costs remain consistent year-on-year at £0.8 billion. In 2018/19, these payments varied from 10 per cent of net annual revenue in Aberdeen to two per cent in Orkney with 19 councils spending more than six per cent of their net annual revenue on debt interest. Higher interest costs can reflect the extent, type and age of debt held.

How much of the council's budget is used to pay interest and debt repayments?

Most debt is fixed interest, but PFI/PPP/NPD schemes are variable interest

45. Most council borrowing comes from the PWLB and this is usually issued at a fixed interest rate. Our analysis from auditors found that fixed interest payments made up around 65 per cent of total interest payments in 2018/19. In October 2019, the UK Treasury announced that interest rates on new PWLB loans would rise from 1.81 per cent to 2.81 per cent. This will make new PWLB borrowing or refinancing of debt for councils more expensive.

Are you given clear and sufficient information to understand risks and support decisions about future borrowing?

46. The remainder relates to interest payments on PFI/PPP/NPD agreements (30 per cent), where unitary charges are typically linked to RPI and variable interest loans (five per cent). Aberdeen City Council issued index-linked bonds in November 2016, raising £415 million to support its capital investment programme. This is also linked to RPI and the income generated by the new Aberdeen Exhibition and Conference Centre is expected to contribute to the cost of servicing the bond each year.

Provisions and equal pay

Glasgow City Council agreed to settle equal pay claims at a cost of £0.5 billion

47. In last year's report, we highlighted that the impact of equal pay claims on Glasgow City Council's financial planning could be significant. In May 2019, the council agreed to settle outstanding equal pay claims at a total cost of £0.5 billion. The council has developed a funding strategy that will spread the cost of settlement over several years and this has been built into the council's baseline budget from 2019/20 onwards. The funding strategy includes one of the council's arm's-length external organisations (ALEOs) refinancing an existing loan with Barclays Bank and remitting this to the council as a member contribution. The second element involves a sale and leaseback arrangement of property with the same ALEO. The local auditor assessed the overarching governance arrangements of the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

48. The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.

Pensions and severance

Employer pension liabilities increased as a result of the McCloud case

49. Councils' share of the Local Government Pension Scheme (LGPS) net liability at 31 March 2019 increased by 41 per cent to £9.3 billion, compared to £6.6 billion at 31 March 2018.

50. In 2015, the government introduced reforms to public sector pensions. In December 2018, the Court of Appeal ruled, in the McCloud case, that the transitional protection offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination – www.judiciary.uk/. As all care schemes introduced in 2015 contained transitional protection, all schemes are likely to be unlawful. This includes the local government pension funds. On 27 June 2019, the Supreme Court denied the UK Government leave to appeal and the UK Government conceded that the protections in place were discriminatory on grounds of age. In accordance with accounting standards, this was regarded as an adjusting event after the balance sheet and councils were advised to adjust their unaudited financial statements.

51. In June, the Government Actuary's Department (GAD) provided actuarial firms with a methodology for estimating the likely impact of the rulings on pension liabilities. Local government pension fund actuaries were requested to apply the GAD assumptions which generally resulted in an increase in the net pension liabilities.

52. The impact of McCloud on council finances will become clearer at the next triennial revaluation of pension funds at 31 March 2020, when contribution rates are redetermined. There may be a funding pressure, with councils having to make additional future employer contibutions to cover the increased liabilities.

Other issues affected revised pension liabilities

53. While the impact of McCloud was the main element in the revised figures, there were other factors involved including Guaranteed Minimum Pension (GMP) equalisation (due to contracting out of the state earnings related pension scheme (SERPS) in April 1978). This provided for reduced employer and employee National Insurance contributions in return for members receiving a GMP from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they have built up at different rates, reflecting the earlier payment age for women. An interim method of calculating the cost of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

54. In a few other cases, there were specific issues which were updated in the revised actuarial valuations. For example, in Aberdeenshire, the actuary had not reflected the impact of the backdated pay award, and in Aberdeen City, Stirling and Dumfries and Galloway, the initial calculations were based on the estimated investment position for the year end and this was revised to actual data in the audited statements.

55. The total impact of the above issues on councils' pension liabilities was £0.5 billion (or 5.5 per cent).

Local auditors reported some issues with severance cases

56. Some auditors reported that business-case calculations of the cost and benefits of severance were not taking into account all costs that they would expect to see. Auditors also found that some councils were using longer than expected payback periods: this is the length of time it would take the council to recoup the cost of the severance through expected savings in salary costs. The Scottish Government recommends this be no longer than two years, but auditors found examples of this being up to five years.

57. These severance cases often came as the result of restructuring at senior levels, with the intention of making future cost savings. Councils need to ensure that a robust business case is prepared for severance or early retirement that considers the long-term financial commitment of these decisions.

Does the council prepare business cases for severance proposals and are these reported to councillors?

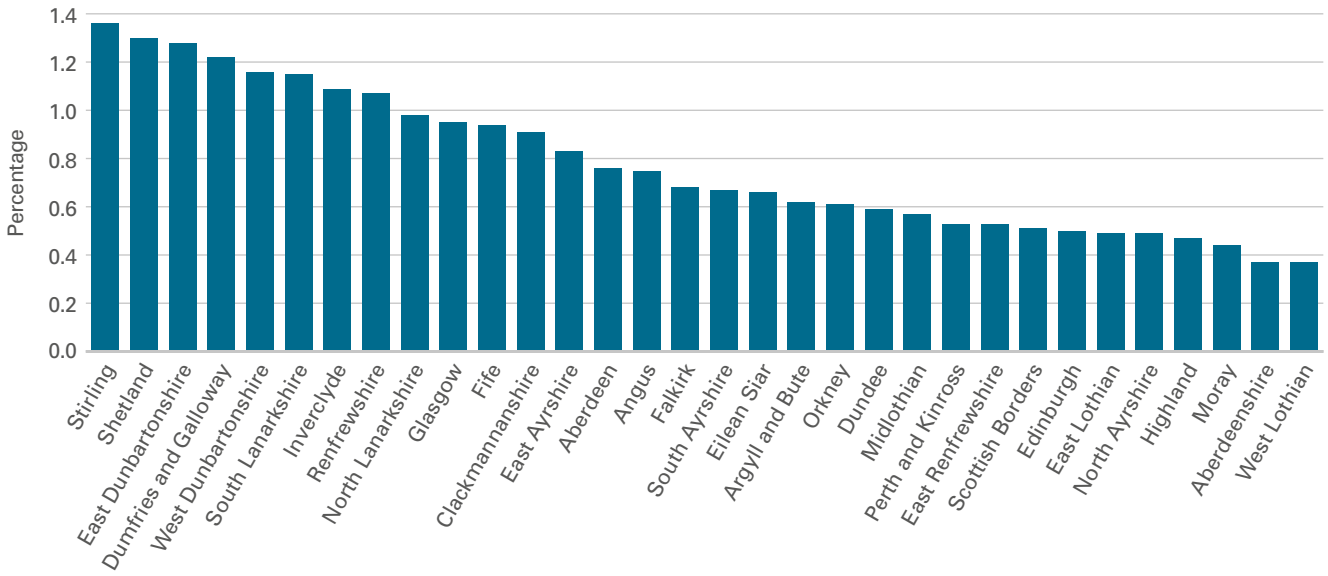
All councils have ongoing commitments in respect of unfunded pension liabilities, but the extent of these costs vary

58. Unfunded liabilities are pension amounts that are not met by the pension schemes, but by the individual employer. These can occur when an employer approves an early retirement, without actuarial reduction and with enhanced pension. All councils have ongoing commitments arising from past decisions on early retirements. Exhibit 11 shows that for some councils this ongoing cost represents more than one per cent of their annual net operating expenditure.

Exhibit 11

Annual cost of unfunded benefits as a percentage of net operating expenditure

Annual payments for historic early retirements vary significantly.



Source: Audited financial statements 2018/19 and IAS19 valuation reports by actuaries

Financial management and transparency

Management commentaries ⓘ do not always explain the link between budget outturn and the financial performance in the accounts or achievement of planned savings targets

59. In last year's report, we highlighted three key aspects to an assessment of whether financial reporting is transparent in the management commentaries:

- Is the outturn against budget position for the year clearly shown with the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements and major differences explained?
- Is progress against agreed savings reported?

60. Our review of 2018/19 management commentaries found that:

- Both Comhairle Nan Eilean Siar and The Highland Council included these key aspects of transparency in their management commentaries.
- Nearly all councils reported their year-end outturn, but five councils did not provide explanations for significant variances from budget.
- Nine councils reported the outturn in the management commentary but this was not reconciled to the financial performance in the accounts. This narrative is critical to the understanding of a council's performance against budget and how this translates into the movement on the general fund reported in the accounts.
- Only ten councils reported progress against agreed savings.

Management commentaries

A management commentary is a report by the council, set out with its annual accounts. It should provide information on the council's strategic priorities and key risks, as well as a balanced analysis of the financial and wider performance of the council in the year.

Does the management commentary of the council (and of the IJB accounts) show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?

Part 3

Councils' financial outlook

Key messages

- Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).
- In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).
- Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.
- Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.
- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

2019/20 funding settlement

Scottish Government revenue funding to local government in 2019/20 increased by 0.9 per cent in real terms

61. The Local Government revenue settlement from the Scottish Government in 2019/20 increased by 2.9 per cent (cash terms) from 2018/19 to £10.1 billion. This was a real-terms increase of 0.9 per cent. Over 80 per cent of the increase is due to growth in specific revenue grant funding.

Medium- and long-term financial planning

The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning

62. The funding settlement to councils continues to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term. The Scottish Government planned to publish indicative multi-year revenue budgets in December 2019 covering a three-year period,[4] and to then publish a three-year indicative capital budget in the summer of 2020. However, it is unlikely to produce these this year. The Commission views this commitment to multi-year budgets as a positive step and will monitor and report on progress and the impact on council planning in future overview reports.

63. The Scottish budget is becoming increasingly complex. It is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK now has a greater influence on public finances than ever before. Given Scottish Government funding remains the most significant source of income for councils, this volatility in the Scottish budget holds uncertainty and risks for funding to councils. This adds to the complexity and challenges for councils in planning for the medium and long term.

64. On 30 May 2019, the Scottish Government published its second medium-term financial strategy.[5] Income tax forecasts in the strategy suggest that the Scottish Government may need to budget for a significant revenue shortfall in each of the next three years, because forecasts have fallen since budgets were set. This shortfall could total £1 billion over the three years covered by the strategy.

65. The strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge. It does set out principles which will be used in a future spending review, although the timing of this remains uncertain. In September 2019, the Auditor General reported[6] that the strategy 'does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors'.

All councils have medium-term financial planning, but the content could be improved

66. In 2019/20, all councils had financial plans that covered at least three years.

67. Medium-term financial plans should be at the core of strategic planning and decision-making. In order to ensure these decisions are made with the most current and accurate information, medium-term financial plans should be reviewed and refreshed annually and maintained as a rolling three- to five-year plan.

68. Local auditors reported that the content of medium-term financial plans varied:

- 28 (or 90 per cent) included estimates for Scottish Government funding
- 25 (or 81 per cent) included a total projection for net expenditure
- 18 (or 58 per cent) included projections of net expenditure at service level

Audit Scotland published a briefing in October 2019, *Scotland's new financial powers: Operation of the Fiscal Framework 2018/19*.

This sets out an overview of how the Scottish budget operated during 2018/19, how the Fiscal Framework operated, provides an update of the main risks that affect the Scottish budget and what these mean for the management of the Scottish public finances.

The 2018/19 audit of the Scottish Government Consolidated Accounts September 2019

- 17 (or 55 per cent) included projections for service income
- 21 (or 68 per cent) included projections for the costs of borrowing.

69. There is scope for the content of financial planning to improve to include the elements in paragraph 68 (page 29) and assist members and other stakeholders in determining which services are likely to experience the biggest budget pressures, how service income is expected to contribute to the overall position and the extent to which relatively **fixed costs** ⓘ such as borrowing and unfunded pension liabilities affect the budget position.

A third of councils have financial plans that cover more than five years

70. Long-term financial planning has not progressed since last year. Financial planning, covering more than five years, was identified in just ten councils. Last year we reported 16 councils, but further work indicates some of these have not been updated and now refer to less than five years or are limited to capital expenditure plans.

71. Long-term financial planning is particularly important in the context of increasing financial challenges and wider demands on services, in order to manage financial challenges and to make well-informed decisions, which are aligned to council priorities.

Financial pressures in 2019/20 budgets

72. Councils' 2019/20 budget papers set out some common themes in the pressures that councils identified:

- Changes to staff-related costs generated significant pressure on budgets. For example, the local government pay offer made by COSLA and accepted by the Scottish Joint Council (SJC), which led to a pay increase of 9.5 per cent over the three-year period from 2018 to 2021.
- Demand pressures, particularly the expected population growth in some council areas, the increasing proportion of the population that is over 65 and over 75 years and other demographic changes.

Councils' identify a total funding gap of three per cent in 2019/20 budgets

73. Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent). This is consistent with the three per cent gap in 2018/19. This continues the increasing pressure on councils to find cost savings, reduce services, increase income and/or use reserves and these decisions are likely to become increasingly difficult for councillors.

74. The basis and timing of the reported gap can vary from council to council. For example, two councils stated their funding gap after including a council tax increase, but the majority included council tax as one of their measures to close an identified gap. Councils could be more consistent in their presentation of the funding gap.

75. Funding gaps identified in 2019/20 budgets ranged from one to seven per cent across councils. Councils most frequently reported a gap of between two and four per cent. Aberdeen City and Clackmannanshire councils identified the largest funding gaps, relative to the councils' total funding and income (excluding HRA), of between six and seven per cent.

Fixed costs

Fixed costs remain unchanged in the short term over a wide range of activity. Their presence magnifies the effect of overall budget reductions or demand increases on the remaining budget.

Does your council have medium- and long-term financial plans and do they include a range of potential funding and financial scenarios?

Does the medium-term plan provide sufficient information on estimated Scottish Government funding, projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?

Councils managed their funding gaps mainly through identifying planned savings

76. Exhibit 12 sets out the proposed measures to address the funding gap across councils. Savings plans were the most common action, contributing £352 million (66 per cent) to the identified funding gap. This will include plans for cost reduction and service redesign. Of these **savings** (i), 96 per cent were 'recurrent', with only 4 per cent 'non-recurrent'.

77. Council tax increases provided a further £89 million (17 per cent) of income to bridge the gap. Increase to fees and charges for services made a minor contribution too (three per cent). The planned use of reserves made up the shortfall in the funding gap of £73 million (13 per cent) with 17 councils planning to use reserves to bridge the funding gap.

Savings

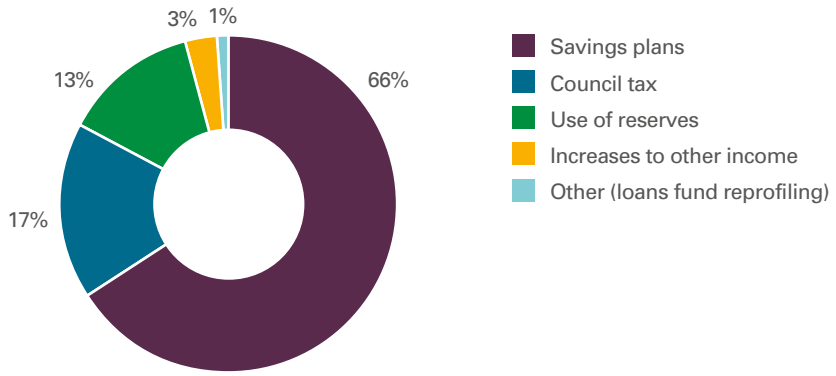
Recurring savings are savings, that once achieved, recur year-on-year from that date.

Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Exhibit 12

Planned savings were the most common way of addressing funding gaps

66 per cent of the funding gap in 2019/20 is to be met through planned savings measures.



Source: Local auditor returns and council budget papers 2019/20

78. The position is unique to each individual council, for example East Renfrewshire Council identified a funding gap of £15.3 million, or five per cent of its funding and income (excluding HRA). The agreed budget identified that the gap was to be met through:

- Planned savings – £9.33 million (61 per cent)
- Use of reserves – £4.31 million (28 per cent)
- Three per cent council tax increase – £1.63 million (11 per cent).

Fees, charges and local taxation

Many councils have been increasing fees and some have introduced new charges

79. Charges for services vary across councils. For example, some councils do not charge for music instruction but the majority have an annual charge. This varies significantly from £117 in Inverclyde Council to £524 in Clackmannanshire Council.[7]

80. Many councils are increasing charges for services. An analysis of 18 types of charges indicates that two of the largest increases from 2018/19 to 2019/20 were applied to:

- Community alarms, 22 councils provided information on this charge and the average increase was 19 per cent.
- Bulky waste uplift, where 27 councils reported an average increase of eight per cent.

81. Some councils continue to introduce new fees and charges. These include:

- garden waste uplift
- the expansion of parking charges
- new charges associated with funerals (for example, use of multi-media)
- licensing (for example, new licences for public entertainment)
- planning services (for example, pre-application meeting charges).

Greater council tax increases were deployed in 2019/20 than in previous years

82. In 2019/20, the Scottish Government increased the cap on council tax increases to 4.8 per cent in cash terms (3.0 per cent in real terms). Twelve councils decided to increase council tax by the full amount (4.8 per cent). Thirteen councils increased it by three per cent and the other seven by between 3.9 and 4.5 per cent.

Councils continue to pursue new local taxes

83. As we reported in our report *Local government in Scotland: Challenges and Performance 2019*, local authorities are exploring new ways in which to raise tax locally.

84. The City of Edinburgh Council has endorsed a proposal for an Edinburgh transient visitor levy or 'tourist tax'. This would be based on a charge of £2 per room per night applying all year round for all accommodation types within the council boundary, except for campsites, for a maximum of seven consecutive nights. This scheme is expected to raise up to £14.6 million a year. Implementation of this will require legislation to be passed by the Scottish Parliament. The government has included a Transient Visitor Levy Bill in their 2019/20 programme for Scotland *(Protecting Scotland's Future: the Government's Programme for Scotland 2019–2020)*. The Bill aims to provide local authorities with discretionary powers to apply the charge with the income being used to fund local authority expenditure on tourism.

85. In October 2019, the Transport Act was passed. The Scottish Government supported amendments to the Bill at stage two of the legislative process, which provide local authorities with the discretionary power to apply a workplace parking levy.

EU withdrawal

86. EU withdrawal has the potential to exacerbate the existing financial pressures faced by councils. The risk of increased cost of goods and services from the EU is one of the more immediate concerns. Longer term, councils are concerned about the wider economic implications for public finances and the impact on their local areas. For example, increases in interest rates, reduction in business investment or an increase in unemployment and poverty are all risks to councils' communities and therefore to councils' financial planning.

87. The Scottish Government has allocated £1.6 million (£50k per council) to support ongoing work in councils to coordinate preparations for leaving the EU. It has also approved £7 million for a Rapid Poverty Mitigation Fund, to enable councils to respond to anticipated increased demand in the event of a no-deal exit. This includes scaling-up existing measures such as the Scottish Welfare Fund and Discretionary Housing Payments and supporting people in food or fuel poverty.

In December 2019, we plan to publish a briefing on how the public sector in Scotland has responded to EU withdrawal. This will be available on the Audit Scotland website.

Part 4

Integration Joint Boards overview 2018/19

Key messages

- The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- Overall, IJB budgets increased by three per cent in 2018/19.
- The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).
- A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.
- Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.
- A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.
- Over a third of IJB senior staff have changed during 2018/19.

Funding and expenditure

Overall, IJB budgets increased by three per cent in 2018/19

88. Overall total IJB funding increased by three per cent in 2018/19 and this was reflected in a three per cent increase in total expenditure of £0.3 billion to £8.6 billion. The total contributions from councils increased from £2.4 to £2.5 billion and NHS contributions from £5.9 to £6.1 billion.

The pace of progress with integration has been too slow

89. The average proportion of NHS and council funding to IJBs (71 per cent/ 29 per cent) and expenditure incurred (64 per cent/ 36 per cent) remains consistent with the previous two years. This does not indicate any significant shift in health and social care spend between partners and this finding is consistent with the Scottish Government's spending and performance update.

90. As a result of concerns about the pace of health and social care integration, the Cabinet Secretary for Health and Sport commissioned a review of progress. This was conducted in late 2018. The Ministerial Strategic Group for Health and Community Care (MSG) published its findings in February 2019 and set out proposals for ensuring the success of integration. Following publication of its review, the MSG issued a self-evaluation template. This aimed to evaluate the current position on the findings of the review. This exercise will be repeated to demonstrate any progress made.

NHS in Scotland 2019
October 2019

91. The Auditor General commented in *NHS in Scotland 2019*, October 2019, in relation to health and social care reform that the pace of change has been too slow. She recommended that the Scottish Government in partnership with NHS boards and integration authorities should 'develop a new national health and social care strategy to run from 2020 that supports large-scale, system-wide reform, with clear priorities that identify the improvement activities most likely to achieve the reform needed'.

More IJBs now hold reserves, but this varies significantly

92. A further £34 million was added to IJB reserves in 2018/19, which now total £158 million or 1.8 per cent of total expenditure (1.5 per cent in 2017/18). Some of this increase in reserves is as a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. More IJBs now hold some level of reserve (26 in 2018/19 compared to 22 in 2017/18) (Exhibit 13, page 36). The IJBs without any reserve include Fife, Scottish Borders and South Ayrshire. One IJB, North Ayrshire, continues to hold a negative reserve of -£4.9 million. In 2018/19, the IJB started to repay this debt to the council and the remainder will be repaid in future years. This expectation of future 'repayment' of historic overspends is also identified as an issue in Argyll and Bute.

What is your IJB's reserve policy?

Are the commitments made reviewed annually to ensure they reflect the best use of the IJB's reserves?

93. Of those IJBs with reserves, the position varies from Argyll and Bute with 0.1 per cent of total annual expenditure held as reserve (£0.3 million) to Eilean Siar with 9.8 per cent (£5.8 million).

2018/19 financial position

The majority of IJBs struggled to achieve break-even

94. In 2018/19, 20 IJBs reported a surplus, two reported break-even and eight reported a deficit. The overall position was an underspend of £34 million. A number of IJBs failed to deliver all of their planned savings in the year and many have struggled to achieve financial balance, requiring additional funding from partners. Without this additional funding, 19 would have recorded a total deficit of £58 million.

Recruitment challenges present a risk to service sustainability

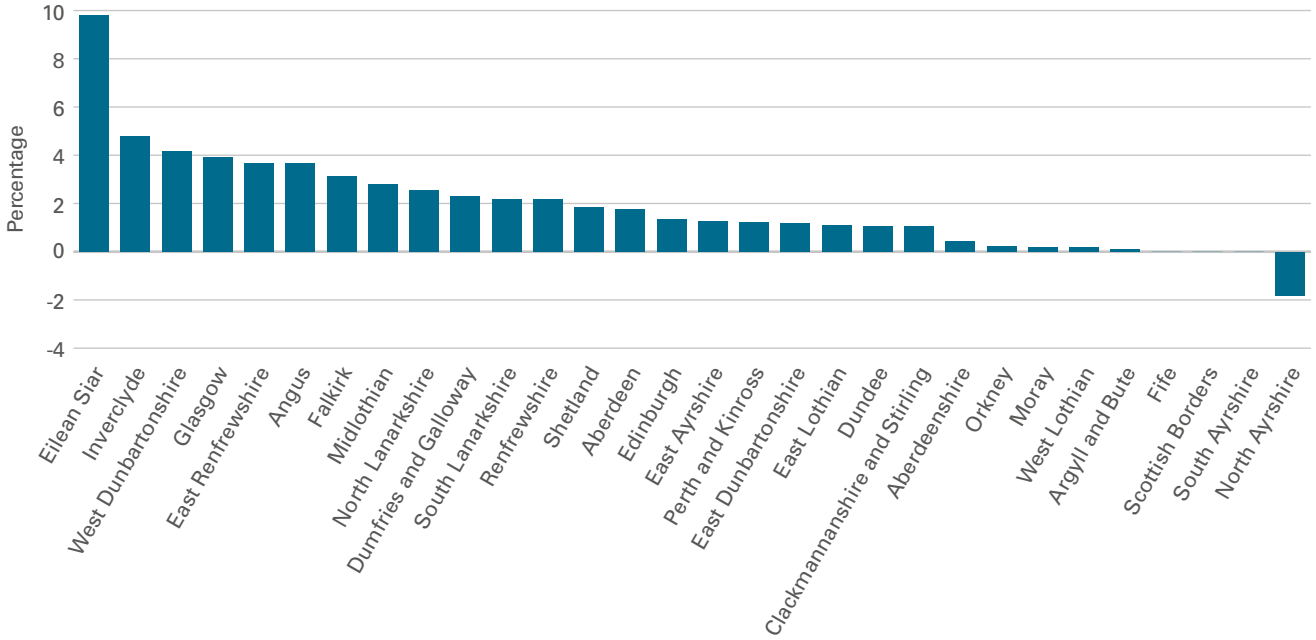
95. Some IJBs have indicated that staffing issues have contributed to either overspends or underspends against budgets.

96. In the case of Eilean Siar, recruitment difficulties contribute to underspends against the IJB budget. The apparent healthy financial position masks issues of service sustainability, which are stated in the IJB's management commentary: 'Recruiting staff is already proving difficult for both nursing and social care staff and is expected to worsen as the available workforce on the islands decreases.'

Exhibit 13

Integration Joint Board reserves as a percentage of total spend, 2018/19

More IJBs (26) now hold a reserve, but this varies significantly.



Source: Audited financial statements 2018/19

97. Other IJBs have highlighted the risks that recruitment difficulties could present for the sustainability of services in the future. In Dumfries and Galloway, consultant vacancy rates have averaged around 20 per cent over the last two years and there has been a seven per cent increase in the use of agency staff. Edinburgh has reported that 45 per cent of their workforce are aged over 50, which could cause capacity and supply issues in the future.

98. Audit Scotland's report, *NHS workforce planning – part 2*, highlights pressures on the primary care workforce linked to recruitment and retention. The Scottish Government acknowledges the pressures on the workforce but has not estimated the impact they will have on primary care services. Integration Joint Boards are responsible for planning, designing and commissioning services and need to think differently about how these services can be delivered with the resources available.

NHS workforce planning – part 2
August 2019

Financial planning

Budgets were not always agreed by 1 April and budgets included unidentified savings plans

99. Having clear, complete and detailed agreed budgets is a fundamental business and governance tool. Fourteen IJBs failed to agree a budget with their partners for the start of the 2018/19 financial year. This position improved for 2019/20, with 11 encountering a delay that meant the budget was not formally agreed by 1 April 2019.

Is a budget agreed by the IJB before the start of the financial year? If not, why not?

100. Just under half of IJBs had budgets that included some unidentified savings. This meant the budgets were not balanced at the start of the year.

101. Our review of annual audit reports found that several IJBs, including Fife and Shetland, failed to deliver planned savings in year. This will have contributed to the financial pressures incurred.

102. The results from the national self-assessment tool developed in response to the Auditor General and Accounts Commission's report, *Health and social care integration: update on progress*, and the *Review of Progress with Integration of Health and Social Care* report by the Ministerial Strategic Group for Health and Community Care indicate that IJBs recognise the timely agreement of budgets is an area for improvement. Eighteen IJBs assessed this area as either 'not established' or only 'partly established'.

Financial outlook

Medium-term financial planning is improving

103. Last year we reported that only a third of IJBs had a medium-term financial plan in place and that there was no evidence of longer-term financial planning. Since then, the position on medium-term financial planning has improved with auditors reporting that over two-thirds of IJBs have a medium-term financial plan. Over half of these covered a three-year period, with the remainder covering a longer period of between four and five years. Two thirds of the IJBs with medium-term financial plans reviewed them on an annual basis.

104. The plans typically included projections of net expenditure, income and projected funding gaps. Where estimates were included on pay growth, non-pay costs, demand and changes in government funding the estimated rates were found to vary significantly.

105. No IJBs had a financial plan that extended for more than five years. A focus on longer-term financial planning is required by IJBs as changes under integration are only likely to be achieved in the longer term.

The projected funding gap is £208 million for 2019/20

106. Auditors identified a total estimated funding gap of £208 million for 2019/20, representing 2.5 per cent of total income. This is an improvement in comparison to 2018/19 (£248 million or 2.9% of total income). The 2019/20 funding gap as a proportion of total income varied between zero and 7.6 per cent.

107. Exhibit 14 (page 38) shows how IJBs propose to bridge the 2019/20 funding gap. Of the £208 million, 59 per cent was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Seven IJBs planned to cover part of the estimated funding gap from reserves.

Does the medium-term plan provide sufficient information on host partner funding, projected net expenditure, projections for income, projections for cost of borrowing?

Does the IJB have a transformation plan?

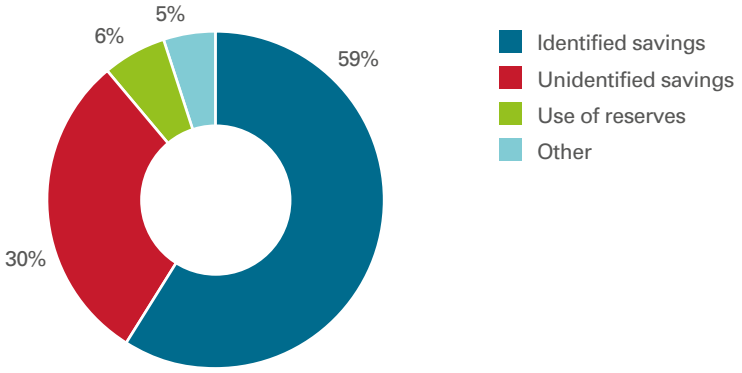
Does it clearly set out the aims and objectives and how and when these will be achieved?

How big is the funding gap for your IJB relative to the total budget?

Exhibit 14

Plans to address 2019/20 funding gap

Savings had not been identified for 30 per cent of the 2019/20 funding gap.



Source: Auditor returns and IJB board papers

Wider governance issues

Over a third of IJB senior staff have changed during 2018/19

108. Based on data returns from auditors we found that over a third of IJBs have experienced turnover in their chief officer or chief finance officer in the year. In some cases, both these postholders have changed. Our report *Health and social care integration* highlighted the risk of leadership changes and capacity to the transformation of services and successful integration.

Health and social care integration: update on progress
November 2018

109. The annual audit report for Argyll and Bute notes that the turnover in key staff led to weaknesses in financial reporting and a reduced focus on the delivery of approved savings. The chief officer changed, and two chief finance officers left the IJB in an eight-month period. Interim cover on a part-time basis was provided by the council's section 95 officer from December 2018 to June 2019, when a permanent appointment was made to the new role of head of finance and transformation.

Endnotes

1 Convention of Scottish Local Authorities.
2 Scottish Parliament Information Centre.
3 *Local government in Scotland: Challenges and performance 2019*, Accounts Commission, March 2019.
4 SPICe briefing on the Scottish Government's Medium-term Financial Strategy, May 2019.
5 *Scotland's Fiscal Outlook*, Scottish Government, May 2019.
6 *The 2018/19 audit of the Scottish Government Consolidated Accounts*, Auditor General, September 2019.
7 *Instrumental Music Services: Results from the IMS Survey May–July 2018*, Improvement Service, 2018.

Local government in Scotland

Financial overview 2018/19

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Local government financial overview 2018/19

Scrutiny tool for councillors

ACCOUNTS COMMISSION

This scrutiny tool captures some potential questions for councillors and relates to our report *Local government in Scotland: Financial overview 2018/19*.
It is designed to provide councillors with examples of questions they may wish to consider, to help identify how informed they are of their council's financial position in order to support them to scrutinise financial performance.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
Income		
1. How dependent is your council on the various sources of income compared to other councils – Scottish Government funding, grants, council tax and receipts from customers/clients?		
Council and IJB budgets		
2. Is a budget agreed before the start of the financial year? If not, why not?		
3. How big is the funding gap for your council/ IJB relative to the total budget?		

Cont.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
4. What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services or transformation, increased charges, use of reserves?		
5. Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?		
6. How well are you kept informed about progress against savings plans?		
7. Does your council/IJB have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?		
8. How effectively are you engaged and informed about the transformation programme and kept informed about progress?		
Reserves		
9. What is the council's/IJB's reserve policy?		
10. Do committed/earmarked/specific reserves have clear purposes and projected cashflows or are they part of the general contingency or uncommitted general fund?		
11. Are these commitments reviewed annually to ensure they reflect the best use of the council's/IJB's reserves?		
12. Is the council/IJB using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?		

Cont.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
Capital		
13. What are your council's medium- and long-term plans for capital spending?		
14. How well are you kept informed about progress against capital plans and how well do you understand the reasons for any underspend against the annual capital budget?		
Debt		
15. What is your council's current debt position relative to its annual revenue?		
16. How much of the council's budget is used to pay interest and debt repayments?		
17. Are you given clear and sufficient information to understand risks and support decisions about future borrowing?		
Business cases for severance		
18. Does the council prepare business cases for severance proposals and are these reported to councillors?		
Transparency in accounts		
19. Does the management commentary of the council and IJB accounts show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?		

Cont.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
Financial planning		
20. Does your council have medium- and long-term financial plans, and do they include a range of potential funding and financial scenarios?		
21. Does the medium-term plan provide sufficient information on estimated Scottish Government funding (or host partner funding), projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?		

AUDIT SCOTLAND

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Agenda Item 13

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

UNAUDITED ANNUAL ACCOUNTS 2019-20

1. EXECUTIVE SUMMARY

1.1 This report advises the Audit and Scrutiny Committee of the plans in place for financial year end 31 March 2020 and the preparation of the Council's Unaudited Annual Accounts for 2019-20.

1.2 The appendices to the report outline the timetables for the closure of the Council's 2019-20 General Ledger, the Social Work Closedown and the Annual Accounts Preparation Plan.

1.3 The Committee is asked to note that plans are in place to prepare the Council's Annual Accounts, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2020 in line with the Scottish Government's requirements.

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE **17 MARCH 2020**

UNAUDITED ANNUAL ACCOUNTS 2019-20

2. INTRODUCTION

2.1 This report advises the Audit and Scrutiny Committee of the plans in place for financial year end 31 March 2020 and the preparation of the Council's Unaudited Annual Accounts for 2019-20.

2.2 Processes have been established to ensure that the Annual Accounts are prepared in accordance with International Financial Reporting Standards (IFRS) on an on-going basis. There are no major changes in accounting practice for 2019-20.

3. RECOMMENDATIONS

3.1 To note that plans are in place to prepare the Council's Annual Accounts, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2020 in line with the Scottish Government's requirements.

4. DETAIL

4.1 "An Audit Committees – Practical Guidance for Local Authorities" has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This suggests that Audit Committees should have an overview of the plans made for preparation of the Council's Annual Accounts.

4.2 A set of instructions for the end of the financial year have been drafted. These cover year-end close down of the Council's financial systems and the preparation of a set of accounts in line with professional and legislative requirements. These are included within appendices 1 and 2.

4.3 The project plan included with the instructions is detailed and includes the following milestones:

- Capital expenditure, capital charges and treasury management revenue accounts completed by 17 April 2020.
- Revenue expenditure, creditors, debtors, accruals and prepayments completed by 28 April 2020.
- Review and adjustments to ledger and central department cost allocations completed by 14 May 2020.
- Council Tax and NDR entries completed by 14 May 2020.
- Agreement of inter-group balances with Live Argyll and associated journals processed by 14 May 2020.

- Preparation of Unaudited Annual Accounts including report by Section 95 Officer by 5 June 2020.
- Unaudited Annual Accounts considered by a meeting of the Audit and Scrutiny Committee on 16 June 2020.
- Unaudited Annual Accounts considered by a meeting of the Full Council on 25 June 2020.
- Submission of Unaudited Annual Accounts to Accounts Commission by the statutory deadline of 30 June 2020.

4.4 Previously external Audit has been satisfied with the quality of working papers and general arrangements for preparation of the Annual Accounts. The plan should result in Financial Statements prepared by the required deadline of 30 June 2020 and with supporting documentation of a standard to enable completion of the audit by the required deadline of 30 September 2020.

4.5 Whilst there are no major changes in accounting practice for 2019-20, amendments to IFRS 16 Leases will take effect from 01 April 2020, preparatory work is underway to ensure compliance with the new standard.

5. CONCLUSION

5.1 The timescales are in line with the previous year which should ensure that the Annual Accounts are completed on time and that the working papers meet Audit Scotland's requirements.

6. IMPLICATIONS

6.1	Policy –	None at present
6.2	Financial -	None at present
6.3	Legal -	None at present
6.4	HR -	None at present
6.5	Equalities -	None at present
6.6	Risk -	None at present
6.7	Customer Service -	None at present

Kirsty Flanagan
Section 95 Officer

Councillor Gary Mulvaney, Council Depute Leader and Policy Lead for Financial Services and Major Projects

For further information please contact Anne Macdougall, Finance Manager, on 01586-555269.

Appendix 1 - Year End Instructions and General Ledger Closedown
Appendix 2 - Final Accounts Preparation Plan and Timetable
Appendix 3 – Health and Social Care Partnership Closedown Timetable

Appendix 1

Year End Instructions & General Ledger Closedown Timetable

Financial Year

2019-2020

YEAR-END INSTRUCTIONS – GENERAL LEDGER CLOSEDOWN
2019/2020 FINANCIAL YEAR

1 GENERAL

1.1 Appendix 1 gives the detailed year end timetable for the closedown of the general ledger. Achievement of the deadlines highlighted in green are critical to achieving a ledger closedown of **15 May 2020. It is vital that any slippage from these deadlines is identified as soon as possible and brought to the attention of Morag Cupples so that remedial action may be taken.**

1.2 Appendix 3 gives the closedown timetable for the Health and Social Care Partnership which will enable figures to be agreed with the Argyll and Bute Integrated Joint Board (IJB) in respect of the Social Work Service. The deadline for reporting an agreed figure back to Health for inclusion in their year-end figures is **Friday 24 April 2020.**

1.3 Year-end instructions specific to Development and Infrastructure Services will be issued from their Departmental Financial Services Team.

2 LIVE ARGYLL

2.1 In general, unless otherwise stated below, the timescales set out within these instructions for the Council also apply to Live Argyll.

2.2 Specifically note that any transfers of actual income/expenditure or budget between the Trust and the Council must be processed in line with the deadlines set out for the Council journals, i.e. 01 May, or 09 April if they contain VAT.

2.3 As internal recharges are not processed for Live Argyll, the debtors deadline of 20 March needs to be adhered to for transactions of this nature otherwise they will require to be accrued.

2.4 There will be no need for orange/green year end batch headers for Live Argyll. Diane McMillan will collate all invoices and email to creditors eliminating the need for headers. In doing so, no invoices relating to 2020/2021 will be sent to creditors prior to w/c 14 April 2020 therefore everything received prior to this date will be automatically allocated to 2019/2020.

3 REVENUE PAYMENTS AND ACCRUALS

3.1 Creditor Invoices (Manual Batches)

Invoices relating to the 2019/2020 financial year should be sent to the Campbeltown Creditors section by 5pm on Monday 6 April for processing through the payables ledger by 09 April. All old year invoices must be batched separately and have an orange “2019/2020” cover sheet attached on top. Supplies of the cover sheet will be sent out to departments early March. Any 2019/2020 invoice batches received after 5pm 6 April 2020 will be returned to the relevant department to be included within their accruals template.

All new year invoices should be batched separately and have a green “2020/2021” cover sheet attached on top. Only urgent/essential payments for the new financial year will be processed prior to Tuesday 14 April. These payments should be clearly marked as “Urgent”. The orange and green cover sheets should be used for all batches between the periods **16 March to 09 April**.

Departments should note that payments processed by the Creditors Section between 1 April and 09 April will be processed to the March period in the general ledger.

Please note that the deadlines for capital invoices are different to the above (See Section 5 below).

To enable figures to be agreed with the Argyll and Bute Integrated Joint Board (IJB) in respect of the Social Work Service, Health and Social Care Partnership invoices should be sent to the Campbeltown Creditors Section by 5pm on 27 March. Yellow coloured batch headers will be issued for these invoices.

3.2 Accruals

All old year invoices received by departments which have failed to make the 5pm 6 April deadline or, the PECOS deadlines detailed at section 3.4, will require to be accrued. In addition, any goods or service received prior to 1 April but not yet invoiced must also be accrued. These items must be input into the accrual templates which will be emailed to the Departmental Financial Services Teams at the beginning of March for distribution.

The Departmental Financial Services Teams will check, review and collate their respective departmental accruals before returning templates to the Finance Support Team for processing. Each Departmental Financial Services Team will agree with their respective department a timeline for the return of all accrual templates and supporting documentation.

Departmental Financial Services Teams must return all accrual templates and, make available, supporting documentation to the Finance Support Team, Kilmory by **5pm on Friday 24 April at the latest**.

In order to comply with Audit requirements, all accruals greater than **£5,000** must have supporting documentation. Auditors may require to understand the basis of the accrual and may test randomly. Acceptable supporting documentation should come in the form of:

- Copy invoice which clearly provides proof of delivery of goods or services on or before 31 March 2020.
- Delivery note dated on or before 31 March 2020.
- Other documentation which provides evidence that the goods or services were provided on or before 31 March 2020.

Orders are not acceptable documentation as they do not show when the goods or services were provided. If you are in any doubt as to what documentation should be provided, please contact your Departmental Financial Services Team.

The Finance Support team will have the accrual templates uploaded by close of play on 28 April. If Departments receive invoices of a material value after their accrual deadline of 24 April, please advise your Financial Services Departmental contact, who will make a determination in conjunction with Financial Services Management as to whether an additional accrual should be processed.

3.3 Invoices relating to 2018/2019 awaiting Credit Notes

If the credit note has not been received in time for the last payment run, and provided the supplier is used regularly, the invoice should be passed for payment and the credit note should be accrued using the invoice accruals template, but shown in the credit column of the accruals template. If the supplier is not used regularly, the invoice should be held awaiting the credit and both the invoice and credit note will require to be accrued.

3.4 PECOS e-Procurement System

All PECOS Invoices are to be submitted to Creditors (pecosinvoices@argyll-bute.gov.uk) by 5pm on Thursday 26th March 2020. Creditors will ensure all PECOS invoices are keyed to PECOS by 5pm on Friday 27th March 2020.

All PECOS users must ensure unpaid invoices (mismatches or receipt required) are cleared by 5pm on Monday 30th March 2020 to allow Creditors to pay all invoices on Tuesday 31st March 2020.

All PECOS users must also ensure all **goods/services/works received/completed** within the old financial year are **receipted** on the system by 5pm on Monday 30th March 2020.

No access to PECOS will be available on Tuesday 31st March 2020. Any **goods/services/works received/completed** on Tuesday 31st March 2020 will need to be added to accrual report manually.

A PECOS report will be run by the Procurement Team on Wednesday 1st April 2020. This will be issued to the Finance Support Team on the 1st April 2020 where the data will be manipulated to include the department responsible. This will then be returned to the PECOS Team for issue out to departments on Thursday 2nd April 2020.

- All entries on the PECOS report should be checked by services and accrued where necessary.

Services will need to ensure that there is sufficient justification in a comments column that will be included on the PECOS report.

If the order is for over **£5,000** then back-up, in addition to the PECOS system report, will be required and should be submitted to your respective Departmental Financial Services Team by 24 April 2020.

These accruals should be entered onto the main departmental accruals template, which should be completed and returned to the Departmental Finance team.

Departments should take the opportunity to review and action all PECOS reports; Unpaid and Open Orders Reports, they received weekly/monthly in the lead up to year-end and rectify as many of the housekeeping issues as possible. Doing this will greatly reduce the number of orders you need to review on your accrual report.

Review all open orders on the provided report and:

- Close any orders where you are satisfied that the order is complete with no outstanding items or invoices due.
- Receipt any orders completed.
- Clear any mismatches to allow the payment of the invoice or request a credit note if the invoice is incorrect.
- Chase up any missing orders.
- Chase up any outstanding invoices.
- Cancel any orders no longer required.

Any unpaid invoices (mismatches or receipt requirements) cleared after 5pm on Monday 30 March 2020 will be automatically paid from the new financial year. If you require this to be paid from the old financial year, you require to mark it up on the accrual report accordingly.

PECOS will continue to operate as normal from Wednesday 1st April 2020 and all invoices processed will be paid out of the new financial year; 2020/2021.

4 SUNDRY DEBTORS AND INCOME

4.1 Sundry Debtors

The Debtors Section of Financial Services Team, Campbeltown, must receive debtors account input forms, relating to 2019/20, by 23 March. If you have local input of debtor accounts, all accounts for financial year 2019/20 must be input by 30 March. All such accounts must have a service date of 31 March or prior. Any accounts for the old year that are entered on or after 1 April should have the correct service date entered, even if prior to 31 March. These accounts will have to be included within the income accruals template.

New year sundry debtors should be clearly marked 2020/2021 and these will be entered into the sundry debtor system in the new financial year.

4.2 Cash Receipting System

The cash receipting reports for the 31 March to 1 April will all be processed into 2019/2020 financial ledger. All income received from Wednesday 1 April onwards, will be processed in the 2020/2021 financial ledger.

Any income processed through cash receipting for the cash in transit period will be accrued by the cash receipting team.

4.3 Banking of Income

All offices/facilities that collect money and receipt it via the Area Offices should ensure that all money relating to financial year 2019/2020 is taken to the Area Office by 4pm on Tuesday 31 March.

For offices/facilities that use the bank, again, all money relating to financial year 2019/2020 should be banked before close of business on 31 March.

It is possible that further monies may be received on that day, after the final banking. If this is the case, these amounts will require to be included on the income accruals template and contact should be made with the appropriate Financial Services Departmental Contact.

4.4 E-Income Journals and Manual Income Journals

Staff who complete E-Income Journals (for cash received other than cash processed through the cash receipting system) should do so on 31 March. Completed E- income journals should be e-mailed on 31 March to the Cash Section (Financial Services). All other manual income journals should be posted on 31 March to arrive at the Cash Section (Financial Services) no later than Friday 3 April.

Separate E-income journals should be completed for income received from 1 April onwards – this will be processed in financial year 2020/2021. E-income journals and manual income journals should state clearly which financial year the income on that journal relates to.

4.5 Imprests

The Creditors Section (Financial Services) will issue imprest certificates/returns to imprest holders by Friday 6 March. **Certificates for all establishments, including schools, should be returned to the Creditors Section (Financial Services), Campbeltown as soon as possible after 31 March but no later than Friday 17 April.**

5 CAPITAL

5.1 Capital Expenditure and Capital Journals

All capital invoices relating to 2019/20 should be sent to the Campbeltown Creditors section as soon as possible, **but no later than 5pm on Friday 27 March.**

All old year capital invoices received by departments but which have failed to make the 27 March deadline will require to be accrued. In addition, capital expenditure incurred prior to 1 April but not yet invoiced / certificated must also be accrued.

These items must be input into the capital accruals template which will be emailed to the departmental capital programme contacts at the beginning of March. The template should be returned to Financial Services c/o Linda Taylor (Whitegates, Lochgilphead) by 5pm on Friday 3 April. All capital accruals must have supporting documentation which proves that the expenditure was incurred prior to 1 April.

Please note that the deadlines for capital expenditure are earlier than revenue expenditure to allow sufficient time for Finance to update the fixed asset register.

5.2 Capital Financed from Current Revenue (CFCR)

Where expenditure has been incurred on capital items/assets but funded through the revenue budget, this needs to be identified and a journal to transfer the expenditure to capital put through. A template will be e-mailed to the departmental capital programme contacts, asking for information on any CFCR expenditure incurred during 2019/20.

The template should be returned to Financial Services, c/o Linda Taylor (Whitegates, Lochgilphead) by 5pm on Friday 3 April.

6 JOURNALS

6.1 Departments will be allowed to process their own journals up to 1 May. Only material adjustments will be processed by the Finance Support Teams after this date with agreement of Financial Services Management.

To reflect a normal period end at the end of March, departments will be able to process normal period end journals through the March period in the ledger until Thursday 9 April. After that, all journals processed by departments must be processed through the "adjust" period and not through "March". Care should be taken over which period is selected as March, Adjust and April will all be open.

Journals containing VAT which relate to 2019/2020 should **not be processed at all by any staff after 14 April** without consulting Sandra Coles (Financial Services). Sandra will be preparing the VAT return for March once the payables ledger is closed on 14 April and if there are any VAT adjustments made to the old year after this date they will be missed through the VAT return.

Any journals containing capital codes should follow the earlier deadlines set out in Section 5.1 above i.e. 5pm on Friday 3 April.

7 INTERNAL RECHARGES

7.1 Old Year Internal Recharges

Over £1,000

Internal recharges will be processed by the Finance Support Team.

On 2 March, the Finance Support Team will contact the receiving department of any Internal Recharges that are still outstanding on the system dated 31 January or earlier. These should be returned to the Finance Support Team by 20 March for processing.

Creators of invoices in each section can view all invoices raised against their service that are still outstanding by using the "View Recharges Allocated to my Service" choice on the Main menu.

The final date for producing internal recharges for 2019/2020 is Friday 27 March. These should be sent to receiving departments for coding immediately.

Receiving departments should send all internal recharges to the Finance Support Team, Kilmory as early as possible, but no later than 1pm on Friday 3 April. These will be processed and coded into March on Friday 3 April.

Any remaining accounts still outstanding will be cleared from the system on 3 April to the cost codes detailed below. A list of charges that have been cleared will be provided to the receiving department.

The following customer department accounts will be debited/credited as appropriate:

Executive Director – Douglas Hendry - Education	E2000010000.29901
Financial Services	C1283010000.29901
Executive Director – Douglas Hendry – non Education	80000000000.29901
Executive Director – Kirsty Flanagan	70000000000.29901
Health & Social Care Partnership	50000030000.29901

Under £1,000

The journal prepared by each department for any Internal recharges less than £1,000 for the March period should be sent to the Finance Support Team by 12 noon on 3 April and will be uploaded into the ledger on Friday 3 April.

7.2 Mail and Print Room Recharges

The monthly mail and print room charges for the March period should be sent to the Finance Support Team by 12 noon on 2 April and will be uploaded into the ledger on Friday 3 April.

7.3 Clearance of Internal Recharges Clearance Account No 29901

Departmental journals should be raised to clear the 29901 accounts. However, it is expected that departments will make all attempts to clear outstanding invoices before any transfer to the 29901 accounts can take place. It is the responsibility of each department to ensure recharges coded to 29901 are cleared prior to Friday 10 April.

8 STORES/WORK IN PROGRESS

8.1 General

Departments should inform their Principal Accountants as soon as possible if they consider that they will have any difficulty in complying with the following stock and work in progress working paper requirements.

Internal audit will be present at selected stock counts and will be performing sample checks. External audit may also be present.

8.2 Stock Count

All Development and Infrastructure Services (Salt, Fuel and Street Lighting), and Social Work stores must perform a full physical stock count on or around 31 March. Instructions will be issued to all Development and Infrastructure Services locations with stores by 1 March by the Development and Infrastructure Services Financial Services Team. The Social Work Departmental Finance Team will issue instructions for the Social Work stores.

Stock certificates must be completed by Roads and Infrastructure Services and Social Work Services and sent to their Departmental Principal Accountant by Friday 10 April. These certificates should be accompanied by detailed working papers including;

- Original stock count working papers.
- Final priced stock sheets (quantity x price) totalled to give stock value for each store.
- Details of obsolete stock and any stock provisions / write-downs.

The Principal Accountants should retain all reviewed certificates and the above stock working papers for inclusion in the year-end working paper files for the external auditors by Thursday 16 April. Where possible electronic working papers should be provided.

8.3 Work in Progress – Roads and Lighting Operational Holding Account

Development and Infrastructure Services are required to prepare a valued list of work in progress for the Roads and Lighting Operational Holding Account by 4 May and this should be passed over to the Principal Accountant – Development and Infrastructure Services for review.

Detailed listings at works order level of work in progress for the Roads and Lighting Operational Holding Account should be retained (preferably in electronic format) to back up the work in progress figure processed through the ledger.

9 CONTROL AND SUSPENSE ACCOUNTS

9.1 Control Accounts

A responsible person has been identified for each control account in the general ledger. Reports will be issued on 1 April to the relevant Finance Contact, giving the current balance on each control account along with a "Carry Forward of Control Account Balance" form. The Finance Contact will complete the appropriate forms once all journal entries have been processed and ensure they are signed off by the responsible person. Care should be taken to ensure that any balances to be carried forward are correct and represent a genuine debtor or creditor.
The balance in the control account either requires to be cleared to zero or carried forward to the next financial year. If a carry forward is required, justification and a reconciliation must be attached to the carry forward form.
All clearance and adjusting journals must be completed and input into the ledger by Friday 1 May. The "Carry Forward of Control Account Balance" form should be sent to the Finance Support Team (Kilmory) by Tuesday 28 April.
The Revenue and Benefits Finance Manager has until Thursday 14 May to clear the "raw cash" control account balances in conjunction with processing of year-end council tax and NDR journals.

9.2 Suspense Accounts

A responsible person has been identified for each suspense account in the general ledger. Reports will be issued on 1 April giving the balance on each suspense account. This balance requires to be cleared. Under no circumstances should transferring to another suspense account clear the balance. All clearance journals for suspense accounts other than payroll suspense must be completed and input into the ledger by Friday 24 April.

Entries from the monthly Pay07 payroll run which hit the payroll suspense should be cleared by 14 April and cleared by 21 April for the Pay10 teachers' payroll run. This will enable the payroll accruals to be prepared and processed through the ledger.

10 PAYROLL

10.1 General

Deadlines for the receipt of timesheets, expenses and other payroll input from departments will follow normal payroll deadlines. Separate guidance will be issued from Financial Services/Payroll, Campbeltown prior to the year-end.

Any additional questions on payroll and travel claims should be directed as follows:

Payroll – 01586 555211
Travel Claims– Malcolm Bannatyne – 01586 555256

10.2 Payruns

Details of the method of calculating payroll accruals are noted below and accruals will be processed by the Financial Services Finance Support Team. Appendix 2 gives full details of the year end payroll dates and accruals required.

		Proportion Accrued		
Payrun	**Week/Month No**	**Payroll**	**Overtime**	**Travel & Subsistence**
Pay 07 Monthly	01	16/31sts	100%	100%
Pay 10 Teachers	01	100% part time hrs *	N/A	100%

* Part time teachers' hours and enhancements relating to March will be 100% accrued.

10.3 Travel Claims

Staff travel claims are mainly submitted via the "MyView" on-line system. The year-end deadlines for "MyView" travel and expense claims are as follows:

- PAY 07 Mth 12 - must be submitted by 17 February 2020 & authorised by 24 February 2020.
- PAY 07 Mth 1 - must be submitted by 20 March 2020 & authorised by 27 March 2020.
- PAY 10 Mth 1 - must be submitted by 3 April 2020 & authorised by 10 April 2020.

The above cut-off dates for travel and expense claims over the year-end period will be clearly displayed on the "MyView" system when staff log in.

All other travel expense claims should be sent to the Creditors Section no later than the above authorised date for the appropriate payroll.

Care should be taken to note the dates for receipt of travel and expense claims at the creditors section in order to ensure that as much travel and expenses as possible for the period up to 31 March 2020 is incorporated within the pay run that will be accrued. It is essential, for accrual purposes, that all business mileage incurred up to and including 31 March is incorporated into one claim and any business mileage incurred on or after 1 April is entered onto a separate claim.

If a travel claim is not going to meet the creditor section's deadline, then the department will require to accrue the travel claim manually. In this instance, it is still preferable to have two separate travel claims for before and after the 31 March, for ease of accrual preparation.

It is imperative that leased car users enter their final milometer reading onto their 2019/2020 claim. Details of Essential and Leased car users business mileage must be communicated to the Inland Revenue and is used to calculate their tax, so it is very important that the figures given are accurate and relate to the correct financial year.

11 AMENDMENTS TO HIERARCHIES / COST CENTRES DURING YEAR END PERIOD

11.1 Any cost centre/account codes that have been used in the period year 2019/2020 that have to be disabled for the year 2020/2021 will not be processed until after the Support Service model has been run through the ledger and the analytical review has been completed.

The control sheets should still be sent to the Finance Support Team (Kilmory) and will be held here until the changes are made. The period that this affects is 31 March 2020 – 31 May 2020.

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
1. Capital Expenditure Processing	*1*	Final preparation of year end capital payments	Morag Cupples	Departments	16/03/19 to 27/03/19
	2	Deadline for capital payments to Creditors Section	Morag Cupples	Departments	27/03/2019
	3	Processing of final external capital payments	Morag Cupples	Creditors Section	30/04/20 to 01/04/20
	4	**Final payment run processed capital**	**Morag Cupples**	**Creditors Section**	**03/04/2020**
	5	Year end journals of transfers to/from revenue accounts	Morag Cupples	Morag Cupples	16/03/20 to 01/04/20
	6	Property Fee Charges Processed	Moira Miller	Morag Cupples	16/03/20 to 01/04/20
	7	Ledger checked daily for capital expenditure	Morag Cupples	Linda Taylor	01/04/20 to 30/04/20
	8	Departments complete capital accruals template/CFCR template/journals/ and send to Finance Support Team.	Morag Cupples	Departments	01/04/20 to 03/04/20
	9	Deadline for capital accruals template/CFCR template/journals to Financial Services (Whitegates)	Morag Cupples	Departments	03/04/2020
	10	Processing of final external capital payments/accruals/CFCR (Uploading by Finance Support Team)	Morag Cupples	Astrid Ronald	08/04/2020
	11	**Capital expenditure processing complete**	**Morag Cupples**	**Linda Taylor**	**08/04/2020**
2. Fixed Assets *Non-Current Assets Available for Sale*	*12*	Obtain supporting evidence for assets classified for sale	Morag Cupples	Linda Taylor	20/04/2020
	13	Re-classify assets newly meeting/no longer meeting Assets Held for Sale criteria	Morag Cupples	Linda Taylor	20/04/2020
Fixed Asset Processing	*14*	Capital expenditure final download from ledger	Morag Cupples	Linda Taylor	09/04/2020
	15	Allocate Capital Grant	Morag Cupples	Linda Taylor	09/04/2020
	16	Allocation of balance sheet codes to mass allocation journal	Morag Cupples	Linda Taylor	14/04/20 to 29/04/20

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	17	Mass allocation processed	Morag Cupples	Astrid Ronald	29/04/2020
	18	**Capital expenditure complete**	**Morag Cupples**	**Linda Taylor**	**29/04/2020**
Depreciation/Property Plant and Equipment Processing	*19*	Revaluation of Properties by Estates	Morag Cupples	Estates	20/04/2020
	20	Update asset register for additions/disposals/transfers	Morag Cupples	Morag Cupples	30/04/20 to 08/05/20
	21	Update Asset Register for Revaluations	Morag Cupples	Linda Taylor	08/05/2020
	22	Process balance sheet depreciation/revaluation journals	Morag Cupples	Linda Taylor	11/05/20 to 13/05/20
	23	Reconcile asset register to ledger	Morag Cupples	Linda Taylor	14/05/20 to 15/05/20
	24	Run depreciation/impairment charges	Morag Cupples	Linda Taylor	28/04/20 to 01/05/20
	25	**Capital Accounting Entries Complete**	**Morag Cupples**	**Linda Taylor**	**15/05/2020**
3. Loan Charges	*26*	Complete interest on revenue balances	Moira Miller	Sandra Coles	27/03/2020
	27	Complete PSTM Reconciliations	Moira Miller	Sandra Coles	06/04/20 to 14/04/20
	28	Accrual of Borrowing Interest and Expenses	Moira Miller	Sandra Coles	09/04/20 to 14/04/20
	29	Accrual of Investment Interest and Expenses	Moira Miller	Sandra Coles	09/04/20 to 14/04/20
	30	Financial Services expense allocation	Moira Miller	Sandra Coles	14/04/2020
	31	Agree loans fund advances b/f	Moira Miller	Sandra Coles	02/03/2020
	32	Provision of capital repayment figures for house loans	Moira Miller	Duncan MacBrayne	30/03/20 to 14/04/20
	33	Calculate weighted capital expenditure in year	Moira Miller	Moira Miller	14/04/20 to 16/04/20
	34	Calculate average interest and expense rate	Moira Miller	Moira Miller	14/04/20 to 16/04/20
	35	Input annuity rate loan charges model and calculate loan charges	Moira Miller	Moira Miller	17/04/2020
	36	Process loans charges/SMGFB journal	Moira Miller	Sandra Coles	17/04/2020
	37	Loans fund revenue account (ensure nil)	Moira Miller	Sandra Coles	17/04/2020
	38	**Loans Charges Complete**	**Moira Miller**	**Moira Miller**	**17/04/2020**

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
4. IFRS Pensions Accounting - Year End Accounting Entries	*39*	IFRS Pensions Report Received from Actuaries (Hymans Robertson)	Moira Miller	Moira Miller	28/04/2020
	40	Check reasonability of data in report	Moira Miller	Moira Miller	28/04/2020
	41	Calculate pensions entries in ledger	Moira Miller	Moira Miller	28/04/2020
	42	Process pensions entries in ledger	Moira Miller	Moira Miller	29/04/2020
	43	Check no bottom line impact on general fund	Moira Miller	Moira Miller	29/04/2020
	44	**IFRS Pension Entries Complete**	**Moira Miller**	**Moira Miller**	**29/04/2020**
5 .Creditor Payments	*45*	Deadline for Health and Social Care Partnership Invoices to Creditors	David Forshaw / Malcolm Bannatyne	Departments	27/03/2020
	46	Departments processing old year invoices	Departments	Departments	30/03/20 to 06/04/20
	47	Deadline for passing invoices to Finance (Campbeltown)	Malcolm Bannatyne	Departments	06/04/2020
	48	Processing of final revenue payments 2019-20	Malcolm Bannatyne	Creditors Section	07/04/2020
	49	Final payment run processed	Malcolm Bannatyne	Creditors Section	09/04/2020
	50	Production and processing of final feeders to road costing	Malcolm Bannatyne	Creditors Section	14/04/2020
	51	**Closure of March 2019 Period (5pm)**	**Mary McCallum**	**Astrid Ronald**	**14/04/2020**
	52	Reconciliation of Core Payables Liability	Mary McCallum	Duncan MacBrayne	14/04/2020
	53	VAT return completed	Moira Miller	Sandra Coles	14/04/20 to 28/04/20
	54	**Creditor Payments and VAT completed**	**Mary McCallum**	**Astrid Ronald**	**28/04/2020**
6. Health and Social Care Integration	*55*	Agree final outturn position with Chief Financial Officer of Integrated Joint Board	David Forshaw	David Forshaw	24/04/2020
7. Revenue Accruals/Prepaid Expenditure	*56*	Accrued/Prepaid expenditure templates issued to departments	Mary McCallum	Astrid Ronald	28/02/2020
	57	Departments complete accrued / prepaid expenditure templates - this to be collated and checked by Departmental Financial Services Teams	Principal Accountants	Departments / Departmental Support Teams	02/04/20 to 24/04/20
	58	Deadline for return of accrued / prepaid expenditure templates to Finance Support Team	Principal Accountants	Departmental Support Teams	24/04/2020

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	59	Finance Support team process accrued/prepaid expenditure	Mary McCallum	Astrid Ronald	24/04/20 to 28/04/20
	60	**Deadline for Upload of Accrual Templates to General Ledger.**	**Mary McCallum**	**Astrid Ronald**	**28/04/2020**
PECOS Accruals	*61*	All PECOS invoices to be with Creditors for keying by 5pm.	Departments	Departments	26/03/2020
	62	Final keying of PECOS invoices by Creditors.	Malcolm Bannatyne	Creditors Section	27/03/2020
	63	All unpaid invoices (mismatches and receipts) required to be cleared from PECOS system by 5pm. Procurement will continue to issue weekly reports of all unpaid invoices to Heads of Service for circulation to their staff. Each PECOS requisitioner is responsible for clearing their own unpaid invoices. *(Interface runs at 18:30 each night, the Monday interface will be the last before the pay all on Tuesday)*	Mary McCallum	Departments / Mary McKerral	30/03/2020
	64	All PECOS users to ensure all **goods/services/works received/completed** within the old financial year are receipted on the system by 5pm.	Departments	Departments	30/03/2020
	65	Final PECOS interface with payables ledger for 2019-20. *(Interface runs at 18:30)*	Mary McCallum	Creditors Section	30/03/2020
	66	Final PECOS Pay-All of 2019-20.	Malcolm Bannatyne	Creditors Section	31/03/2020
	67	Orders received on Tuesday 31st March, will be required to be manually entered on to accrual spreadsheets. **No access to PECOS will be available on Tuesday 31 March.**	Departments	Departments	31/03/2020
	68	PECOS Accrual Report run.	Mary McCallum	Mary McKerral	01/04/2020
	69	PECOS Accrual Report issued to Finance Support Team to manipulate to include department and return to PECOS team to issue to Departments.	Mary McCallum	Mary McKerral / Astrid Ronald	01/04/20 to 02/04/20

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	70	Circulation of year end reports to each Department.	Mary McCallum	Mary McKerral	02/04/2020
	71	PECOS interfaces to Payables to continue processing into New Year.	Mary McCallum	Procurement/Creditors	01/04/2020
	72	Departments to include unpaid receipted orders on main accrual template. (Orders received on Tuesday 31st March 2020 won't appear on the PECOS accruals report)	Principal Accountants	Departments / Departmental Support Teams	02/04/20 to 22/04/20
Holiday Pay Accrual - Teachers	*73*	Collection of teacher data	Mary McCallum	Mary McCallum	30/03/20 to 08/04/20
	74	Calculation of teachers holiday pay accrual	Mary McCallum	Mary McCallum	01/04/20 to 08/04/20
	75	Process journal and SMR reversing entry	Mary McCallum	Mary McCallum	09/04/2020
Holiday Pay Accrual - Other Staff	*76*	Completion of holiday pay accrual template based on previous years sample and methodology	Mary McCallum	Mary McCallum	01/04/20 to 08/04/20
	77	Process journal and SMR reversing entry	Mary McCallum	Mary McCallum	09/04/2020
Payroll - Pay 07 MONTHLY (Month 1)	*78*	Deadline for Travel/Expense Claims to Creditors - Pay 07 Month 1	Lorraine Brodie	Departments	27/03/2020
	79	Deadline for Timesheets to Payroll - Pay 07 Month 1	Lorraine Brodie	Departments	04/04/2019
	80	Processing Pay 07 Month 1	Lorraine Brodie	Payroll Section	03/04/2020
	81	Clearance of Pay 07 Month 1 suspense items	Lorraine Brodie	Payroll Section	14/04/2020
	82	Accrual Pay 07 Month 1	Mary McCallum	Ailsa Laing / Duncan MacBrayne	14/04/20 to 17/04/20
Payroll - Pay 10 TEACHERS (Month 1)	*83*	Deadline for Travel/Expense Claims to Creditors - Pay 10 Teachers Month 1	Lorraine Brodie	Departments	14/04/2020
	84	Deadline for Timesheets to payroll Pay 10 Teachers Month 1	Lorraine Brodie	Departments	14/04/2020
	85	Processing Pay 10 Teachers Month 1	Lorraine Brodie	Payroll Section	16/04/2020

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	86	Clearance of Pay 10 Month 1 suspense items	Lorraine Brodie	Payroll Section	21/04/2020
	87	Accrual Pay 10 Teachers Month 1	Mary McCallum	Ailsa Laing / Duncan MacBrayne	22/04/20 to 30/04/20
Payroll - Pay 10 TEACHERS (Month 2)	*88*	Deadline for Travel/Expenses Claims - Pay 10 Teachers Month 2	Lorraine Brodie	Departments	08/05/2020
	89	Deadline for Timesheets to Payroll Pay 10 Teachers Month 2	Lorraine Brodie	Departments	19/05/2020
	90	Processing Pay 10 Teachers Month 2	Lorraine Brodie	Payroll Section	21/05/2020
8. Cash and Income - Accrued/Deferred Income - *Sundry Debtor Accounts*	*91*	Deadline for sending debtor accounts to Debtors Section	Jennifer Gorman	Departments	23/03/2020
	92	Input of old year debtor accounts (Central and Local)	Jennifer Gorman	Jennifer Gorman	23/03/20 to 30/03/20
	93	Year end reports produced	Jennifer Gorman	Jennifer Gorman	31/03/2020
	94	Sundry Debtor account reconciliations	Jennifer Gorman	Jennifer Gorman	01/04/20 to 09/04/20
	95	Calculation of Bad Debt Provision	Jennifer Gorman	Jennifer Gorman	14/04/20 to 16/04/20
	96	Process journal adjusting ledger for change in BDP	Jennifer Gorman	Jennifer Gorman	17/04/2020
	97	**Sundry Debtor accounts complete**	**Jennifer Gorman**	**Jennifer Gorman**	**17/04/2020**
Housing Benefit Overpayments	*98*	Calculation of Housing Benefit Overpayment Debtor	Fergus Walker	Fergus Walker	30/03/20 to 03/04/20
	99	Calculate associated bad debt provision	Fergus Walker	Fergus Walker	03/04/20 to 09/04/20
	100	Process journals for housing benefit overpayments	Fergus Walker	Fergus Walker	14/04/2020
	101	**Housing Benefit Overpayments Complete**	**Fergus Walker**	**Fergus Walker**	**14/04/2020**
Banking	*102*	All monies/cheques should be banked	Departments	Departments	31/03/2020

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	103	Monies/cheques received after final banking relating to 2019-20 to be added to accruals template	Principal Accountants	Departments	01/04/20 to 03/04/20
E-Income Journals	***104***	Deadline for E- Income Journals to Cash Section. Kintyre House, Campbeltown.	Margo Turner/Nancy Hope	Departments	31/03/2020
	105	Cash Section to process year-end E-income journals	Margo Turner/Nancy Hope	Cash Section	01/04/20 to 03/04/20
	106	Bank reconciliation on expenditure account	Malcolm Bannatyne	Creditors Section	06/04/20 to 24/04/20
	107	Bank reconciliation on Council Tax and NDR account	Fergus Walker	Alison McGeachy	06/04/20 to 24/04/20
	108	Bank reconciliation on Income Account	Fergus Walker	Alison McGeachy	06/04/20 to 24/04/20
	109	Bank reconciliation on Housing Benefit Account	Fergus Walker	Sharon Leitch	06/04/20 to 24/04/20
	110	Bank reconciliation on Land Contamination Bank Account	Moira Miller	Sandra Coles	06/04/20 to 24/04/20
Imprests	***111***	Imprest certificates/returns issued to imprest holders	Malcolm Bannatyne	Graham Munro	02/03/2020
	112	Establishments complete certificates/returns	Departments	Departments	01/04/20 to 17/04/20
	113	Deadline for return of Certificates to Creditors Section	Departments	Departments	17/04/2020
	114	Reconciliation of all Imprest balances (including schools)	Malcolm Bannatyne	Graham Munro	20/04/20 to 23/04/20
	115	Process final imprest adjustments in ledger	Malcolm Bannatyne	Graham Munro	24/04/2020
	116	Income Accrual / Deferred Income Templates issued to departments	Mary McCallum	Astrid Ronald	02/03/2020
Other Income Accruals / Deferred Income	***117***	Departments complete other income accrual/ deferred income templates	Principal Accountants	Departments	02/04/20 to 21/04/20
	118	Deadline for return of accrued / deferred income templates to Finance Support Team.	Principal Accountants	Departmental Support Teams	22/04/2020

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	119	Consolidated team process income accruals / deferred income	Mary McCallum	Astrid Ronald	23/04/20 to 27/04/20
9. Internal Recharges	*120*	Final date for producing 2019-20 Internal recharges	Departments	Departments	31/03/2020
	121	Deadline for coded recharges to be sent to Consolidated Team	Departments	Departments	03/04/2020
	122	Internal Recharges uploaded into the ledger	Mary McCallum	Elaine Maxwell	03/04/2020
	123	Outstanding Accounts cleared from Internal Recharge system	Mary McCallum	Elaine Maxwell	03/04/2020
	124	Departments to clear 29901 accounts	Departments	Departments	06/04/20 to 10/04/20
10. Stores and Work in Progress - *Stores*	*125*	Accounting and Budgeting Teams issue instructions to Stores	Morag Cupples / David Forshaw	Departments	02/03/2020
	126	Departments prepare for stock count	Morag Cupples / David Forshaw	Departments	02/03/20 to 30/03/20
	127	Stock count	Morag Cupples / David Forshaw	Departments	31/03/2020
	128	Stock certificates to be completed and sent to Principal Accountants, Development and Infrastructure Services and Social Work	Morag Cupples / David Forshaw	Departments	01/04/20 to 14/04/20
	129	Principal Accountants to review certificates and process final journal	Morag Cupples / David Forshaw	Departments	15/04/20 to 17/04/20
Work in Progress	*130*	Department prepares a valued list of Works in Progress	Morag Cupples	Departments	01/04/20 to 04/05/20
	131	Pass to Principal Accountant for Review and Journal Processing	Morag Cupples	Morag Cupples	04/05/20 to 05/05/20
	132	Consolidation Adjustments (if any)	Morag Cupples	Morag Cupples	07/05/2020
	133	**Finalise Lead Schedule and Working Papers**	**Morag Cupples**	**Morag Cupples**	**07/05/2020**
11. Control and Suspense Accounts - *Control Accounts*	*134*	Report issued to Control Account Holder	Mary McCallum	Astrid Ronald	01/04/2020
	135	Clear balance or complete Carry Forward of Control Account Balance form	Mary McCallum	Control Account Budget Holders	03/04/20 to 01/05/20

Work Area	Task No.	Task Description	Lead Responsibility 2019-20	Undertaking Task 2019-20	Completion Date 2019-20
	136	Transfer of control account balances to Balance Sheet	Mary McCallum	Astrid Ronald	01/05/20 to 05/05/20
Suspense Accounts	*137*	Report issued to Suspense Account Holder	Mary McCallum	Astrid Ronald	01/04/2020
	138	Balance should be cleared (excluding payroll suspense which should be cleared by 06 April for Pay07 entries and 25 April for Pay10)	Mary McCallum	Departments	03/04/20 to 24/04/20
12. Journals and Feeders	*139*	Opening of April and Adjust Periods	Mary McCallum	Astrid Ronald	31/03/2020
	140	Departments prepare and input journals	Principal Accountants	Departments	01/04/20 to 01/05/20
	141	Dept's cut-off date for journals	Mary McCallum	Departments	01/05/2020
	142	Processing of Central Finance journals	Mary McCallum	Astrid Ronald	01/05/2020
	143	Final feeders from roads costing to general ledger	Morag Cupples	Joyce Cowan	01/04/20 to 05/05/20
	144	Preparation and input of any final journals identified	Principal Accountants	Departmental Support Teams	05/05/20 to 08/05/20
	145	Central support / departmental admin recharging	Mary McCallum	Mary McCallum	11/05/20 to 14/05/20
	146	Input of Live Argyll Journals and agreement of final Balance Sheet Position	Moira Miller	Beth Walkosz	31/03/20 to 14/05/20
	147	Input of Council Tax & NDR Journals / Clearance of Raw Cash Accounts	Fergus Walker	Fergus Walker	31/03/20 to 14/05/20
	148	**Closure of 2019-20 ledger**	**Mary McCallum**	**Astrid Ronald**	**15/05/2020**

YEAR END 2019/2020

Appendix 2 - Schedule for Payroll, Overtime and Travel accruals

PAYRUN	MTH NO	PROCESSING DATE	PAY DATE	PERIOD ENDING	PAYROLL COSTS % ACCRUED/PREPAID	OVERTIME COSTS % ACCRUED	TIMESHEETS TO PAYROLL BY:	**TRAVEL CLAIMS TO CREDITORS BY:	TRAVEL & SUBSISTENCE % ACCRUED	Additional Notes
Pay 07 Monthly	01	2nd April	14th April	15th April	16/31sts accrued	100% accrued	1st April	27th March	100% accrued	Old Year Claims Only
Pay 10 Teachers	01	16th April	23rd April	30th April	100% part time hours for this period - See note *	N/A	14th April	14th April	100% accrued	Old Year Claims Only
Pay 10 Teachers	02	21st May	28th May	31st May	See note *	N/A	19th May	19th May	N/A	N/A

Notes

* Pay 10 Teachers Month 01: Part time Teachers hours and enhancements relating to March will be 100% accrued.
** This relates to manual travel claims, not those through "my view" for which separate deadlines have been set by payroll.
* Pay 10 - Month 02 accrual will be done by the Accounting and Budgeting - Education Departmental Team. Due to timing of Month 01 period end date, it's unlikely there will be many March hours requiring accrual.

Appendix 3 - Health and Social Care Partnership Closedown Timetable 2019-20

Work Area	Task Nbr	Task Description	2019/20 Dates	Lead Responsibility	Monitored / Actioned By	Comments
1. Stores & Work in Progress	1	Equipment store stock take to be completed	31/03/2020	Equipment Store Manager	Sharon	Sharon to liaise with equipment store manager
	2	Cut off date for submission of stock certificate and detailed working papers to IS Finance Team	14/04/2020	Equipment Store Manager	Sharon	Sharon to liaise with equipment store manager
	3	Cut off date for checking, signing and submission of stock certificates to Corporate Accounting	17/04/2020	Principal Accountant - Social Work	Sharon and David	Check and agree stock certificate
	4	Calculate net movement in the value of equipment owned by the SW Equipment Store and provide to Principal Accountant - Social Work	17/04/2020	Principal Accountant - Social Work	Sharon and David	Calculate the movement in the stock value and supply to Moira Miller
2. Creditors Payments	1	Cut off date for posting of 2019/20 supplier invoices to creditors	27/03/2020	Department	David	E-mail to areas to remind them about deadline
	2	Cut off date for emailing of 2019/20 supplier invoices to creditors	12pm on 03/04/2020	Department	David	E-mail to areas to remind them about deadline
	3	Cut off date for processing of 2019/20 SW supplier invoices through payables	09/04/2020	Creditors Section	Creditors	Malcolm to let David know when all yellow batches are processed
	4	Final cheque run processed involving SW invoices	09/04/2020	Creditors Section	Creditors	Malcom to let David know when payrun is posted to general ledger
3. Revenue Accruals	1	Accrued/Prepaid expenditure templates issued to department	28/02/2020	Consolidated Team	Astrid	
	2	IS Finance Team issue accrual/prepayment calculation templates to department	06/03/2020	IS Finance Team	David	Issue with instructions and key dates. ***Use a yellow cover sheet for 2019/20 SW Batches***
	3	Department completes accrued/prepaid expenditure template	01/04/2020 to 16/04/2020	Department	Finance Contacts	Provide support to admin and budget holders as necessary, monitor progress
	4	Accrued/prepaid expenditure template submitted to IS Finance Team for checking and consolidation	16/04/2020 - 5pm	Department	Alistair, Alison and Karen	Make sure that all of the area service's templates have been returned
	5	Cut off date for checking and consolidation of accrued/prepaid expenditure templates for SW	21/04/2020	IS Finance Team	David, Lorna and Sharon	Review templates and backup
4. PECOS	1	Issue SW PECOS reports to finance contacts for review and follow-up on queries with budget holders.	12/03/2020	IS Finance Team	David	Request report from PECOS Administrator. Issue with other year end documents and guidance
	2	Mismatches to be cleared from PECOS system	26/03/2020	Department	Alistair, Karen and Alison	Monitor progress of requisitioners
	3	Unpaid PECOS orders report to be issued to IS Finance Team for inclusion on accruals template	01/04/2020	Consolidated Team	Astrid	
	4	PECOS accruals to be added to central template	17/04/2020	IS Finance Team	Alistair	
5. Debtors	1	Cut off date for processing debtors invoices in 2019/20	27/03/2020	Department	David	Include in year end instructions and issue reminder e-mail. Alistair and Alison to prepare year end recharges to NHS
	2	Cut off date for preparing residential and non-residential care debtors accruals	21/04/2020	IS Finance Team	Moira and Alison	
	3	Calculate adjustment to bad debt provision	17/04/2020	Debtors Team	Corporate	Should be completed by F Walker / J Gorman - check to ensure that correct split between Council and IJB is in place for debt before and after 01/04/2016.
6. Payroll	1	Payroll 07 accrual prepared	17/04/2020	Consolidated Team	David	Astrid to let David know when completed
7. CareFirst	1	Cut off for processing of charges to be charged to 2019/20	30/03/2020	Department	David	Instruction in year end guidance and e-mail reminder
	2	Final payables interface generated from CareFirst	31/03/2020	IS Finance Team	Karen	
	3	Snapshot of outstanding transactions taken from CareFirst	01/04/2020	IS Finance Team	Karen	Run year end reports for homecare, residential care, direct payments, fostering and adoption

Work Area	Task Nbr	Task Description	2019/20 Dates	Lead Responsibility	Monitored / Actioned By	Comments
	4	Recommence processing of invoices via CareFirst - all to be charged to April 2020/21 with year end adjustments processed via accrued/prepaid expenditure templates	02/04/2020	Department / Creditors	David	Instruction in year end guidance and e-mail reminder
8. Long Term Debt - Charging Orders	1	Prepare charging order journal entries and agree with Corporate Team	14/04/2020	IS Finance Team	Sharon/Lorna/Moira W	To be checked and agreed with David and Moira Miller
9. TOTAL System Charges	1	Check that TRANMAN interface has been run for SW vehicles.	15/04/2020	Fleet Team	Cara Johnstone / Joyce Cowan	To be confirmed with Cara when run has been processed
10. Consolidation	1	Take snapshot of general ledger following payrun including last of the SW supplier invoices being processed into 2019/20	09/04/2020	IS Finance Team	David	Sharon ran first thing on 10/04/19
	2	Create consolidation template to produce outturn	09/04/2020	IS Finance Team	David	
	3	Report outturn position to Judy and Kirsty	24/04/2020	IS Finance Team	David	Pass figure to Judy Orr, IJB CFO

END OF PROCESS

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ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

FINANCIAL SERVICES **17 MARCH 2020**

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

1. EXECUTIVE SUMMARY

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Strategy to be approved by Council for the forthcoming financial year. This report seeks Member's approval of the proposed Treasury Management Strategy Statement and Annual Investment Strategy. The report also sets out the policy for the repayment of loans fund advances for 2019-20 and 2020-21.

1.2 If the Audit and Scrutiny Committee identify any recommendations in relation to the strategy these will be presented to full Council on 16 April 2020.

1.3 The Council uses Link Asset Services as its external treasury management advisors. The Council 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 subject to regular review.

1.4 Section 2 of the attached document outlines the Council's Capital Prudential and Treasury Indicators which Members are asked to approve.

1.5 Section 2.5 notes that, in 2016, new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which 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 policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure 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.

1.6 A variety of repayments options are provided to Councils so long as a prudent provision is made each year and these are summarised in the table below.

Option	Description	Implications
Option 1 – Statutory Method	Loans fund advances will be repaid in equal instalments of principal by the annuity method. The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile	This is the current method for repaying advances and is the most predictable for setting budgets.
Option 2 – Depreciation Method	annual repayment of loans fund advances will follow standard depreciation accounting procedures	The repayments are matched to the depreciation charges which means that if the asset was impaired the Council would need to repay an equivalent amount of the outstanding debt, rather than continuing with the scheduled repayments.
Option 3 – 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	The repayments ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
Option 4 – Funding/Income profile method	loans fund advances will be repaid by reference to an associated income stream	Under this methodology the repayment of debt is matched to the income stream from the asset which is suited to spend to save scheme and assets which generate income which is being used to repay the debt outstanding.

1.7 A review of the Council's loan fund advance repayments has been undertaken with advice from our Treasury Advisors, Link Asset Services. The review was undertaken to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances.

1.8 The review considered new loans fund advances and historic loans fund advances to assess whether the repayment methodology was still the most prudent option. Data was available for loans fund advances from 2004-05 onwards.

1.9 The review also considered the annuity interest rate that is applied to loans funds advances. Under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application. The result of this review suggests that a revised annuity rate of 5.1% would provide a fairer and more prudent approach and provide principal repayments more closely associated with the use of the assets.

1.10 The Council is recommended to approve the following policy on the repayment of loans fund advances:

- For loans fund advances made before 1 April 2019, the policy will be to maintain the practice of previous years and apply the **Statutory Method**, with all loans fund advances being repaid using a 5.1% annuity rate over an average period of 32 years. For those loans fund advances outstanding at 1 April 2004 a repayment period of 14 years will be used.
- For loans fund advances made after 1 April 2019:

- **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using a 5.1% annuity rate;
- **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream using a 5.1% annuity rate. This would be utilised where the asset will generate income which can be used to repay the debt or as a result of spend to save schemes where again the savings can be used to repay the loans fund advances.

1.11 Further information on the loans fund review to support the recommended policy is included within Loans Fund Review paper included as Appendix 2.

1.12 The results of applying the revised methodology to the current outstanding loans fund advances and assumed future advances (based on the current three year capital plan) will give rise to a medium term (5 year) revenue saving in addition to a one-off re-profiling gain in relation to prior year repayments. The one-off re-profiling gain can be taken in future years in any way the authority wishes, as long as it deems it to be prudent and does not result in a negative charge. This means that the gain released each year is limited to the principal repayments in year (currently circa £5m per annum).

1.13 It would be prudent to use the one-off re-profiling gain to make a provision for the estimated rise in principal repayments over the next 10 years and to fund the current known and emerging liabilities/cost pressures as outlined within the Revenue Budget Overview Report within the Budget Pack.

1.14 Section 3 of the document outlines the current actual external debt against the capital financing requirement highlighting any over or under borrowing. There is information on the interest rates projections and the borrowing strategy.

1.15 Section 4 of the document outlines the annual investment strategy. The Council's investment priorities will be security first, liquidity second and then return. It explains the creditworthiness policy and the use of Link Asset Services in this respect as well as the Country and Sector limits.

1.16 There are a number of appendices in Section 5. Some of this information has been provided by our Treasury advisors, Link Asset Services.

1.17 In September 2019, Council agreed to make two amendments to the Council's 2019/20 Annual Treasury Management Strategy as follows:

1) Amend the investment limit for term deposits with the following UK Banks from £10m to £15m:

   - Bank of Scotland PLC
   - Goldman Sachs International Bank
   - Santander UK PLC

2) Amend the maximum duration that a deposit can be made with other local authorities or public bodies from 1 year to 2 years.

These amendments are reflected within the Treasury Management Strategy Statement.

2. RECOMMENDATIONS

2.1 Members are requested to:

a) Endorse the proposed Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within.

b) Note the use of the statutory method for the repayment of loan fund advances prior to 1 April 2019 in respect of existing capital expenditure using a 5.1% annuity interest rate over an average period of 32 years. For those loans fund advances outstanding at 1 April 2004 a repayment period of 14 years will be used.

c) Note the use of the asset life method for the repayment of loan fund advances after 1st April 2019 using a 5.1% annuity interest rate, with the exception of spend to save schemes where the funding/income profile method could be used.

d) Note the proposed asset repayment periods as detailed within section 2.6 of the Treasury Management Strategy Statement.

e) Note the ability to continue to use countries with a sovereign rating of AA- and above, as recommended by Link Asset Services.

3. IMPLICATIONS

3.1 Policy – Sets the policy for borrowing and investment decisions.

3.2 Financial – Revised methodology gives rise to a revenue saving in addition to a one-off re-profiling gain in relation to prior year repayments. An effective Treasury Management Strategy forms a significant part of the Council's financial arrangements and its financial well-being.

3.3 Legal - None.

3.4 HR - None.

3.5 Fairer Scotland Duty - None.

3.6 Risk - This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

3.7 Customer Service - None.

Policy Lead for Strategic Finance and Capital Regeneration Projects:
Councillor Gary Mulvaney

Kirsty Flanagan
Section 95 Officer

17 March 2020

For further information please contact:
Anne Macdougall, Finance Manager 01586-555269

APPENDICES
Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2020-21
Appendix 2 – Loans Fund Review Briefing

Appendix 1

Treasury Management Strategy Statement

and Annual Investment Strategy 2020-2021

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1 INTRODUCTION

1.1 Background

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.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure 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.

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.

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, (arising usually from capital expenditure),and are separate from the day to day treasury management activities.

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."

Revised reporting is required for the 2020/21 reporting cycle due to revisions of the the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include 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. Good progress has been made with the Council's capital strategy and it is expected to be presented to Policy and Resources Committee for approval in May 2020.

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

An annual Treasury Management Strategy Statement (this report) – this is the first and most important report which is submitted to full Council before the start of the financial year. Prior to submission to full Council, this report is scrutinised by the Audit and Scrutiny Committee. It covers:

- The capital plans (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 to be organised) including treasury indicators; and
- A permitted investment strategy (the parameters on how investments are be to managed).

A mid-year Treasury Management Review Report - this will update Members with the progress of the capital position, amending prudential indicators as necesssary and whether any policies require revision. Monitoring reports are submitted to each Policy and Resources Committee.

An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capial strategy report, which will provide the following:

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

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

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 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
- policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (Audit and Scutiny Committee).

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management advisors

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation 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.

2 CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2020/21 – 2022/23

The Council's capital expenditure plans are 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.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the 2020/21 budget setting.

The table below summarises the capital expenditure plans as outlined within the proposed capital plan 2020-23.

Capital Expenditure £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Executive Director - Douglas Hendry					
Education	10,914	8,732	9,603	2,949	2,920
Facility Services - Shared Offices	743	1,926	1,500	725	561
Major Projects/CHORD	8,251	7,078	9,489	7,352	1,462
Executive Director - Kirsty Flanagan					
ICT	1,515	909	1,011	1,011	1,011
Roads and Infrastructure	13,162	14,634	18,185	19,555	20,467
Development and Economic Growth	1,833	2,600	494	0	0
Live Argyll	464	1,082	396	563	561
Health and Social Care Partnership	90	782	895	536	561
Total	**36,972**	**37,743**	**41,573**	**32,691**	**27,543**

The table below summarises the above capital expenditure plans and how capital or revenue resources are financing them. Any shortfall of resources results in a funding borrowing need. (The financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.)

Capital Expenditure £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total Capital Expenditure	36,972	37,743	41,573	32,691	27,543
Financed by:					
Capital Receipts	493	1,419	1,202	2,202	1,202
Capital Grants	19,349	14,192	11,502	11,245	11,245
Capital Reserves	0	0	0	0	0
Revenue	575	22,836	9,680	5,000	0
Net Financing need for the year	**16,555**	**(704)**	**19,189**	**14,244**	**15,096**

2.2 The Council's Overall Borrowing Need (the Capital Financing Requirement)

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 underlying borrowing need.

Any capital expenditure 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, called the Loan Fund Principal Repayment, which reflect the useful life of capital assets financed by borrowing. This charge reduces the CFR each year. 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.

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 and so the Council is not required to separately borrow for these schemes. The Council currently has £129.8m of such schemes within the CFR.

The CFR projections are noted in the following table.

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
Opening CFR	306,433	309,994	298,658	307,668	310,813
Closing CFR	309,994	298,658	307,668	310,813	313,961
Movement in CFR	**3,561**	**(11,336)**	**9,010**	**3,145**	**3,148**
Movement in CFR represented by					
Net financing need for the year (above)	16,555	(704)	19,189	14,244	15,096
Less scheduled debt Amortisation	12,994	10,632	10,179	11,099	11,948
Movement in CFR	**3,561**	**(11,336)**	**9,010**	**3,145**	**3,148**

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 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Expected Investments	**71,332**	**64,500**	**50,000**	**40,000**	**30,000**

2.4 Limits to Borrowing Activity

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

Operational Boundary £'m	2018/19 Actual	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	194	200	200	210	207
Other long term liabilities	128	124	124	119	114
Total	**322**	**324**	**324**	**329**	**321**

The authorised limit for external debt. This is a key prudential indicator and 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.

a) 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.

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

Authorised Limit £'m	2018/19 Actual	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	199	205	205	215	212
Other long term liabilities	131	127	127	122	117
Total	**330**	**332**	**332**	**337**	**329**

2.5 Statutory repayment of loans fund advances

The Council is required to set out its policy for the statutory repayment of loans fund advances 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.

A variety of options are provided to Councils so long as a prudent provision is made each year. A review of the Council's loan fund advances has been undertaken to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances.

The majority of the loans outstanding at 1 April 2004 had a remaining life of between 1-19 years. Further analysis confirmed that the average remaining life for loans fund advances outstanding at 1 April 2004 was 14 years and it is suggested that a repayment period of 14 years is used for these loans fund advances. The review of historic debt from the period between 2004-05 and 2018-19 indicates the average repayment period should be 32 years using the annuity method.

The Council is recommended to approve the following policy on the repayment of loans fund advances:

For loans fund advances made before 1 April 2019, the policy will be to maintain the practice of previous years and apply the **Statutory Method**, with all loans fund advances being repaid using a 5.1% annuity rate over an average period of 32 years. For those loans fund advances outstanding at 1 April 2004 a repayment period of 14 years will be used.

For loans fund advances made after 1 April 2019, 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 a 5.1% annuity rate;

2. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

The annuity rate applied to the loans fund repayments was based on historic interest rates and is currently 3.79%. However, under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application. The result of this review suggests that a revised annuity rate of 5.1% would provide a fairer and more prudent approach and provide principal repayments more closely associated with the use of the assets.

2.6 Asset Repayment Periods

Using the asset life method, the Council is required to ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. In doing so the table below states the repayment period to be used for each asset type.

Asset Type	Repayment Period (Years)
Land (including Cemeteries)	100
Road Structures - Bridges, Retaining Walls, Sea Walls, Flood Defences	60
Piers and Harbours	60
Roads & Footways	20
Street Lighting	30
Vehicles & Plant	7
IT Equipment	5
Major Regeneration Works (Public Realm etc)	60
New Builds including Schools	60
Buildings - Electrical	40
Buildings - Plant	20
Buildings - Roofing	35
Buildings - Windows & External Doors	20
Buildings - Structural	25

3 TREASURY MANAGEMENT STRATEGY

The capital expenditure plans set out in Section 2 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 the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2019 and at 31 December 2019 are shown below for both borrowing and investments.

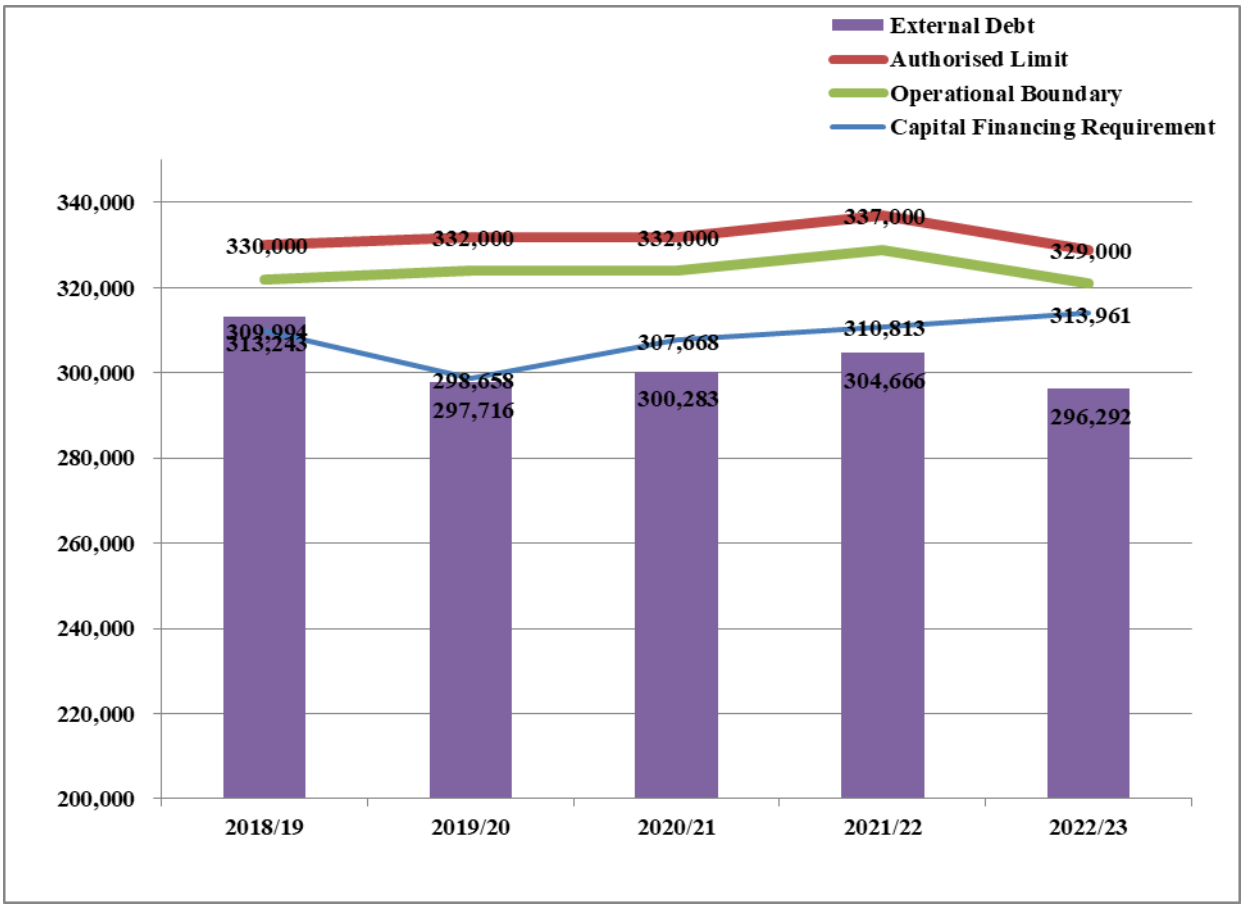
TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31.3.19	**31.3.19**	**31.12.19**	**31.12.19**
Treasury investments	£000	%	£000	%
Banks	43,543	55%	61,821	62%
Building Societies - rated	5,000	6%	0	0%
Local Authorities	0	0%	17,000	17%
Money Market Funds	16,500	21%	11,500	12%
Certificates of Deposit	10,000	13%	5,000	5%
Third Party Loans	4,346	5%	4,253	4%
Total managed in house	**79,389**	**100%**	**99,574**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**79,389**	**100%**	**99,574**	**100%**
Treasury external borrowing				
PWLB	127,337	71%	124,843	68%
LOBOs	39,255	22%	39,255	21%
Market	11,000	6%	11,000	6%
Special	214	0%	256	0%
Temporary Borrowing	574	0%	8,089	4%
Local Bonds	33	0%	33	0%
Total External Borrowing	**178,413**	**100%**	**183,476**	**100%**
Net Treasury Investments / (Borrowing)	**(99,024)**		**(83,902)**	

A more detailed analysis of the above table showing actual investments placed with individual counterparties can be found in Appendix 2.

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

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt as 1st April	178,488	183,476	173,601	180,741	189,939
Change in Debt (In Year)	4,988	(9,875)	7,140	9,198	(3,277)
Other long-term liabilities (OLTL) at 1st April	128,631	129,767	124,115	119,542	114,727
Change in OLTL (In Year)	1,136	(5,652)	(4,573)	(4,815)	(5,097)
Actual gross debt at 31st March	**313,243**	**297,716**	**300,283**	**304,666**	**296,292**
The Capital Financing Requirement	**309,994**	**298,658**	**307,668**	**310,813**	**313,961**
Under / (Over) borrowing	**(3,249)**	**942**	**7,385**	**6,147**	**17,669**

The following graph shows the the CFR compared to the expected net debt in each of the years and the under / (over) borrowed position, also shown is the Council's authorised limit for debt and it's operational boundary (see paragraph 2.4 above.



Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not taken for revenue or speculative purposes.

The Head of Financial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services view on its prospects for interest rates.

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

Link Asset Services have also provided commentary in relation to interest rates and this is included within Appendix 3.

3.3 Investment and borrowing rates

Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed UK withdrawal from the EU, then there is upside potential for earnings.

Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9th October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed

Whilst this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy

Over the past few years, the Council has benefited from lower borrowing costs due to low interest rates, in particular utilisation of short term temporary borrowing and internal borrowing (use of existing cash).

The Council is currently anticipating an under-borrowed position as at the end of 2019/20. 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 to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. Any decisions will be reported to the appropriate committee at the next available opportunity. In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Head of Financial Services, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting a pragmatic approach to changing circumstances.

- If it was felt that there was a significant risk of a sharp FALL in long and short term rates then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- 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.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

If rescheduling was done, it will be reported to the appropriate Committee at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy implements the requirements of the Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the CIPFA TM Code").

The above regulations and guidance place a high priority on the management of risk. **The Council's investment priorities will be security first, liquidity second and then return.** This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. 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.
2. 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.
3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of types of investment instruments that are permitted investments authorised for use in Appendix 5. Appendix 6 expands on the risks involved in each type of investment and the mitigating controls.
5. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix 7.
6. Transaction limits are set for each type of investment in Appendix 5.
7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.5).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2019/20 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.

However, 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 4.4). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

The Council recognises the vital importance of credit-worthiness checks on the counterparties it uses for investments.

This Council applies the creditworthiness service provided by Link Asset Services. 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 counterparies are supplemented with the following further overlays:

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

Further explanation of the approach for creditworthiness used by Link Asset Services is found in Appendix 7.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt in. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered) will be considered for investment purposes.

4.3 Country and sector limits

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. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds: 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 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

On the assumption a UK withdrawal from the EU is agreed including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2021/22	1.25%
2022/23	1.50%
2024/25	1.75%
Later years	2.25%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over the UK's withdrawal from the EU, as well as a softening global economic picture.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similar to the downside.

Investment treasury indicator and limit

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			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	20	20	20

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days).

4.6 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded.

4.7 End of year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 APPENDICES

Appendix 1 – Capital Prudential and Treasury Indicators 2019/20 – 2021/22

1. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework 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 Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

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.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	7.08%	5.93%	5.83%	5.84%	5.89%

The estimates of financing costs include current commitments and the proposals in this budget report.

2. Maturity structure of borrowing

The purpose of this indicator is 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 this is set to be too restrictive it will impair the opportunities to reduce costs/ improve performance. The indicator is "Maturity structure of borrowing". 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.

The Council is asked to approve the following treasury indicator and limits.

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity structure of variable interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	30%
20 years to 30 years	0%	30%
30 years to 40 years	0%	30%
40 years to 50 years	0%	30%

The interest rate exposure in respect of the Council's external debt will be monitored on an ongoing basis by keeping the proportion of variable interest rate debt at an appropriate level given the total amount of external debt and the interest rate environment within which the Council is operating. When interest rates are increasing the Council will look to move to fixed rate borrowing and if interest rates are likely to fall then the level of variable rate borrowing will be increased to minimise future interest payments.

Appendix 2 – Detailed Current Portfolio Position

TREASURY PORTFOLIO					
		Actual 31.3.19	Actual 31.3.19	Current 31.12.19	Current 31.12.19
Treasury investments		**£000**	**%**	**£000**	**%**
Banks	Clydesdale Bank	1,043	1%	6,821	7%
	Bank of Scotland	5,000	6%	12,500	13%
	Goldman Sachs	2,500	3%	10,000	10%
	Qatar National Bank	7,500	9%	7,500	8%
	Commonwealth Bank of Australia	5,000	6%		0%
	Santander	0	0%	10,000	10%
	ANZ Banking Group/London	7,500	9%	7,500	8%
	Bayerische Landesbank	5,000	6%		0%
	DBS Bank	5,000	6%		0%
	First Abu Dhabi Bank	5,000	6%	7,500	8%
		43,543	55%	61,821	62%
Building Societies - rated	Nationwide Building Society	5,000	6%	0	0%
Local Authorities	Cherwell District Council	0	0%	5,000	5%
	Lancashire County Council	0	0%	7,000	7%
	Thurrock Borough Council	0	0%	5,000	5%
		0	0%	17,000	17%
Money Market Funds	Aberdeen Liquidity Sterling Fund Class L1	0	0%	4,000	4%
	BNP Paribas Inticast Fund	0	0%	7,500	8%
	Federated	3,000	4%	0	0%
	CCLA	6,000	8%	0	0%
	AVIVA	7,500	9%	0	0%
		16,500	21%	11,500	12%
Certificates of Deposit	Royal Bank of Scotland	5,000	6%	0	0%
	National Westminster Bank Plc	5,000	6%	5,000	5%
		10,000	13%	5,000	5%
Third Party Loans	Argyll Community Housing Association	2,674	3%	2,611	3%
	Fyne Homes	186	0%	182	0%
	West Highland Housing Accociation Ltd	921	1%	901	1%
	The Port Ellen Station	73	0%	67	0%
	Hubco Sub Debt	492	1%	492	0%
		4,346	5%	4,253	4%
Total Treasury Investments		**79,389**	**100%**	**99,574**	**100%**

		Actual 31.3.19	Actual 31.3.19	Current 31.12.19	Current 31.12.19
Treasury external borrowing					
Local Authorities		0	0%	0	0%
PWLB		127,337	71%	124,843	68%
LOBOs	Commerzbank Finance & Covered Bonds S.A.	13,000	7%	13,000	7%
	FMS Wertmanagement	5,255	3%	5,255	3%
	Bayerische Landesbank	21,000	12%	21,000	11%
		39,255	22%	39,255	21%
Market	Barclays (formerly LOBO)	10,000	6%	10,000	5%
	Prudential assurance co	1,000	1%	1,000	1%
		11,000	6%	11,000	6%
Special	Prudential assurance co	14	0%	16	0%
	Salix Finance Ltd	200	0%	240	0%
		214	0%	256	0%
Temporary Borrowing		574	0%	8,089	4%
Local Bonds		33	0%	33	0%
Total External Borrowing		**178,413**	**100%**	**183,476**	**100%**

Appendix 3 – Interest Rate Forecasts 2020 - 2023 and Commentary Provided by Link Asset Services (at 17.01.20)

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

The above interest rate forecasts, provided by Link Asset Services, are **predicated on an assumption of an agreement being reached regarding the UK's withdrawal from the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around the UK's withdrawal from the EU depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly withdrawal of the UK from the EU**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK:

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

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

- **UK withdrawal from EU** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly

government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.

- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **UK withdrawal from EU** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 4 – Economic Background Provided by Link Asset Services (at 03.01.20)

UK withdrawal from EU. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal in December 2020.

GDP growth has taken a hit from uncertainty surrounding the UK's withdrawal from the EU during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their assumptions surrounding the UK's withdrawal from the EU to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election

manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal withdrawal from the EU, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese

and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal, depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs

to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, 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. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

Appendix 5 - Treasury Management Practice (TMP1) Permitted Investments

This Council approves the following forms of investment instrument for use as permitted investments as set out in table 1.

Treasury risks

All the investment instruments in tables 1 and 2 are subject to the following risks: -

- **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.

- **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. The column in tables 1 / 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

- **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.

- **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. All types of investment instrument have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown): - (Capita Asset Services note – please specify any such instruments should you use them)

- **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

- **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 4.2 and 4.3.

- **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.

- **Market risk:** this authority purchases Certificates of Deposit (CD's), as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional circumstances, they can be quickly sold at the current market value, (which may vary from the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.

- **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 4.4.

- **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 in tables 1 and 2 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: -

- **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

- **High credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £15m of the total portfolio can be placed with UK banks and £10m in any single non UK bank institution or group at any one time.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

Deposits

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- **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.

- **Term deposits with high credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that no more than £15m of the total portfolio can be placed with any UK bank and £10m with any single non UK bank institution or group. In addition, longer-term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer-term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer-term investment is made, that cash is locked in until the maturity date.

- **Call accounts with high credit worthiness banks and building societies.** The objectives are as for term deposits above but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

- **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

- **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for term deposits in the previous section, but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.
- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

- **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

- **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

- **Ultra short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which

has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

- **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

- **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills.

- **Treasury bills.** These are short-term bills, (up to 18 months but usually 9 months or less), issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

- **Gilts.** These are longer-term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

- **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

- **Sovereign bond issues (other than the UK govt) denominated in Sterling**. As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

- **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter-term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

OTHER

Property fund. This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Table 1: permitted investments in house – Common Good

This table is for use by the in house treasury management team.

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	term	no	100	6 months
Term deposits – local authorities	--	term	no	100	2 years
Call accounts – banks and building societies	Green	instant	no	100	Call
Term deposits – banks and building societies	Green	term	no	100	2 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits.	Green	term	no	50	2 years
Collateralised deposit (see note 1)	UK sovereign rating	term	no	50	1 year

Note 1. As collateralised deposits are backed by e.g. AAA rated local authority LOBOs, this investment instrument is effectively a AAA rated investment

1.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	term	no	100	1 Year
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	UK Sovereign Rating	term	no	100	1 Year
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Green	term	yes	100	1 Year

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1. Government Liquidity Funds	AAA	instant	No see note 1	100	1 Year
2a. Money Market Funds CNAV	AAA	instant	No see note 1	100	1 Year
2b. Money Market Funds LVNAV	AAA	Instant to T+5	No see note 1	100	1 Year
2c. Money Market Funds VNAV	AAA	instant to T+5	No see note 1	100	1 Year
3. Ultra short dated bond funds with a credit score of 1.25	AAA	T+1 to T+5	yes	100	1 Year
4. Ultra short dated bond funds with a credit score of 1.5	AAA	T+1 to T+5	yes	100	1 Year
5. Bond Funds	AAA	T+2 or longer	yes	100	1 Year
6. Gilt Funds	AAA	T+2 or longer	yes	100	1 Year

Note 1. The objective of MMFs is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

1.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	80	1 Year

1.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	Green	Sale T+0	yes	50	2 Years
Commercial paper other	Green	Sale T+0	yes	20	2 Years
Floating rate notes	Green	Sale T+0	yes	20	2 Years
Corporate Bonds other	Green	Sale T+3	yes	20	2 Years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

1.6 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	--	T+4	yes	100	5 Years

Table 2: permitted investments for use by external fund managers – Common Good

2.1 Deposits

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	term	no	100	2 Years
Call accounts – banks and building societies	Green	instant	no	100	Call
Term deposits – banks and building societies	Green	term	no	100	2 Years
Collateralised deposit	UK sovereign rating	term	no	50	1 Year

2.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	Term or instant	no	100	1 Year
Banks part nationalised by high credit rated (sovereign rating) countries – non UK**	UK sovereign rating	Term or instant	no	100	1 Year

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

2.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1. Government Liquidity Funds	AAA	instant	No see note 1	**100**	**1 Year**
2a. Money Market Funds CNAV	AAA	instant	No see note 1	**100**	**1 Year**
2b. Money Market Funds LVNAV	AAA	instant to T+5	No see note 1	**100**	**1 Year**
2c. Money Market Funds VNAV	AAA	instant to T+5	No see note 1	**100**	**1 Year**
3. Ultra short dated bond funds with a credit score of 1.25	AAA	T+1 to T+5	yes	**100**	**1 Year**
4. Ultra short dated bond funds with a credit score of 1.5	AAA	T+1 to T+5	yes	**100**	**1 Year**
5. Bond Funds	AAA	T+1 to T+5	yes	**100**	**1 Year**
6. Gilt Funds	AAA	T+1 to T+5	yes	**100**	**1 Year**

Note 1. The objective of these funds is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

2.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	80	1 Year

2.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building	Green	Sale T+1	yes	50	1 year
Commercial paper other	Green	Sale T+1	yes	50	1 year
Corporate Bonds other	Green	Sale T+3	yes	20	1 year
Floating Rate Notes	Green	Sale T+1	yes	20	1 year

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

2.6 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	--	T+4	yes	20	5 Years

Appendix 6 – Treasury Management Practice (TMP2) Credit and Counterparty Risk Management

The following table is for use by the Treasury team and is a list of current counterparties. However, the use of counterparties depends on credit ratings and the Council may stop using certain counterparties and may stop using certain counterparties and/or decide to use alternative counterparties within its permitted investments. If for unavoidable short term operation reasons, limits are breached this will be communicated to management immediately.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita Asset Services, 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 Head of Financial Services, and if required new counterparties which meet the criteria will be added to the list.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good 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.
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	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.	£unlimited, maximum 1 year.	£unlimited, maximum 2 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
	agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.			
c. Money Market Funds (MMFs) – CNAV/LVNAV/VNAV**(Low to 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.	£10m per fund	100%
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 the have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£10m	100%
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'sDay 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.
f. Term deposits with financial institutions (banks and building	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c)	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured	As shown in the counterparty	As shown in the counterparty

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
societies) **(Low to medium risk depending on period & credit rating)**	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.	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.	section criteria above.	section criteria above.
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.	£10m maximum 1 year.	100% maximum 1 year.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£10m per counterparty maximum 1 year.	20% maximum 1 year.
i. Structured deposit facilities with banks and building societies	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c)	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured	As shown in the counterparty	As shown in the counterparty

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
(escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	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 the use of additional market intelligence.	section criteria above.	section criteria above.
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. . Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£5m and maximum 1 year.	£20% and maximum 1 year.
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.	£10m	20%.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
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.	£10m and maximum 5 years.	10% and maximum 5 years.
c. 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.	50%	20%
d. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	5%	100%
e. Loans to third parties as part of the Council's Empty Homes Strategy	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 Head of Financial Services approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£1.5m and a maximum of 10 years.	N/A

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
f. Loans to third parties as part of the Council's SHF Front Funding Facility	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 Head of Financial Services approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 3 years.	N/A
g. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's	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 Head of Financial Services approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 30 years.	N/A
h. Hub Co sub debt	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be highly illiquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£10m	N/A
i. Investment in a project run by a Local Authority or Local Authority Joint Committee	These are investments which may exhibit market risks and will only be considered for medium to longer term investments	Each investment requires approval by the Head of Financial Services up to £250,000, and, above this level, member approval. Each application will be supported by the service rationale behind the investment and the likelihood of loss.	£10m	N/A

Appendix 7 – Creditworthiness policy

Service and Information provided by Link Asset Services

This Council applies the creditworthiness service provided by Link Asset Services. 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.

This modelling approach combines credit rates, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which 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 of investments.

All credit ratings are monitored from a weekly list which can be updated daily by Link Asset Services. The Council is alerted to the changes to ratings of all three agencies through the use of Link Asset Services credit worthiness service.

If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, immediate consideration will be given to whether funds should be withdrawn from this counterparty and the timescale for doing this.

In addition to the use of the credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via Link Asset Service's Passport website that the Council can access. Extreme market movements may result in a downgrade of an institution or removal from the Councils lending list.

Based on the Link Asset Services approach, the Council will therefore use counterparties within the following durational bands:

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

**The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.*

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, information on government support for banks and the credit ratings of that supporting government.

No more than £15m can be invested with each UK bank and £10m with any single other counterparty. The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing deposits with the Council's bankers is currently £5m.

Deposits can be placed with Local Authorities and other public sector bodies for a period up to 2 years.

The Council can invest an unlimited amount of money with the Debt Management Agency Deposit Facility (operated by the Debt Management Office which is part of HM Treasury). The longest period for a term deposit with the DMADF is 6 months.

Appendix 8 – Approved Countries for Investments (at 03.01.20)

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 Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France

AA-

- Belgium
- Qatar

Appendix 9 – Treasury Management Scheme of Delegation

The Council

- Overall responsibility for Treasury Management Strategy.
- Adoption of Treasury Policy Statements.
- Receive an Annual Report and other reports on the Treasury Management Operation and on the exercise of delegated treasury management powers.

The Policy and Resources Committee

- Responsibility for the overall investment of money under the control of the Council.
- Keeping under review the level of borrowing.
- Approval of Annual Strategy Statement.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Treasury Policy Statements.
- Implementation and monitoring of Treasury Management Policies and Practices.

The Audit and Scrutiny Committee

- Review the overall internal and management control framework related to the treasury function.
- Review internal and external audit reports related to treasury management.
- Review provision in the internal and external audit plans to ensure there is adequate audit coverage of treasury management.
- Monitor progress with implementing recommendations in internal and external audit reports.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 10 – The Treasury Management Role of the Section 95 Officer

Section 95 Officer:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Suubmitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Reviewing and considering risk management in terms of treasury activities.
- 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: -
    - *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.*

The nominated Elected Member (Policy Lead for Strategic Finance and Capital):

- Acting as spokesperson for treasury management.
- Taking a lead for elected Members in overseeing the operation of the treasury function.
- Review the treasury management policy, strategy and reports.
- Support and challenge the development of treasury management.

Appendix 2

ARGYLL AND BUTE COUNCIL	**COUNCIL**
FINANCIAL SERVICES	**27 FEBRUARY 2020**

LOANS FUND REVIEW

1. INTRODUCTION

1.1 This report introduces a revised policy on loans fund advance repayment profiling following a review of the current loans fund. A briefing containing much of the content of this report was issued to Members on 23 January 2020 and was presented at the Members Seminar on 27 January 2020.

2. BACKGROUND

2.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the Regulations) came into force on 1 April 2016 replacing the statutory provisions for local authority borrowing, lending and loans fund as set out in Schedule 3 of the Local Authority (Scotland) Act 1975.

2.2 The Regulations stipulate that local authorities must operate a loans fund (which we currently do), which enables the council to recognise the amount of capital expenditure being financed by borrowing each year and the amount of this borrowing being repaid each year and charged to the revenue account. All borrowing undertaken to fund the capital programme must be repaid through the loans fund on a prudent basis.

2.3 The Regulations have changed the basis on which the loans fund is accounted for. The change moves from a prescriptive basis on how the repayment values are to be calculated (maximum periods permitted for each asset class), to a prudent one with each local authority allowed to determine what is prudent. These changes in Regulations have brought in more flexibility for local authorities to repay the outstanding loans fund advances over a different period, if it can be justified as prudent to do so.

2.4 The Regulations also stated that a local authority may subsequently vary the period or the amount of repayment (or both), if it considers it prudent.

2.5 A review of the Council's loans fund advance repayments has been undertaken with advice from our Treasury Advisors, Link Asset Services.

2.6 The review was undertaken to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances. It is up to each Council to manage appropriately and to determine prudent repayment based on its own individual circumstances.

3. REVIEW

3.1 A loans fund advance relates to the capital investment that is being funded by borrowing.

3.2 The review considered new loans fund advances and historic loans fund advances to assess whether the repayment methodology was still the most prudent option. Data was available for loans fund advances from 2004-05 onwards.

3.3 The repayment of loans fund advances is based on two elements:

- The period set for which each advance is to be repaid to the loans fund.
- The annuity interest rate (the method used which links the repayments of the borrowing to the flow of benefits from an asset where the benefits are expected to increase in later years).

4. LOAN FUND REPAYMENTS

4.1 Period of Repayment

4.1.1 The statutory guidance identifies that the broad aim of a prudent repayment is to ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

4.1.2 Some of the current loan repayment periods are a lot shorter than the life of the associated asset and some are longer. To profile over a shorter period is imprudent as it could be viewed as requiring the tax payer to repay capital investment before receiving the full benefit from the asset. Conversely, profiling over a longer period could mean that the tax payers are not repaying the full capital investment before the asset's life has ended.

4.1.3 The method considered most appropriate for the Council is asset life annuity method for all new advances (this includes new advances within financial year 2019-20). The flexibility of the Regulations allows Councils to re-profile loan fund repayments retrospectively and for the historic loans fund advances the method considered most appropriate is the simplified annuity method that uses an average repayment period.

4.1.4 Since the inception of Argyll and Bute Council in 1996, the policy on repayment periods has never been updated and is noted in the table below.

Asset Class (Current Policy)	Repayment Period (years)
Land	60
Schools	40
Bridges	30
Piers and Harbours	30
Buildings	20
Roads	20

Street Lighting	20
Repairs and Renewals	20
Plant	10
Vehicles	Up to 7
Office Equipment	Up to 5
IT Equipment	Up to 3

4.1.5 The current policy of using asset class to determine the period of repayment is a prudent option to continue with for all new loans fund advances. However, it is accepted that in recent years, increasing pressure on capital budgets and constraints on capital funding have meant greater emphasis on maintaining existing assets rather than creating new assets, and improvements to building design, technology and materials mean that buildings are lasting longer than previously expected. The proposed new list of asset classes/repayment periods are outlined within the table below.

Asset Class (Proposed Revised Policy)	Repayment Period (years)
Land (including Cemeteries)	100
Road Structures - Bridges, Retaining Walls, Sea Walls, Flood Defences	60
Piers and Harbours	60
Roads & Footways	20
Street Lighting	30
Vehicles & Plant	7
IT Equipment	5
Major Regeneration Works (Public Realm etc)	60
New Builds including Schools	60
Buildings - Electrical	40
Buildings - Plant	20
Buildings - Roofing	35
Buildings - Windows & External Doors	20
Buildings - Structural	25

4.1.6 The historic loans fund advances were also reviewed to assess whether the repayment methodology was still the most prudent option based on the information we had available. Data was available for loans fund advances from 2004-05 onwards.

4.1.7 A review of the asset lives used in the loans fund calculations since 2004-05 shows that various different repayment periods had been used when setting the period for advance repayments. Generally they range between 20 and 60 years, however, there are IT assets and vehicles that are repaid over a shorter period. The analysis of advances between 2004-05 and 2018-19 are noted in the table below.

Advance Period	New Advances £000	Advances %
1-19 years	1,556	1%
20-29 years	100,409	44%
30-39 years	31,686	14%
40+ years	91,883	41%
	225,534	**100%**

4.1.8 The Council's average loan repayment period on new borrowing taken between 2004-05 and 2018-19 was 26 years. During the current review, when considering the appropriate period to reasonably reflect the period over which communities receive the economic benefit of the assets a number of factors have been taken into account to determine what a prudent repayment period should be. Over a number of years the entering of the repayment periods within the loans fund has been inconsistent and there are a number of the repayment periods that should have been longer. In correcting this position the average loan repayment period increased to 30 years. As previously mentioned there is now increasing pressure on capital budgets with greater emphasis on maintaining existing assets and building design, technology and materials are seeing assets lasting longer than previously expected. It is therefore prudent to assume that the repayment period could be increased above the historic corrected average.

4.1.9 Taking this into account, it is considered prudent to revise the repayment period on historic debt between 2004-05 and 2018-19 using an average loan repayment period of 32 years. It should be noted that one of the reasons that the asset life method is not recommended for the historic repayments is due to the limited data and in some cases it was difficult to be fully sure what the capital advance was for. The average repayment period suggested is the most prudent option.

4.1.10 The majority of the loans outstanding at 1 April 2004 had a remaining life of between 1-19 years. Further analysis confirmed that the average remaining life for loans fund advances outstanding at 1 April 2004 was 14 years and it is suggested that a repayment period of 14 years is used for these loans fund advances.

4.2 Annuity Interest Rate

4.2.1 The statutory duty to administer the loans fund in accordance with prudent financial management extends to the interest rate selected for the annuity calculation. The statutory guidance does not include guidance on what is an appropriate interest rate for the annuity but suggests that a Council should set out their policy on interest rate selection and apply that policy consistently.

4.2.2 The overall average loans fund borrowing rate over the period 2004-05 to 2018-19 taking into account the outstanding borrowing in each year was 5.1%. It is proposed that an annuity interest rate of 5.1% is used for new loans fund advances and retrospective advances.

4.2.3 Once calculated it is only the principal element of the calculation that represents the annual repayment of the loans fund advance as the Council pools its borrowing and interest is paid based on a fixed interest rate.

4.2.4 At the beginning of a loans fund advance the principal repayment is less and this situation reverses as you move into the later years of the borrowing. This means that over the time of the loan the principal repayments will increase. As all the outstanding loans are effectively being consolidated with a 32 years average pay back, the principal repayments will continue to increase until 2036-37 (the end of the repayment period for loans fund advances taken in 2004-05) and it would be prudent for the Council to make an allowance for this increase.

5. RESULTS OF REVISED METHODOLOGY

5.1 To summarise, the revised repayment methods considered appropriate are as follows:

- Using a repayment period of 14 years for loans fund balances outstanding as at 1 April 2004.
- Using a repayment period of 32 years for advances between 2004-05 and 2018-19.
- Using a repayment period linked to an updated list of asset lives for new loans fund advances from 1 April 2019.
- Using a 5.1% annuity interest rate.
- All previous prudential borrowing arrangements will be included within the re-calculation and the revenue budget added into the loans fund budget on a permanent basis, with the exception of vehicle purchases from 2017-18 onwards as these are borrowed on a prudential borrowing basis with a 7 year pay-back arrangement and piers and harbours infrastructure as there is already a model for this which is funded via increased fees and charges.

5.2 The results of applying the revised methodology to the current outstanding loans fund advances and assumed future advances (based on the current three year capital plan) will give rise to a medium term (5 year) revenue saving in addition to a one-off re-profiling gain in relation to prior year repayments. The one-off re-profiling gain can be taken in future years in any way the authority wishes, as long as it deems it to be prudent and does not result in a negative charge. This means that the gain released each year is limited to the principal repayments in year (currently circa £5m per annum).

5.3 The saving on the loans fund repayments over the next 5 years (excluding prudential borrowing vehicles and piers and harbours) is summarised within the table below. It also takes into consideration the current surplus/deficit in the loans fund model over the current year and next five years.

Column A	Column B	Column C	Column D	Column E
Year	Current Estimate Loans Funds Advance Repayments £000	Revised Estimate Loans Fund Advance Repayments £000	Loans Fund Model Estimated Outturn (overspend) / underspend £000	Reduction in Loans Fund Advance Repayments £000
2019-20	7,304	4,841	(96)	2,367
2020-21	7,710	5,117	(248)	2,345
2021-22	8,269	5,469	(320)	2,480
2022-23	8,645	5,702	(604)	2,339
2023-24	9,013	5,992	(739)	2,282
2024-25	8,938	6,299	(666)	1,973
	49,879	**33,420**	**(2,673)**	**13,786**

5.4 Column E in the Table above shows a saving of £2.367m within 2019-20. The current forecast outturn within 2019-20 as at the end of December 2019, not including this saving, amounts to £2.490m. Realising this saving would mean that the overall estimated outturn position as at the end of 2019-20 would be circa 100k overspent, subject to any additional over/underspends identified before the year end.

5.5 Column E in the table above shows a saving of £2.345m for financial year 2020-21. Column C demonstrates the point made in paragraph 4.2.4 that the principal repayments will increase year on year, currently increasing by circa £300k. Taking a longer term view, it would be prudent to make a provision for the increasing principal repayments over the next 10 years and based on a recurring revenue saving of £2.5m, a provision of £7.649m would be required. It should be noted that this provision will not cover the increasing principal repayments through to 2036-37, however it does provide the budget required over the next 10 years, giving the Council time to plan for the period beyond that and also allows the Council to address the short-term liabilities/cost pressures as noted within the Revenue Budget Overview report in the Budget Pack. One of the short-term cost pressures noted relates to a provision to support organisational change with a view to increasing the amount of revenue savings in the future. This cost pressures would support setting aside a provision to cover the next 10 years increase in principal repayments on the basis that we should be able to increase revenue savings to fund further increases beyond the 10 years.

5.6 The one-off re-profiling gain is summarised in the table below and it has been reduced by the provision for increased principal repayments over the next 10 years.

Loans Fund Repayments	£000
Actual charge to 31/03/2019	237,091

Revised charge to 31/03/2019	216,530
Excess to be adjusted for in future years	**20,561**
Provision for increased repayments over 10 years	(7,649)
One-off re-profiling gain	**12,912**

5.7 There are a number of known liabilities/cost pressures that Council need to give consideration to and it would be prudent to fund these from the one-off re-profiling gain. Further information is contained within the Revenue Budget Overview Report in the Budget Pack 2020-21.

6. CONCLUSION

6.1 This report introduces a revised policy on loans fund advance repayment profiling following a review of the current loans fund. It is up to each Council to manage appropriately and to determine prudent repayment based on its own individual circumstances.

6.2 The results of applying the recommended revised methodology give rise to a revenue saving in addition to a one-off re-profiling gain in relation to prior year repayments.

6.3 It would be prudent to use the one-off re-profiling gain to make a provision for the estimated rise in principal repayments over the next 10 years and to fund the current known and emerging liabilities/cost pressures as outlined within the Revenue Budget Overview Report.

Kirsty Flanagan
Section 95 Officer
13 February 2020

AUDIT AND SCRUTINY COMMITTEE

LEGAL AND REGULATORY SUPPORT **17 MARCH 2020**

TRAFFIC REGULATION ORDERS/COMMUNITY ENGAGEMENT REVIEW

1.0 EXECUTIVE SUMMARY

1.1 At the February 2018 council budget meeting, it was agreed to progress a number of Traffic Regulation Orders (TROs), including the Argyll and Bute Council (Off-Street Parking Places and Charges) (Isle of Mull) Order 2019 (the Order), to promote changes to parking tariffs and to introduce charging in existing free car parks controlled by Argyll and Bute Council.

1.2 Consequent to that decision, officers in Roads and Infrastructure Services drafted and progressed the Order to the point where council members could determine whether or not it should be made.

1.3 Following the public notification stage, there were a substantial number of objections made in relation to the Order, prior to it being determined by the Oban, Lorn and the Isles Committee (the OLI AC). However, this level of objection can arise to TROs of this nature that go on to deliver benefit for communities.

1.4 The Order came before the OLI AC on 12 June 2019 who determined that it should be made, subject to modifications.

1.5 Subsequently, the Council was advised of a potential legal challenge to the Order under Para 35 Schedule 9 of the Road Traffic Regulation Act 1984 relating to the statutory compliance of the Council's process in the establishment of, and process for, determining the Order.

1.6 Following an examination of the TRO process against the potential challenge, and having validated matters with expert external advice, it became apparent that there were issues in regard to the process that impacted on the decision that was taken by members to make the Order and specifically that the Council had not fully complied with the statutory and regulatory requirements in establishing the TRO.

1.7 On that basis, it was determined that the Order would not proceed and it was revoked by the OLI AC on 11 September 2019.

1.8 As part of that decision, the OLI AC instructed officers to review the Council's current operational TRO process and to consider, amongst other things, whether there was adequate validation and quality assurance of technical inputs in the TRO process; whether future TROs should be on a multiple geographic basis; and how further community engagement will be undertaken prior to any future TRO.

1.9 The scope of the review was to assess the TRO process and the Council's Community Engagement generally as outlined in the Terms of Reference attached as appendix 1 of this report. Roads and Infrastructure are currently working closely with a community group in Tobermory to develop a community led traffic management proposal aimed at delivering solutions to improve the local area, encourage responsible parking and manage traffic generally. The proposals have been developed through joint working between the community and council. Similar arrangements are taking place in Luss where community groups have engaged professional advisors who have been working alongside council officers to develop a traffic management scheme which meets the demands of Luss.

1.10 The number of Temporary Traffic Regulation Orders (TTROs) has risen from 33 in 2016 to 105 in 2018/2019. Ninety five TTROs and Notices have been processed to the end of November 2019, and it is likely that this financial year will see the largest demand to date. It is important to note that the Notices and TTROs are a statutory duty and are often time constrained. This has made it increasingly challenging to process TROs which arise either from Officer identified need (road safety, traffic management etc.) or from Council instruction (e.g. reviews of parking arrangements). It is clear that the processing of TTROs and Notices has become an increasing resource pressure on Roads and Infrastructure Services.

KEY FINDINGS AND RECOMMENDATIONS

It is recommended that the Audit and Scrutiny Committee:

1.11 Agree to the findings and recommendations set out in the report and summarised at appendix 2.

REPORT CONTENTS

AUDIT AND SCRUTINY COMMITTEE

LEGAL AND REGULATORY SUPPORT **17 MARCH 2020**

ARGYLL AND BUTE COUNCIL – TRAFFIC REGULATION ORDER/COMMUNITY ENGAGEMENT REVIEW – REPORT

2. BACKGROUND

2.1 At the February 2018 council budget meeting, it was agreed to progress a number of Traffic Regulation Orders (TROs), including on Mull, to promote changes to parking tariffs and to introduce charging in existing free car parks controlled by Argyll and Bute Council.

2.2 Consequent to that decision, officers in Roads and Amenity drafted and progressed the Order to the point where council members could determine whether or not it should be made.

2.3 The Order came before the OLI AC on 12 June 2019 who determined that the Order should be made subject to modifications.

2.4 In determining to make an Order and setting car parking charges, officers are mindful of the fact that the area committee may alter the charges they intend to set, and that is a matter which can figure into the TRO process at the appropriate time when council members are making the decision. As an example, that is something that the OLI AC had regard to when making the Mull TRO.

2.5 In July 2019, the Council was advised of a potential legal challenge to the Order under Para 35 Schedule 9 of the Road Traffic Regulation Act 1984 in relation to the statutory compliance of the Council's process of the establishment of, and process for, determining the TRO.

2.6 Following an examination of the Council's TRO process against the potential challenge, and having validated matters with expert external advice, it became apparent that there were issues in regard to the process that impacted on the decision that was ultimately taken by members.

2.7 It was determined that the Council, in the TRO process, did not fully comply with the statutory and regulatory requirements in establishing the TRO and, in particular, failed to properly consult with Iona Community Council in accordance with the requirements of the *Local Authorities' Traffic Orders (Procedure) (Scotland) Regulations 1999/614.* On that basis, it was determined that the Council would not proceed with the Order which was revoked by the OLI AC on 11 September 2019.

2.8 As part of that decision, the OLI AC instructed officers to review the Council's

current operational TRO process and to consider, amongst other things, whether there was adequate validation and quality assurance of technical inputs in the TRO process; whether future TROs should be on a multiple geographic basis; and how further community engagement will be undertaken prior to any future TRO.

2.9 The scope of the review was to assess the TRO process and the Council's community engagement generally as outlined in the Terms of Reference at appendix 1 of this report. Roads and Infrastructure are currently working closely with a community group in Tobermory to develop a community led traffic management proposal aimed at delivering solutions to improve the local area, encourage responsible parking and manage traffic generally. The proposals have been developed through joint working between the community and council. Similar arrangements are taking place in Luss where community groups have engaged professional advisors who have been working alongside council officers to develop a traffic management scheme which meets the demands of Luss.

2.10 The number of Temporary Traffic Regulation Orders (TTROs) has risen from 33 in 2016 to 105 in 2018/2018. Ninety five TTROs and Notices were processed to the end of November 2019 and it is likely that this financial year will see the largest demand to date. It is important to note that the Notices and TTROs are a statutory duty and are often time constrained. This has made it increasingly challenging to process TROs which arise either from officer identified need (road safety, traffic management etc.) or from council instruction (e.g. reviews of parking arrangements). It is clear that the processing of TTROs and Notices has become an increasing resource pressure on Roads and Infrastructure Services.

3. KEY FINDINGS AND RECOMMENDATIONS

It is recommended that the Audit and Scrutiny Committee:

3.1 Agree to the findings and recommendations as set out below and as summarised at appendix 2.

4. RELEVANT LEGISLATION IN RELATION TO THE PROVISIONS OF TROs.

ROAD TRAFFIC REGULATION ACT 1984

4.1 Permanent TROs can be made under the Road Traffic Regulation Act 1984 (RTRA84).

4.2 Section 32 of the RTRA84 provides, amongst other things, a power for the local authority to provide off-street parking places for the purpose of relieving or preventing congestion of traffic where it appears to be necessary within their area.

4.3 Section 35 of the RTRA84 provides additional provisions relating to off street car parking which includes, amongst other things, a power enabling the Council to determine the charges to be paid in connection with its use in order to meet the continued cost of the provision of off street parking.

4.4 It was intended that the Argyll and Bute Council (Off-Street Parking Places and Charges) (Isle of Mull) Order 2019 would be made, amongst other powers, under Sections 32, 35 (1) and (3), 35A and 35C of the RTRA84.

4.5 Section 122 of the RTRA84 states that the Council is under a duty to *"exercise the functions conferred on them (by the Act) … to secure the expeditious, convenient and safe movement of vehicular and other traffic (including pedestrians) and the provision of suitable and adequate parking facilities on and off the highway or, in Scotland, the road."*

LOCAL AUTHORITIES TRAFFIC ORDERS (PROCEDURE) (SCOTLAND) REGULATIONS 1999.

4.6 Procedures for making a TRO in Scotland are set out in the Local Authorities' Traffic Orders (Procedure) (Scotland) Regulations 1999 (LATORS). The Regulations set out the procedure for all aspects of making permanent TRO's in Scotland including Part II – the statutory procedure required before making an Order. The relevant sections of Part II for the purposes of this review are set out below.

CONSULTATION

In looking at the consultations required by law and outlined in the Council's process, it's helpful to note that Roads and Infrastructure Services use the following terminology:

Consultation 1: is the term used to describe the consultation stage carried out prior to the statutory LATORS consultation as outlined in paragraph 4.7 below;

Consultation 2: is the term used to describe the statutory consultation required by Regulation 4(1) of LATORS as set out at paragraph 4.8 below;

Public Notification: is the term used to describe the public consultation required by the process whereby the TRO proposal is advertised and objections can be made.

4.7 Prior to the statutory consultation set out at 4.8 below, the Council is required to consult with Police Scotland in terms of paragraph 20 of Schedule 9 of the RTRA84. During this initial consultation, the Council currently also consults with non-statutory external organisations and internal services, for the purpose of identifying any matters that may need to be addressed in the initial development of any TRO proposal. Current consultees for this stage are:

- Police Scotland;
- Scottish Fire & Rescue;
- Scottish Ambulance Service;
- Strathclyde Partnership for Transport
- Local Multi Ward Elected Members;
- Chair of Area Committee for information;
- Public Transport Officer;
- Strategic Transport and Infrastructure Manager; and
- Development Policy and Housing Strategy Manager.

4.8 Following that, the Council will then carry out the statutory consultation (consultation 2), the purpose of which is to identify any matters that may need to be addressed before the proposal goes out to public consultation. Regulation 4(1) of LATORS sets out a variety of bodies that must be consulted when certain circumstances set out in the Regulations are met, specifically:

- Other highway/traffic authorities, e.g. adjacent Local Authorities;
- Crown authorities;
- Road concessionaires;
- Operators of tramcar or trolley vehicle services;
- Operators of bus services;
- Chief officers of NHS trusts;
- Chief officers of fire brigades/authorities;
- The Freight Transport Association (FTA);
- The Road Haulage Association (RHA); and
- *Such other organisations (if any) representing persons likely to be affected by any provision in the order as the authority thinks appropriate.*

4.9 It is a matter for the professional judgement of officers to determine what organisations representing people likely to be affected by a TRO require to be consulted. Consequently, there is a level of subjectivity and discretion in making such a determination.

4.10 Following the consultations, but prior to making any TRO, Regulation 5 of LATORS requires the Council to publish a notice of its proposals in the local area to which the TRO relates. The public notice is also sent to the statutory consultees. At this stage, anyone can make an objection (as set out by Regulation 7 of LATORS) and these are then considered as part of the current operational TRO process.

CONSIDERATIONS OF OBJECTIONS AND MATTER OF WEIGHT TO BE ATTACHED TO THEM.

4.11 Regulation 12 of LATORS requires the Council to consider all objections that are not withdrawn and the matter of weight to be attached to them.

OTHER RELEVANT LEGISLATION FOR THE PURPOSES OF THE REVIEW

FAIRER SCOTLAND DUTY

4.12 The Fairer Scotland Duty (FSD) in terms of Part 1 of the Equality Act 2010 places a legal responsibility on particular public bodies in Scotland to pay due regard to (actively consider) how they can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. The FSD did not come into force until 1 April 2018.

ISLAND IMPACT ASSESSMENT

4.13 S8 of the Islands (Scotland) Act 2018 places a duty on relevant authorities to undertake an impact assessment when developing, redeveloping and delivering a policy, a strategy or a service, if it is anticipated to have a significantly different effect on an island community compared with other communities in Scotland (including other island communities as well as non-island communities).

4.14 The Council's Equality Impact Assessment (EqSEIA) process was last reviewed in 2018 with the intention of ensuring that both the FSD duty and the Islands (Scotland) Act 2018 impact assessments were incorporated.

4.15 The Islands (Scotland) Act 2018 impact assessments were taken into account as far as possible at that time given that the law is not yet in force and the Scottish Government Guidance has not been released. However, the Council's process will require to be reviewed in relation to the Island Communities Impact Assessment to ensure it is fit for purpose when the relevant guidance is published.

5. CONSIDERATION OF THE REVIEW TERMS OF REFERENCE

TERMS OF REFERENCE 1 - REVIEW OF CURRENT OPERATIONAL TRAFFIC REGULATION ORDER PROCESS UTILISED BY COUNCIL – INCLUDING EXAMINATION OF CURRENT PROCESS AGAINST STATUTORY REQUIREMENTS

5.1 The Council's current operational TRO process is set out in the Traffic Regulation Procedural Document (as amended) 2019 (the TRPD).

5.2 A detailed review of the TRPD was carried out as part of the overall review in order to clarify whether it met the statutory requirements of the relevant legislation and specifically the relevant sections of Local Authorities Traffic Orders (Procedure) (Scotland) Regulations 1999/614 detailed above.

5.3 Additionally, a benchmarking exercise was carried out which compared the TRPD to analogous procedure documents from three other councils specifically Highland, Dumfries and Galloway and the Western Isles.

FINDINGS

5.4 The Review Group determined that the Council erred in not consulting with Iona Community Council (ICC). While the current operational TRO process utilised by the Council complies with statutory requirements, the Council should have recognised the relevance of the Mull TRO to the Iona community and therefore ICC as *an organisation representing persons likely to be affected by any provision in the [traffic regulation] order* should have been consulted.

5.5 The benchmarking exercise determined that the Council's current operational TRO processes are broadly similar to those of comparator councils and in line with the statutory requirements. However the following points relating to community consultation and notification were noted:

- Argyll and Bute Council generally consults with a wider range of consultees than the comparator councils at the statutory consultation phase of the process and local community councils are automatically included;
- Not all comparator councils published TROs on Tell Me Scotland (the national website for public notices) unlike Argyll and Bute Council;
- Argyll and Bute Council informs the public on its Traffic Order webpage which not all comparator Councils did;
- The consultee list of one comparator council includes '*relevant* community council(s)'; and
- One comparator Council refers to "feedback and improvement" from consultees and the general public to identify opportunities for improving services.

5.6 On the basis of the review and benchmarking exercise, the Review Group considered that whilst the Council's current operational TRO process meets the relevant statutory requirements, there are revisals that can be made to ensure there is better validation (in particular to ensure that relevant organisations are consulted) and to introduce additional scrutiny and quality checks at the consultation stage of the process. The recommended revisals are set out below.

RECOMMENDATIONS

In looking at the recommendations, it's helpful to note that Roads and Infrastructure Services use the following terminology:

Consultation 1: is the term used to describe the consultation stage carried out prior to the statutory LATORS consultation as outlined in paragraph 4.7 above;

Consultation 2: is the term used to describe the statutory consultation required by Regulation 4(1) of LATORS and as set out at paragraph 4.8 above; and

Public Notification: is the term used to describe the public consultation required by the process whereby the TRO proposal is advertised and objections can be made.

It is recommended that the Council's current operational TRO process is amended on the following basis:

5.7 The list of consultees at Consultation 1 is amended to ensure that the only parties consulted at this stage are Police Scotland (as required by law) and selected internal council consultees specifically:

- Strategic Transport and Infrastructure Manager;
- Development Policy & Housing Strategy Manager;
- Fleet Waste and Infrastructure Manager;
- Operations Manager, Development and Infrastructure;
- Ward Members (which may be extended dependent on extent of TRO); and
- Chair of the relevant Area Committee.

5.8 The statutory consultees required by Regulation 4(1) of LATORS that are currently consulted during Consultation 1 should be moved to Consultation 2 to ensure that all relevant statutory consultees are consulted at the same time during the process, specifically:

- Scottish Fire and Rescue Service; and
- Scottish Ambulance Service.

5.9 Following completion of Consultation 1, officers shall circulate a draft Consultation 2 (statutory consultation) list to the Council's Community Development Officer for consideration. Thereafter, the Community Development Officer should respond with additional groups or organisations that they consider should be consulted with in relation to the TRO. This additional step will assist the Council to ensure that it identifies and engages with any relevant stakeholders and provides additional quality assurance to the process.

5.10 Following completion of the consultee draft list, the Assistant Network & Standards Manager (Traffic & Development) shall carry out a further check to ensure that all relevant consultees are captured. This step will build additional quality assurance into the process and ensure that the Council identifies and engages with any relevant stakeholders.

5.11 In cases where Consultation 1 & 2 are combined, the draft consultee lists will also be sent to the Community Development Officer prior to consultation commencing.

5.12 That consultees for each TRO process shall include *relevant* instead of local community councils, which will include all local community councils served and/or affected by any TRO and contiguous community councils as a minimum.

The methodology by which the Council carry out public notification is satisfactory therefore it is also recommended that:

5.13 No changes are made to the Council's current operational TRO procedures in relation to the Public Notification.

TERMS OF REFERENCE 2 - ENGAGE WITH STAKEHOLDER PARTIES INVOLVED IN THE CHALLENGE TO THE MULL TRO TO ENSURE THEIR VIEWS ARE APPROPRIATELY CAPTURED AND CONSIDERED AND ENGAGE WITH GROUPS IN RELATION TO OTHER RECENT OR CURRENT TRO PROCESS TO OBTAIN THEIR VIEWS

5.14 The Review Group sought consultation with various stakeholder parties in relation to the Mull TRO. While they chose not to participate in the review the Review Group took cognisance of the extensive submissions they made during the consultation process and in their subsequent correspondence.

5.15 The Review Group consulted with previous consultees in relation to other TRO's to seek to obtain their views on what worked well and where there have been issues in relation to the current TRO operational process - 6 responses were received. The comments and suggested responses are detailed at appendix 3. It is intended that any responses will be issued following the report being considered by the Audit and Scrutiny Committee (ASC).

FINDINGS

5.16 The outcome from the consultation process indicated that stakeholder parties wish to be engaged in a meaningful consultation that is fair open and transparent, and where their views are given due consideration and addressed in some form during the consultation process.

RECOMMENDATIONS

It is recommended that:

5.17 The proposed changes to the Council's current operational TRO process set out at Terms of Reference 1, paragraphs 5.7-5.13 be adopted.

5.18 The proposed changes to the Council's current community engagement practices recommended as a result of the benchmarking exercise carried out by the Review Group against national community engagement standards set out at Terms of Reference 6, paragraphs 5.45- 5.47 and

detailed at appendix 4 be adopted.

5.19 With specific reference to the recommendations at paragraph 5.45, the suggested improvements to the TRO consultation letters be approved (see appendix 5 for proposed amendments to Consultation Letter) to facilitate a fair and transparent process;

5.20 The suggested responses to stakeholders who participated in the consultation set out at appendix 3 be approved.

TERMS OF REFERENCE 3 - TAKE INTO CONSIDERATION THE ISSUES RAISED IN THE LEGAL CHALLENGE OF THE MULL TRO PROCESS

5.21 The issues raised in the legal challenge of the Mull TRO process were considered by the Review Group as part of the review.

FINDINGS

5.22 The Review Group determined that the Council erred in not consulting with Iona Community Council (ICC). While the current operational TRO process utilised by the Council complies with statutory requirements, the Council should have recognised the relevance of the Mull TRO to the Iona community and therefore ICC, as *an organisation representing persons likely to be affected by any provision in the [traffic regulation] order*, should have been consulted.

5.23 The Council carried out an Equality and Socio-Economic Impact Assessment (EqSEIA) process for the Mull TRO. The EqSEIA is intended and designed to incorporate both the FSD duty and the Island Communities Impact Assessment under S8 of the Islands (Scotland) Act 2018 as far as it currently can on the basis that the law, as it relates to Island Communities Impact Assessments, is not yet in force and the Scottish Government Guidance has not been released.

5.24 A number of findings and recommendations are proposed in relation to the Council's Equality and Socio-Economic Impact Assessment process and these are set out below at Terms of Reference 8 from paragraphs 5.59-5.68 below.

5.25 The Council is required by LATORS to consider all objections made and not withdrawn. However, it is a matter for the Council to determine the weight to be attached to those, and is not considered that the Council behaved unreasonably when considering objections to the Mull TRO.

5.26 Councils have powers to raise income to support delivery of their services. In relation to TROs, information on which the budget decision on car parking charges made in February 2018 should have stated legal basis and purpose under which the Council was entitled to act.

5.27 Councils have powers to change and vary existing car parking charges. In line with s.35C or s.46A of the RTRA 1984 while the scale of change can reflect changes to council's fees and charges generally, a separate process should be followed for varying car parking charges.

RECOMMENDATIONS

It is recommended that:

5.28 The suggested amendments to the Council's current operational TRO process set out at Terms of Reference 1 paragraphs 5.7-5.13 above be adopted including:

- That consultees for each TRO process shall include *relevant* instead of local community councils, which will include all local community councils served and/or affected by any TRO and contiguous community councils as a minimum.
- That advice is sought from Community Development Officers on possible additional relevant consultees who are affected or who are likely to be affected by a TRO proposal.

5.29 That the recommendations to the Council's approach to Equality Impact Assessments in the future set out at Terms of Reference 8 paragraph 5.62-5.68 be adopted.

5.30 That the Council's operational TRO process be reviewed to ensure that the legal basis and purpose for every TRO is stated at an initial stage and that any decision in relation to making a TRO should be separate from the budget setting process.

5.31 That where there is a proposed variation of charges relating to car parking places which are the subject of an existing TRO, the Council utilises the provisions contained within S35C and/or S46Aof the RTRA84 which enable the charges to be raised via notification to the public.

TERMS OF REFERENCE 4 - CONSIDER WHETHER FUTURE TRO's SHOULD BE SOUGHT ON A MULTIPLE OR GEOGRAPHICAL BASIS

5.32 The Review Group considered whether future TROs should be sought on a multiple or geographical basis.

FINDINGS

5.33 The Review Group determined that the current process is already flexible in terms of its approach to the geographical element of TROs and that a "one size fits all" approach where multiple TROs in a common geographical area are grouped together in the process or order is not always appropriate.

5.34 It is a matter for the professional judgement of officers to weigh the various considerations required in order to determine whether a TRO should contain more than one order, or cover multiple TROs in a geographical area.

RECOMMENDATIONS

It is recommended that:

5.35 The Council's current operational TRO process should actively require

officers to consider and justify how TRO's should be sought on a case by case basis. The inclusion of the Community Development Officer to ensure appropriate community stakeholders are engaged and subsequent approval by the Assistant Network and Standards Manager (Traffic & Development) will introduce a quality check to ensure that cognisance of community views will be included when the Council is considering whether TROs should be on a multiple or geographical basis. Officers may also chose to split a proposal into multiple TROs to ensure that a single issue likely to generate objections doesn't unreasonably impact the whole proposal.

TERMS OF REFERENCE 5 – CONSIDER HOW BEST TO ENSURE THERE IS ADEQUATE VALIDATION AND QUALITY ASSURANCE OF THE VARIOUS TECHNICAL INPUTS REQUIRED IN THE PROCESS AND THAT DECISIONS ARE TAKEN BY THE MOST APPROPRIATE COMMITTEE

5.36 A review of the Council's current operational process was carried out as set out at Terms of Reference 1 above which included a review against the statutory requirements and a benchmarking exercise with the process of other local authorities.

5.37 The Review Group considered which committee would be most appropriate to make decisions in relation to making a TRO.

FINDINGS

5.38 While the Council's current operational TRO process met the statutory requirements there are revisals that could be made to ensure there is better validation and quality assurance and in particular to ensure that all relevant stakeholders are consulted.

5.39 As part of developing best practice in TROs, the Review Group considered that the Planning Protective Services and Licensing Committee may be the most appropriate forum to make decisions on TROs, with reports going to the relevant Area Committee for information. Having all TROs considered by the same committee would better facilitate the sharing of good practice in TROs across different areas of Argyll and Bute and develop member knowledge and expertise in relation to TROs.

RECOMMENDATIONS

It is recommended that:

5.40 The proposed revisals to the Council's current operational TRO process set out at Terms of Reference 1 paragraphs 5.7-5.13 are adopted to ensure there is better validation and quality assurance including:

- That advice is sought from Community Development Officers on possible additional relevant consultees who are affected or who are likely to be affected by a TRO proposal.
- Following completion of the draft consultee list the Assistant Network &

Standards Manager (Traffic & Development) shall carry out a further check to ensure that all relevant consultees are captured. This step will build additional quality assurance into the process and ensure that the Council identifies and engages with any relevant stakeholders. When an organisation or other group is included within Consultation 2, justification will be provided explaining their inclusion.

5.41 As part of developing best practice in TROs, it is suggested that a similar approach be taken to the decision making process for planning applications and that consideration be given to utilising the Planning Protective Services and Licensing Committee to make decisions on TROs, with reports going to the relevant Area Committee for information. Having all TROs considered by the same Committee would better facilitate the sharing of good practice in relation to TROs across different areas of Argyll and Bute. It would also ensure a consistent approach to resolving TRO matters across Argyll and Bute. Any changes to the current governance arrangements would require a change to the Council's constitution.

TERMS OF REFERENCE 6 – CONSIDER WHAT IMPROVEMENTS CAN BE MADE TO COMMUNITY ENGAGEMENT SO THAT THE COUNCIL WORKS JOINTLY WITH COMMUNITIES WHEN IT IDENTIFIES THE NEED TO REGULATE TRAFFIC IN A LOCALITY AND ON THE INTRODUCTION OF ANY PROVISIONS INCLUDING CHARGING.

5.42 Stakeholder parties who have been previous consultees in relation to TRO's were asked to share their views on the Council's current TRO process and their comments and proposed Council responses are set out at appendix 3 below. The findings and recommendations are set out at Terms of Reference 2 above at paragraphs 5.16-5.20.

5.43 The National Standards for Community Engagement outline 7 good practice principles in planning and delivering community engagement. The Review Group benchmarked the Council's current operational TRO process against the standards and considered improvements that could be made under each of the principles. The recommended improvements are set out below and against the relevant standard at appendix 4.

FINDINGS

5.44 Whilst the Council's current operational TRO process generally met the National Standards for Community Engagement, there are improvements that could be made to enhance their delivery and to further encourage more inclusive and beneficial community engagement. These are set out below and at appendix 4.

RECOMMENDATIONS

The following recommendations have been arrived at with significant input from Community Development and will have wider application.

With specific reference to consultee feedback set out at appendix 3 and the National Standards for Community Engagement it is recommended that:

5.45 The proposed improvements to the Council's current operational TRO process against the National Standards for community engagement set out at appendix 4 be adopted including:

- Community Development Officers to be included in the process of validating consultees to ensure that all relevant stakeholders are included and to facilitate a fair and transparent process;
- Improvements to be made to consultation letter to encourage more participation (as detailed at appendix 5)
- Roads and Infrastructure Services in consultation with Community Development will meet with community groups as appropriate;
- With reference to the consultee feedback, improve letters and early engagement (including non-statutory engagement where appropriate) to facilitate a fair and transparent process;
- More informative/less technical language should be used during TRO consultations; and
- Carry out a plain English check on consultation letters;

5.46 The Council's guidance on consulting, which is available on the Council's intranet, is based on the National Standards for Community Engagement. These should also be included in the Council's Community Engagement Strategy which is currently being developed. This should be made available on the Council's intranet, so that officers can refer to the standards and use them as a guide when planning any community engagement activities and not solely those related to the TRO process. This in turn facilitates more meaningful community engagement and consultation that is fair, open and transparent.

5.47 That a Guide for Consultation on Traffic Regulation Orders (TROs) for Community Organisations be produced as set out at appendix 7 below and be made available for the public on the Council's webpages.

TERMS OF REFERENCE 7 - REVIEW THE APPROACH TO THE IDENTIFICATION OF APPROPRIATE STAKEHOLDER GROUPS TO ENSURE ALL COMMUNITIES ARE ENGAGED

FINDINGS

5.48 The Review Group carried out a detailed review and benchmarking exercise in relation to its current operational TRO process and it is considered that whilst the process meets statutory requirements, there are revisals that can be made to ensure there is better validation in particular with regard to identification of appropriate stakeholder groups.

5.49 The Review Group benchmarked the TRO process against the National Standards for Community Engagement and considered improvements that could be made under each of the principles.

RECOMMENDATIONS

It is recommended that:

5.50 The improvements to the Council's current operational TRO process set out at Terms of Reference 1, paragraphs 5.7-5.13 be adopted and in particular that:

- Prior to the statutory consultation, advice is sought from Community Development Officers on possible additional relevant consultees who are affected or who are likely to be affected by a TRO proposal.
- Following completion of the draft consultee list the Assistant Network & Standards Manager (Traffic & Development) shall carry out a further check to ensure that all relevant consultees are captured. This step will build additional quality assurance into the process and ensure that the Council identifies and engages with any relevant stakeholders. When an organisation or other group is included within Consultation 2, justification will be provided explaining their inclusion.

5.51 The recommended improvements to the Council's current community engagement practice set out at Terms of Reference, 6 paragraphs 5.45-5.47 above and appendix 4 be adopted.

TERMS OF REFERENCE 8 – CONSIDER COUNCIL'S APPROACH TO IMPACT ASSESSMENTS FOR FUTURE TROs (including review of the EQSEIA template and approach)

5.52 The purpose of an Equality Impact Assessment (EqSEIA) is intended to ensure compliance with the law taking account equality, human rights and socioeconomic disadvantage implications when making decisions in relation to policy matters. For specific proposals already covered by policy (such as an individual TRO) an EqSEIA is not normally necessary.

5.53 The EqSEIA process is designed to assist the Council on delivering its obligations in relation to equality issues and in particular:

- To assist officers, when designing a new proposal, to consider all equalities implications, including socio-economic inequalities;
- To assist officers to demonstrate that they have considered all equalities implications, including socio-economic inequalities;
- To demonstrate to the community that socio-economic inequality issues have been considered, and how this has been done;
- To enable better/more informed consultation around proposals while they are still in development; and
- To enable greater scrutiny around decision-making as issues relating to equalities and socio-economic inequalities are made more transparent.

5.54 The Council's EqSEIA process was last reviewed in 2018 with the intention of ensuring that the FSD duty and the Islands (Scotland) Act 2018 (set out at paragraphs 4.12 – 4.15 above) were taken into account when impact assessments are carried out.

5.55 The Islands (Scotland) Act 2018 impact assessments were taken into account as far as they could at that time on the basis that the law is not yet in force and the Scottish Government Guidance has not yet been released. The Council's EqSEIA process will require to be reviewed in relation to the Island Communities Impact Assessment to ensure it is fit for purpose when the Scottish Government Guidance is published.

5.56 Whether an EqSEIA is appropriate will be a matter for the professional judgement of officers who will take into account, amongst other things, the impact and strategic importance of the TRO, resources and the overall nature of the policy decision, thus ensuring that proportionality is taken into account in each individual case.

5.57 A further review of the Council's EqSEIA and corresponding guidance was carried out by the Review Group to determine whether the Council's approach to impact assessments delivers on the intended outcomes.

5.58 Additionally, as part of the review of the EqSEIA process the Review Group carried out a desktop exercise to benchmark the Council's process against twelve other local authorities.

FINDINGS

5.59 It would be helpful to have clearer guidance to assist officers have a better understanding of the EqSEIA process in terms of when they should be completed and when they are unnecessary.

5.60 Most other comparator councils have an EqSEIA process which predates the FSD requirement, unlike Argyll and Bute Council.

5.61 While the Council's current EqSEIA process generally delivers on its intended outcomes, there are revisals that can be made to improve clarity and provide a greater understanding of when the process is required, and additional information in relation to consultation.

RECOMMENDATIONS

It is recommended that:

5.62 That the Council will carry out an EqSEIA assessment in relation to TRO's when required which will be determined by the professional judgement of officers.

5.63 The proposed revisals set out at appendix 6 to the current EqSEIA guidance to improve clarity and provide a greater understanding of when the process is required and in relation to consultation be adopted.

5.64 That adequate training be provided by Customer Support Services to relevant staff in how to complete and EqSEIA.

5.65 That a Q and A resource be provided by Customer Support Services setting out further support in relation to the completing EqSEIAs.

5.66 That a statement about the purpose of an EqSEIA and circumstances under which they may or may not be undertaken be placed on the website for reference by the public and be incorporated as part of officer training.

5.67 That consideration be given to the provision a LEON online learning module course on how to complete EqSEIA.

5.68 That the Council's current EqSEIA guidance and template be reviewed following the publication of the Scottish Government Island Communities Impact Assessment Guidance.

TERMS OF REFERENCE 9 – ANY OTHER RELEVANT MATTERS

Misuse of Community Participation Request and Minutes

5.69 The Review Group reviewed the concerns raised by stakeholder parties on Mull and specifically in relation to:

- The Council misusing the Community Participation Request (CPR) as an attempt to demonstrate that there had been community consultation and support for the parking charges on Mull; and
- The Council failing to accurately record their views at the CPR meeting in February 2018 and in relation to community engagement generally.

5.70 The Review Group considered whether there was a requirement for formal minuting of such meetings, or whether the current practice of recording meetings with stakeholder parties could be improved.

FINDINGS

5.71 The Review Group was unable to find evidence that the CPR process, which sought to *establish more coherent and coordinated traffic (including pedestrian traffic) management* on Mull, was misused, and were satisfied that officers acted in good faith in relation to proposals put forward as a result of the CPR including the promotion of a TRO to introduce all year charging for car parks on Mull. While the CPR and its outcomes were considered as part of the overall TRO, it was not the primary reason for the Order and should be viewed within the context of the wider statutory consultation that took place in respect of the TRO.

5.72 The Review Group was satisfied that the document produced by Roads and Infrastructure Services in relation to the 2018 CPR meeting represented an accurate reflection of their understanding of the discussions which took place and was not intended to be a verbatim record of the meeting or a minute.

5.73 However, the Review Group recognised that while formal minutes of community engagement may not always be appropriate, a record of any external meetings with stakeholder parties should be kept in a permanent form and it would be helpful to standardise the manner in which such meetings are recorded. This should be carried out timeously and circulated to all invitees of any specific meeting for their information.

5.74 It would be helpful to have clearer guidance about how the CPR process is utilised in any future consultation on TRO's and consideration should be given to whether the CPR process should be utilised in considering any future TRO's.

RECOMMENDATIONS

It is recommended that:

5.75 The Head of Legal and Regulatory Services reviews how meetings are currently recorded and considers:

- Whether there is scope to improve how such meetings are recorded;
- Whether guidance should be issued to relevant officers in relation to the permanent recording of such meetings when carrying out community engagement with stakeholder parties; and
- How the CPR process should be utilised in considering any future TRO's and any other community engagement activity.

Information Pack from Community Councils

5.76 The Review Group Considered Mull and Iona Community Council's Information Pack which was submitted to the OLI committee when the Order came before them on 12 June 2019 and which asked the Council to:

- Acknowledge that the mistakes in relation to the TRO were not merely technical or procedural but systemic;
- Ensure that corporate and systemic failings would be addressed;
- Guarantee that no future TRO would be considered for Mull and/or Iona without formative, comprehensive engagement with the communities and without thorough assessment of the impacts;
- Ensure that consultation and impact assessment would take place prior to deciding whether to proceed with a TRO;
- Demonstrate its stated commitment to the islands in light of its refusal to undertake Island Impact Assessments throughout the TRO process; and
- Recognise that Car Parks are integral components of island lifeline ferry services and on that basis they should on principle be free.

FINDINGS

5.77 The Review Group was satisfied that there was no systemic or corporate failure in relation to the Mull TRO. However, the Council erred in not recognising the relevance of the TRO to the Iona community and that ICC as *an organisation representing persons likely to be affected by any provision in the [traffic regulation] order*, should have been consulted.

5.78 Whilst the Council's current operational TRO process in relation generally met the National Standards for Community Engagement, there are improvements that could be made to enhance the delivery of the national standards and to further encourage a more inclusive and beneficial community engagement and these are set out at Terms of Reference 6 at 5.45 -5.47 and at appendix 4.

5.79 While the Council's current EqSEIA process (which is designed and intended to incorporate Island Impact Assessments) generally delivers on its intended outcomes, there are revisals that can be made to improve clarity and provide a greater understanding of when the process is required, and additional information in relation to consultation and these are set out at Terms of Reference 8, 5.62-5.68.

5.80 The Review Group considered that whilst the current operation TRO process meets the relevant statutory requirements, there are revisals that can be made to the process to ensure there is better validation in particular to ensure that the relevant stakeholders are consulted and to introduce additional scrutiny and a quality check on the consultation stage of the process and these are set out at Terms of Reference 1 at 5.7-5.13.

5.81 The Review Group recognised that while car parks are integral components of island lifeline ferry services, whether charges should be imposed should be considered on a case by case basis.

RECOMMENDATIONS

It is recommended that:

5.82 The recommended improvements to the Council's current community engagement practice set out at Terms of Reference 6, paragraphs 5.45-5.47 above and appendix 4 be adopted.

5.83 The recommended improvements to the Council's current operational TRO process set out at Terms of Reference 1, paragraphs 5.7-5.13 be adopted.

5.84 The recommended improvements to the Council's current EqSEIA process set out at Terms of Reference 8, 5.62-5.68 be adopted.

6.0 KEY FINDINGS AND RECOMMENDATIONS

It is recommended that the Audit and Scrutiny Committee:

6.1 Agree to the findings and recommendations set put above and as summarised at appendix 2.

7.0 IMPLICATIONS

7.1 Policy – Potential policy considerations in proposing TRO's and changes in process
7.2 Financial – None
7.3 Legal – Recommendations in line with relevant legislation
7.4 HR - None
7.5 Fairer Scotland Duty: Recommendations in line with statutory requirements
7.5.1 Equalities - protected characteristics – Recommendations in line with statutory requirements
7.5.2 Socio-economic Duty: Recommendations in line with statutory requirements

7.5.3 Islands – Recommendations in line with statutory requirements
7.6. Risk – Risk to the Council continuing to utilise current TRO process
7.7 Customer Service – None

Executive Director with responsibility for Legal and Regulatory Support:
Douglas Hendry

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APPENDICES

Appendix 1 –	Terms of Reference
Appendix 2 -	Summary of Key Findings and Recommendations
Appendix 3 -	Consultation Comments and Responses
Appendix 4 -	Community Engagement Benchmarking against national standards.
Appendix 5 -	Proposed Amendments to Statutory Consultation Letter
Appendix 6 -	Proposed revisals to EqSEIA Guidance
Appendix 7 -	A Community Guide for Consultation on TROs

APPENDIX 1 – TERMS OF REFERENCE

1. Undertake a comprehensive review of the current operational TRO process utilised by the Council. The review will examine the current process against the statutory requirements
2. Engage with stakeholder parties involved in the challenge to the Mull TRO to ensure their views are appropriately captured and considered in responding to the terms of reference of this review. Stakeholder groups in relation to other recent or current TRO processes should also be engaged to contribute their views on what works well and where there have been issues.
3. Take into consideration the issues raised in the legal challenge of the Mull TRO process
4. Consider whether future TRO's should be sought on a multiple or geographical basis
5. Consider how best to ensure that there is adequate validation and quality assurance of the various technical inputs required in the process and that decisions are taken by the most appropriate council committee.
6. Consider what improvements can be made to community engagement so that we work jointly with communities when we identify the need to regulate traffic in a locality and on the introduction of any provisions including charging. The presumption will be on early engagement, utilising local knowledge prior to any formal steps being initiated and wherever possible will involve local stakeholders in the formulation of any proposals that come forward.
7. Review the approach to the identification of appropriate stakeholder groups to ensure all communities are engaged (noting the island to island impact arising from the Mull TRO)
8. Consider the councils approach to impact assessments for future TROs – noting relevant legislation and guidance around equalities, fairer Scotland duties and as appropriate Island impact assessment. This will include a full review of the EQSEIA template and approach to ensure there is an appropriate and proportionate consideration impacts from proposals – the findings will have wider applicability beyond those of TROs.
9. Consider any other matter the team or board consider relevant and appropriate
10. Produce a report for consideration ultimately by SMT and the Audit and Scrutiny Committee

APPENDIX 2 – SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

TERMS OF REFERENCE 1:

FINDINGS

1.1 The Review Group determined that the Council erred in not consulting with Iona Community Council (ICC). While the current operational TRO process utilised by the Council complies with statutory requirements, the Council should have recognised the relevance of the Mull TRO to the Iona community and therefore ICC as *an organisation representing persons likely to be affected by any provision in the [traffic regulation] order* should have been consulted.

1.2 The benchmarking exercise determined that the Council's current operational TRO processes are broadly similar to those of comparator councils and in line with the statutory requirements. However the following points relating to community consultation and notification were noted:

- Argyll and Bute Council generally consults with a wider range of consultees than the comparator councils at the statutory consultation phase of the process and local community councils are automatically included;
- Not all comparator councils published TROs on Tell Me Scotland (the national website for public notices) unlike Argyll and Bute Council;
- Argyll and Bute Council informs the public on its Traffic Order webpage which not all comparator Councils did;
- The consultee list of one comparator council includes '*relevant* community council(s)'; and
- One comparator Council refers to "feedback and improvement" from consultees and the general public to identify opportunities for improving services.

1.3 On the basis of the review and benchmarking exercise, the Review Group considered that whilst the Councils current operational TRO process meets the relevant statutory requirements, there are revisals that can be made to ensure there is better validation and in particular to ensure that relevant organisations are consulted, and to introduce additional scrutiny and quality checks at the consultation stage of the process. The recommended revisals are set out below.

RECOMMENDATIONS

In looking at the recommendations, it's helpful to note that Roads and Infrastructure Services use the following terminology:

Consultation 1: is the term used to describe the consultation stage carried out prior to the statutory LATORS consultation as outlined in paragraph 4.7 above;

Consultation 2: is the term used to describe the statutory consultation required by Regulation 4(1) of LATORS and as set out at paragraph 4.8;;

Public Notification: is the term used to describe the public consultation required by the process whereby the TRO proposal is advertised and objections can be made.

It is recommended that the Council's current operational TRO process is amended on the following basis:

1.4 The list of consultees at Consultation 1 is amended to ensure that the only parties consulted at this stage are Police Scotland (as required by law) and selected internal council consultees specifically:

- Strategic Transport and Infrastructure Manager;
- Development Policy & Housing Strategy Manager;
- Fleet Waste and Infrastructure Manager;
- Operations Manager, Development and Infrastructure;
- Ward Members (which may be extended dependent on extent of TRO); and
- Chair of the relevant Area Committee.

1.5 The statutory consultees required by Regulation 4(1) of LATORS that are currently consulted during Consultation 1 should be moved to Consultation 2 to ensure that all relevant consultees are consulted at the same time during the process, specifically:

- Scottish Fire and Rescue Service; and
- Scottish Ambulance Service.

1.6 Following completion of Consultation 1, officers shall circulate a draft Consultation 2 (statutory consultation) list to the Council's Community Development Officer for consideration. Thereafter, the Community Development Officer should respond with additional groups or organisations that they consider should be consulted with in relation to the TRO. This additional step will assist the Council to ensure that it identifies and engages with any relevant stakeholders and provides additional quality assurance to the process.

1.7 Following completion of the consultee draft list, the Assistant Network & Standards Manager (Traffic & Development) shall carry out a further check to ensure that all relevant consultees are captured. This step will build additional quality assurance into the process and ensure that the Council identifies and engages with any relevant stakeholders.

1.8 In cases where Consultation 1 & 2 are combined, the draft consultee lists will also be sent to the Community Development Officer prior to consultation commencing.

1.9 That consultees for each TRO process shall include *relevant* instead of local community councils which will include all local community councils served and/or affected by any TRO, and contiguous community councils, be consulted as a minimum.

The methodology by which the Council carry out public notification is satisfactory therefore it is also recommended that:

1.10 No changes are made to the Council's current operational TRO procedures in relation to the Public Notification.

TERMS OF REFERENCE 2:

FINDINGS:

2.1 The outcome from the consultation process indicated that stakeholder parties wish to be engaged in a meaningful consultation that is fair open and transparent, and where their views are given due consideration and addressed in some form during the consultation process.

RECOMMENDATIONS

It is recommended that:

2.2 The proposed changes to the Council's current operational TRO process set out at Terms of Reference 1, paragraphs 5.7-5.13 be adopted.

2.3 The proposed changes to the Council's current community engagement practices recommended as a result of the benchmarking exercise carried out by the Review Group against national community engagement standards set out at Terms of Reference 6, paragraphs 5.45- 5.47 and detailed at appendix 4 be adopted.

2.4 With specific reference to the recommendations at paragraph 5.45, the suggested improvements to the TRO consultation letters be approved (see appendix 5 for proposed amendments to Consultation Letter) to facilitate a fair and transparent process;

2.5 The suggested responses to stakeholders who participated in the consultation set out at appendix 3 be approved.

TERMS OF REFERENCE 3:

FINDINGS:

3.1 The Review Group determined that the Council erred in not consulting with Iona Community Council (ICC). While the current operational TRO process utilised by the Council complies with statutory requirements, the Council should have recognised the relevance of the Mull TRO to the Iona community and therefore ICC, as *an organisation representing persons likely to be affected by any provision in the [traffic regulation] order*, should have been consulted.

3.2 The Council carried out an Equality and Socio Economic Impact Assessment (EqSEIA) process for the Mull TRO. The EqSEIA is intended and designed to incorporate both the FSD duty and the Island Communities Impact Assessment under S8 of the Islands (Scotland) Act 2018 as far as it currently can on the basis that the law, as it relates to Island Communities Impact Assessments, is not yet in force and the Scottish Government Guidance has not been released.

3.3 A number of findings and recommendations in relation to the Council's Equality and Socio Economic Impact Assessment process and these are set out below at Terms of Reference 8 from paragraphs 5.59-5.68 above.

3.4 The Council is required by LATORS to consider all objections made and not withdrawn. However, it is a matter for the Council to determine the weight to be attached to those and is not considered that the Council behaved unreasonably when considering to objections to the Mull TRO.

3.5 Councils have powers to raise income to support delivery of their services. In relation to TROs, information on which the budget decision on car parking charges was made in February 2018, should have stated legal basis and purpose under which the Council was entitled to act.

3.6 Councils have powers to change and vary existing car parking charges. In line with s.35C or s.46A of the RTRA 1984 while the scale of change can reflect changes to council's fees and charges generally, a separate process should be followed for varying car parking charges.

RECOMMENDATIONS

It is recommended that:

3.7 The suggested amendments to the Council's current operational TRO process set out at Terms of Reference 1 paragraphs 5.7-5.13 above be adopted including:

- That consultees for each TRO process shall include *relevant* instead of local community councils, which will include all local community councils served and/or affected by any TRO and contiguous community councils as a minimum.
- That advice is sought from Community Development Officers on possible additional relevant consultees who are affected or who are likely to be affected by a TRO proposal.

3.8 That the recommendations to the Council's approach to Equality Impact Assessments in the future set out at Terms of Reference 8 paragraph 5.62-5.68 be adopted.

3.9 That the Council's operational TRO process be reviewed to ensure that the legal basis and purpose for every TRO is stated at an initial stage and that any decision in relation to making a TRO should be separate from the budget setting process.

3.10 That where there is a proposed variation of charges relating to car parking places which are the subject of an existing TRO, the Council utilises the provisions contained within S35C and/or S46Aof the RTRA84 which enable the charges to be raised via notification to the public.

TERMS OF REFERENCE 4:

FINDINGS

4.1 The Review Group determined that the current process is already flexible in terms of its approach to the geographical element of TROs and that a “one size fits all” approach where multiple TROs in a common geographical area are grouped together in the process or Order is not always appropriate.

4.2 It is a matter for the professional judgement of officers to weigh the various considerations required in order to determine whether an Order for a TRO should contain more than one Order, or cover multiple TROs in a geographical area.

RECOMMENDATIONS

It is recommended that:

4.3 The Council’s current operational TRO process should actively require officers to consider and justify how TRO’s should be sought on a case by case basis. The inclusion of the Community Development Officer to ensure appropriate community stakeholders are engaged and subsequent approval by the Assistant Network and Standards Manager (Traffic & Development) will introduce a quality check to ensure that cognisance of community views will be included when the Council is considering whether TROs should be on a multiple or geographical basis. Officers may also chose to split a proposal into multiple TROs to ensure that a single issue likely to generate objections doesn’t unreasonably impact the whole proposal.

TERMS OF REFERENCE 5

FINDINGS

5.1 While the Council’s current operational TRO process met the statutory requirements there are revisals that could be made to ensure there is better validation and quality assurance and in particular to ensure that all relevant stakeholders are consulted.

5.2 As part of developing best practice in TROs, the Review Group considered that the Planning Protective Services and Licensing Committee may be the most appropriate forum to make decisions on TROs, with reports going to the relevant Area Committee for information. Having all TROs considered by the same Committee would better facilitate the sharing of good practice in TROs across different areas of Argyll and Bute and develop member knowledge and expertise in relation to TROs.

RECOMMENDATIONS

It is recommended that:

5.3 The proposed revisals to the Council's current operational TRO process set out at Terms of Reference 1 paragraphs 5.7-5.13 are adopted to ensure there is better validation and quality assurance including:

- That advice is sought from Community Development Officers on possible additional relevant consultees who are affected or who are likely to be affected by a TRO proposal.
- Following completion of the draft consultee list the Assistant Network & Standards Manager (Traffic & Development) shall carry out a further check to ensure that all relevant consultees are captured. This step will build additional quality assurance into the process and ensure that the Council identifies and engages with any relevant stakeholders. When an organisation or other group is included within Consultation 2, justification will be provided explaining their inclusion.

5.4 As part of developing best practice in TROs, it is suggested that a similar approach be taken to the decision making process for planning applications and that consideration be given to utilising the Planning Protective Services and Licensing Committee to make decisions on TROs, with reports going to the relevant Area Committee for information. Having all TROs considered by the same Committee would better facilitate the sharing of good practice in relation to TROs across different areas of Argyll and Bute. It would also ensure a consistent approach to resolving TRO matters across Argyll and Bute. Any changes to the current governance arrangements would require a change to the Council's constitution.

TERMS OF REFERENCE 6:

FINDINGS

6.1 Whilst the Council's current operational TRO process generally met the National Standards for Community Engagement, there are improvements that could be made to enhance their delivery and to further encourage more inclusive and beneficial community engagement. These are set out below, and at appendix 4.

RECOMMENDATIONS

The following recommendations have been arrived at with significant input from Community Development and will have wider application.

With specific reference to consultee feedback set out at appendix 3 and the National Standards for Community Engagement it is recommended that:

6.2 The proposed improvements to the Council's current operational TRO process against the National Standards for community engagement set out at appendix 4 be adopted including:

- Community Development Officers to be included in the process of validating consultees to ensure that all relevant stakeholders are included and to facilitate a fair and transparent process;
- Improvements to be made to consultation letter to encourage more participation (as detailed at appendix 5)
- Roads and Infrastructure Services in consultation with Community Development will meet with community groups as appropriate;
- With reference to the consultee feedback, improve letters and early engagement (including non-statutory engagement where appropriate) to facilitate a fair and transparent process;
- More informative/less technical language should be used during TRO consultations; and
- Carry out a plain English check on consultation letters;

6.3 The Council's guidance on consulting, which is available on the Council's intranet, is based on the National Standards for Community Engagement. These should also be included in the Council's Community Engagement Strategy which is currently being developed. This should be made available on the Council's intranet, so that officers can refer to the standards and use them as a guide when planning any community engagement activities and not solely those related to the TRO process. This in turn facilitates more meaningful community engagement and consultation that is fair, open and transparent.

6.4 That a Guide for Consultation on Traffic Regulation Orders (TROs) for Community Organisations be produced as set out at appendix 7 below and be made available for the public on the Council's webpages.

TERMS OF REFERENCE 7:

FINDINGS

7.1 The Review Group carried out a detailed review and benchmarking exercise in relation to its current operational TRO process and it is considered that whilst the process meets statutory requirements, there are revisals that can be made to ensure there is better validation in particular with regard to identification of appropriate stakeholder groups.

7.2 The Review Group benchmarked the TRO process against the National Standards for Community Engagement and considered improvements that could be made under each of the principles.

RECOMMENDATIONS

It is recommended that:

7.3 The improvements to the Council's current operational TRO process set out at Terms of Reference 1, paragraphs 5.7-5.13 be adopted and in particular that:

- Prior to the statutory consultation, advice is sought from Community

Development Officers on possible additional relevant consultees who are affected or who are likely to be affected by a TRO proposal.

- Following completion of the draft consultee list the Assistant Network & Standards Manager (Traffic & Development) shall carry out a further check to ensure that all relevant consultees are captured. This step will build additional quality assurance into the process and ensure that the Council identifies and engages with any relevant stakeholders. When an organisation or other group is included within Consultation 2, justification will be provided explaining their inclusion.

7.4 The recommended improvements to the Council's current community engagement practice set out at Terms of Reference, 6 paragraphs 5.45-5.47 and appendix 4 be adopted.

TERMS OF REFERENCE 8

FINDINGS

8.1 It would be helpful to have clearer guidance to assist officers have a better understanding on the EqSEIA process in terms of when they should be completed and when they are unnecessary.

8.2 Most other comparator councils have an EqSEIA process which predates the FSD requirement, unlike Argyll and Bute Council.

8.3 While the Council's current EqSEIA process generally delivers on its intended outcomes, there are revisals that can be made to improve clarity and provide a greater understanding of when the process is required, and additional information in relation to consultation.

RECOMMENDATIONS

It is recommended that:

8.4 That the Council will carry out an EqSEIA assessment in relation to TRO's when required which will be determined by the professional judgement of officers.

8.5 The proposed revisals set out at appendix 6 to the current EqSEIA guidance to improve clarity and provide a greater understanding of when the process is required and in relation to consultation be adopted.

8.6 That adequate training be provided by Customer Support Services to relevant staff in how to complete and EqSEIA.

8.7 That a Q and A resource be provided by Customer Support Services setting out further support in relation to the completing EqSEIAs.

8.8 That a statement about the purpose of an EqSEIA and circumstances under which they may or may not be undertaken be placed on the website for reference by the public and be incorporated as part of officer

training.

8.9 That consideration be given to the provision a LEON online learning module course on how to complete EqSEIA.

8.10 That the Council's current EqSEIA guidance and template be reviewed following the publication of the Scottish Government Island Impact Assessment Guidance.

TERMS OF REFERENCE 9 – ANY OTHER RELEVANT MATTERS

Misuse of Community Participation Request and Minutes

FINDINGS

9.1 The Review Group was unable to find evidence that the CPR process, which sought to *establish more coherent and coordinated traffic (including pedestrian traffic) management* on Mull, was misused, and were satisfied that Officers acted in good faith in relation to proposals put forward as a result of the CPR including the promotion of a TRO to introduce all year charging for car parks on Mull. While the CPR and its outcomes were considered as part of the overall TRO, it was not the primary reason for the Order and should be viewed within the context of the wider statutory consultation that took place in respect of the TRO.

9 .2 The Review Group was satisfied that the document produced by Roads and Infrastructure Services in relation to the 2018 CPR meeting represented an accurate reflection of their understanding of the discussions which took place and was not intended to be a verbatim record of the meeting, or a minute.

9.3 However, the Review Group recognised that while formal minutes of community engagement may not always be appropriate, a record of any external meetings with stakeholder parties should be kept in a permanent form and it would be helpful to standardise the manner in which such meetings are recorded. This should be carried out timeously and circulated to all invitees of any specific meeting for their information.

9.4 It would be helpful to have clearer guidance about how the CPR process is utilised in any future consultation on TRO's and consideration should be given to whether the CPR process should be utilised in considering any future TRO'S.

RECOMMENDATIONS

It is recommended that:

9.5 The Head of Legal and Regulatory Services reviews how meetings are currently recorded and considers:

- Whether there is scope to improve how such meetings are recorded;
- Whether guidance should be issued to relevant officers in relation to the permanent recording of such meetings when carrying out community engagement with stakeholder parties; and
- How the CPR process should be utilised in considering any future TRO's

and any other community engagement activity.

Information Pack from Community Council's

FINDINGS

9.6 The Review Group was satisfied that there was no systemic or corporate failure in relation to the Mull TRO. However, the Council erred in not recognising the relevance of the TRO to the Iona community and that ICC should as *an organisation representing persons likely to be affected by any provision in the [traffic regulation] order*, should have been consulted.

9.7 Whilst the Council's current operational TRO process in relation generally met the National Standards for Community Engagement, there are improvements that could be made to enhance the delivery of the national standards and to further encourage a more inclusive and beneficial community engagement and these are set out at Terms of Reference 6 at 5.45 -5.47 and at appendix 4.

9.8 While the Council's current EqSEIA process (which is designed and intended to incorporate Island Impact Assessments) generally delivers on its intended outcomes, there are revisals that can be made to improve clarity and provide a greater understanding of when the process is required, and additional information in relation to consultation and these are set out at Terms of Reference 8 5.62-5.68.

9.9 The Review Group considered that whilst the current operation TRO process meets the relevant statutory requirements, there are revisals that can be made to the process to ensure there is better validation in particular to ensure that the relevant stakeholders are consulted and to introduce additional scrutiny and a quality check on the consultation stage of the process and these are set out at Terms of Reference 1 at 5.7-5.13.

9.10 The Review Group recognised that while car parks are integral components of island lifeline ferry services, whether charges should be imposed should be considered on a case by case basis.

RECOMMENDATIONS

It is recommended that:

9.11 The recommended improvements to the Council's current community engagement practice set out at Terms of Reference 6, paragraphs 5.45-5.47 above and appendix 4 be adopted.

9.12 The recommended improvements to the Council's current operational TRO process set out at Terms of Reference 1, paragraphs 5.7-5.13 be adopted.

9.13 The recommended improvements to the Council's current EqSEIA process set out at Terms of Reference 8, 5.62-5.68 be adopted.

APPENDIX 3 – CONSULTATION COMMENTS AND PROPOSED RESPONSES (FOR ISSUE FOLLOWING CONSIDERATION BY THE AUDIT AND SCRUTINY COMMITTEE).

PROPOSED RESPONSE TO POLICE

Comment	Response
Consultation about these matters is quite lacking and many TROs are created without any notice to those who have an interest in them.	We follow all regulations in consulting on TROs. This review has identified that we are already exceeding requirements. However we are keen to build on this and will draw on the local knowledge of our community development officers to add relevant groups to TRO consultations. Police Scotland is a standard consultee, and is consulted from the very beginning of a TRO.
Suggest that the Council identify all possible stakeholders and bring them together at a meeting to discuss the subject of TROs. Maybe a meeting could be held say every six months.	As mentioned above, we follow regulations in contacting stakeholders and are taking steps to exceed requirements more than we already do. We welcome interest from stakeholders in giving time to considering TROs. The timescale and frequency of TROs would not match a six monthly cycle. As public safety can be a key driver for TROs we must have a process that enables TROs to be in place in a timely manner. The steps we are taking to develop involvement in TROs are outlined in this report.
As different stakeholders have different areas of expertise, as mentioned above, bringing them together at regular meetings would useful.	We very much welcome in-put from a range of stakeholders. Our consultation process is based on regulations, and we are taking steps to exceed requirements further than we already do, in order to benefit from a wide ranging in-put as possible.
Identify representatives from various organisations that can bring different areas of expertise to the table.	As above.
Work with community councils and get them involved so that they can give a voice to local residents	Community councils are not a statutory consultee however when proposals are likely to affect persons they represent they will be included within our list of stakeholders for consultation 2.
Improve engagement with communities by working with community councils	See above

and get them involved so that they can give a voice to local residents	

PROPOSED RESPONSE TO SPT

Comment	Response
SPT officers ascertained from traffic regulation orders their impact to bus service provision and seek to work collaboratively with local authorities in this regard. SPT seek to be consulted on any works which may perhaps affect provision prior to the issuing of any respective traffic regulation orders, to mitigate for detrimental effects to bus service passengers during the planning of these works, which in turn holds the originator of the works accountable for any solutions to maintain links lost. Where prior consultation is not an option, Argyll and Bute Council must take congniscene that bus operators require to provide a minimum of 70 days notice to the Office of the Traffic Commissioner of any changes to bus service routes/timetables of over 21 days. Notification of works must permit this for either SPT subsidised bus services or commercial bus services except in circumstances outwith their control.	We have sought and welcomed SPT's in-put on regular, numerous TROs, and will continue to involve them in all relevant future TROs. SPT are consulted at the consultation 2 stage of the TRO process. This allows adequate notice as per the timescale highlighted
SPT seek engagement with emergency services and unelected members	Noted. We welcome the support of partners in reaching those potentially affected by TRO proposals.

PROPOSED RESPONSE TO OBAN AND DISTRICT ACCESS PANEL

Comment	Response
Despite the existence of the Oban and District Access Panel (formerly Oban and District Disability Forum) being highlighted to various officers over the years and legislation being in place to liaise with such groups, up-to-date we have not been formerly consulted. We did give comments when the Draft Order was made public on a recent proposal but initially our comments were apparently ignored. Only intervention by a Councillor led to the requested dialogue taking place and our reasonable objections being addressed. Only recently has the Council agreed that we should be on the list of Consultees. This is a positive step and we look forward to having early involvement. Further, we particularly wish to have our observations properly considered and discussed and not summarily ignored.	We previously consulted with Oban and District disability forum on disabled bay orders, and would welcome their in-put into TROs more widely. We will include the group in TRO consultation where the proposals will affect those that the group represents. We appreciate groups taking time to consider and comment on TROs and fully consider all responses submitted. There can be differing views submitted to TROs, therefore it is not always possible to accommodate all views. We will make any reasonable adjustments possible.
The criteria setting out those who should be consulted are clearly set out in the Scottish Government procedures. It is important that these are fully complied with. Essential that the Officers promoting an order do not live in a remote bubble and liaise with local Argyll and Bute employees, possibly in other services, local Members to be made aware of all relevant groups which should be considered for consultation in a local area. Each local area will possibly have a unique list of more local groups which may not operate in other areas.	Officers follow all legislative requirements in progressing TROs. The legislation detailing who should be consulted with is set out in the 1999 Regulations. The review of the council's TRO process has highlighted that we already consult more widely than required by legislation. We are nonetheless keen to build on this and, subject to approval by the Audit and Scrutiny Committee, will include additional organisations in consultations. We already engage with relevant internal departments and local Members. As proposed within the review, linking in with the Community Development Officers will identify any relevant, additional groups that should be included.
There appears to be a number of possible steps missing in the current arrangements which, if addressed, could	

lead to a more “smooth” process. 1. When considering a new Order the Officer should carry out an initial assessment as to who may be affected. 2. A brief preliminary discussion with these parties can lead to salient points being highlighted at an early stage. 3. The initial preliminary version of the Order should be prepared and circulated to a number of groups for their initial comments. These should be fully considered and if reasonable, be incorporated into the draft proposal. 4. When the Draft Order is published for public comment the consultees should automatically contacted at this stage and not left to find out second hand. 5. Proper and full consideration of the observations made is required and this may lead to face-to-face discussions rather than receiving a remote email acknowledgement/dismissal. 6. There must be clear and transparent evidence that all observations/objections have been fully and properly considered rather than the precise method which is currently employed	1. Officers already carry out an assessment as to who may be affected under the current TRO process. 2. This is the purpose of consultation 2 in the Councils current TRO process. 3. Under consultation 2 we issue schedules and plans and any further information where appropriate. This has proven sufficient for groups to submit comments on proposals. It would create inefficiencies if we issued a draft order only to receive comments that changed the proposals and the order had to be redrafted. 4. As per the Regulations, all Consultees are provided with a copy of the public notice and are advised where the draft order will be available to view. Consultees are advised that objections are invited at this stage. 5. Except where there are small numbers of objections, it would not be possible to meet individual objectors face to face. For example, Pier Road Dunoon, we received circa 8 objections and the local officer met with each objector to discuss and agree mitigation to the proposals. This process would be, within current resource, almost impossible to do for something like the Mull TRO which received 258 objections. 6. When responding to objections, we make every attempt to ensure that every valid point raised is responded to. Not all objections received can be addressed by officers, however if considered valid, officers may recommend to the Area Committee that changes are made to the draft TRO.
They bring a real local appreciation of local issues which Officers should listen to and not dismiss/ignore as being awkward/irrelevant as appears to be the situation on occasion in the recent past.	Comments noted. We would further comment that all submitted comments or objections are considered. Where comments and objections are submitted and changes are feasible and within the delegated authority of officers, the TROs are amended to reflect the request. Where objections are submitted and they are out with the delegated authority of officers it is for the Area Committee Members to decide whether or not to take these forward or not.

I would respectfully suggest that this question has been posed the wrong way. As previously indicated we consider that when the Council has done the preliminary order preparation it should liaise with various parties to see if there are any obvious reasonable tweaks which should/could be incorporated in to the published Draft. It is important that there is full discussion between the Community Representatives and Officers in respect of these issues and these are addressed at this stage rather than separate email discussions. It can be enlightening that local groups actually understand local issues being highlighted by others eg, only last week at a meeting to discuss the issues at Mossfield Park Oban, three groups separately all raised issues which were of concern to the access panel – significantly improved toilet provision, a safe disabled friendly route round the park perimeter and a viewing area set aside for those with a disability.	If it's considered appropriate for more complex TROs a meeting may be held, otherwise consultations will be carried out by letter or email where comments will be invited from relevant groups.
The Council has many fine words on its website as to what they think they do but the reality is actually different. When comments have been asked for then full consideration should be given. Officers must accept that the community can be correct in some instances. Further, they must on occasion accept that they have "got it wrong" and instead of arguing and defending their initial case and look for sensible solutions which may well have been outlined in the community's correspondence.	Where the proposal is officer led then we are open to discussions and incorporating proposals from groups where they are considered technically feasible. Where proposals arise as instructions from Council (for example parking charges), it is not always possible for officers to make significant changes to these proposals as they may include Council Policy, e.g. Fees & Charges.

PROPOSED RESPONSE TO BID4OBAN

Comment	Response
As far as BID4Oban Ltd are concerned we have not been involved in any consultations regarding TRO's in Oban over past years. As the Business Improvement District of Oban we would request that we are consulted on all TRO's going forward.	We follow statutory regulations on consultees, and included Bid4 Oban in the TRO consultation for the proposed on street no waiting Order, within which they did offer comment on the proposals. We would welcome increased input from the group so going forward will consult with Bid4 Oban where proposals are likely to affect their members.
Communication is key to the above. We would happily support the council in communicating any future TTRO's to our levy payers. We would also be happy to attend any meetings where parking issues are discussed and provide relevant feedback.	For TTROs the correspondence is provided for information only, and it's not consultation, in line with regulations. Notwithstanding this, where it is considered that proposals will affect any Bid4Oban members, we will engage with them.
Improved communication is essential. It would also be beneficial if as much information as possible is issued prior to any proposed changes. A positive dialogue and discussion around changes is also required. Communities do not like having changes imposed on them and would rather work together to resolve issues.	In consultation 2 we provide as much information as possible to the consultees to allow them to make an informed contribution. To build on this, it is proposed that the consultation letter will include the reasons and the rationale behind the proposal. If it's considered appropriate for more complex TROs a meeting may be held, otherwise consultations will be carried out by letter or email where comments will be invited from relevant groups, in line with regulations.
We can provide quality feedback and identify any risks and issues prior to issuing TTRO's.	Feedback would be welcome. Consultation 2 provides the opportunity to get involved prior to TTROs being published.
By engaging and having a meaningful dialogue both the council and stakeholders can have a united front thus ensuring that any changes can be quickly implemented.	Note the comments, however when dealing with groups with differing views experience shows that it is incredibly difficult to come to a single view on any topic. From experience in the past, even where public meetings have

	been held, we have been unable to achieve a single proposal which every group was accepting of. It is inevitable that some sort of compromise will be required. It's rare that the compromise is accepted by all.
The council does engage relatively well with communities. Improved use of social media is key.	We want to do all possible to ensure that people potentially affected by proposals have an opportunity to influence them. We would therefore not promote TROs on social media given the reach of these channels (to high numbers of geographically wide-spread people), this risks influence of people unaffected by the proposed changes outweighing the influence of the communities who would be affected by the proposed change.

PROPOSED RESPONSE TO INDIVIDUAL CONSULTEE 1

Comment	Response
Officers need to get Members and the public to understand that a properly prepared Traffic Order is a lengthy process and cannot be achieved in a few weeks	We will take steps to explain the TRO process, by putting information on our website, and promoting this to employees and the public.
Officers must question if a TO is an actual solution or appropriate	Agreed – TOs are only progressed where there is a clear and appropriate purpose.
Officers must consider the justification for the promotion of an Order and that it must be for a genuine reason and not hide behind the glib phase 'Traffic Management', as some recent proposals are basically a means to gain revenue	We will revise the consultation letter template to include the purpose of the TRO.
Officers need to accept that sometimes the public and consultees are correct and their concerns need to be listened to, and not swept aside.	We appreciate and consider views put forward by our communities, and make adjustments to TROs where possible. Where there are differing views among communities, it is not possible to accommodate all perspectives.
Officers need to accept that there can be consequences of their proposals which they may not have recognised. An example may be the introduction of exorbitant parking charges which can create a significant increase in non-charging street congestion (as was forecast by many respondents) but the level of displacement has led to more dangerous situations regularly occurring ie Rockfield Road, Oban.	Where proposals arise as instructions from Council (for example parking charges), it is not always possible for officers to make significant changes to these proposals as they may include council policy.
Officers carry out an independent initial assessment of the alleged problem and determine what may be required to be addressed	This happens in line with regulations
Contact a few relevant local groups or organisations, Community Council, Bus Company etc., to determine their initial thoughts on a proposal.	We follow the Regulations when contacting consultees for comments in relation to proposals. This review has identified that we already exceed legislative requirements;

	however we are keen to build on this and propose to draw on the local knowledge of community development officers in identifying relevant groups for inclusion in consultations.
Prepare a Draft Order which should, if possible incorporate the points raised from the above consultation.	Wherever possible, we make adjustments in line with responses to consultations. Where we receive differing views, it will not be possible to accommodate all perspectives.
Publish notice of the above Draft Order and simultaneously contact all the required statutory consultees which have been established in a local area.	This step already takes place in the Council's current operational TRO process.
Properly assess objections from the individual responses and determine if there are solutions. To have transparency there needs to be full dialogue and not the process which currently exists.	Except where there are small numbers of objections, it would not be possible to meet individual objectors face to face. For example, for Pier Road in Dunoon, we received circa 8 objections and the local officer was able to meet with each objector to discuss and agree mitigation to the proposals. This process would be, with the current resources, impossible to do for a TRO such as Mull which received 258 objections.
Often this dialogue leads to a greater understanding by both the Objector and the Officer and acceptable common ground can often be found. Assuming that the compromise does not lead to a more onerous Order being considered the agreement of parties can lead to the Order proceeding.	We would be very keen to reach agreement with all concerned with a TRO and will take the steps outlined in this report to ensure this happens wherever possible.
The current arrangement of objections being assessed and considered by Members on a précised form in private is not acceptable. I am also aware of a recent Order where objections had been summarised and the objector did not consider them to be fair and reflect the points he was trying to make	All objections submitted are considered fully, in line with regulations. Unresolved objections are summarised and a report is submitted to the Area Committee with recommendations. Members may, if they wish request copies of all the objections for their consideration.
To fully consider objections in a transparent manner there is a need to have a system similar to those applied by the Planning Service and have a type of Hearing. This could ideally be a panel of Councillors from out with the area and local Members would be allowed to speak, either in favour or against, all the elements of the proposed Order which are being considered	The Planning Protective Services and Licensing Committee is being considered as more appropriate committee for TROs to be considered.

RESPONSE TO INDIVIDUAL CONSULTEE 2

Comment	Response
Reason for Traffic Regulation Orders (TROs) TROs are an exercise of the Roads Authority's legal power to limit the freedom of drivers, for example, to drive at excessive speed, or to park in a way that adversely affects other road users. They can also be used to introduce charges for parking in order to influence how parking spaces are used. The underlying reason for these powers is to improve safety and traffic flow. There are two locations where TROs may apply. • On roads, which the public have a legal right to use. The TRO can limit that right. • On land owned or leased by the Roads Authority to form off street car parking for traffic management reasons. The TRO establishes management rules which may include charges for the use of the parking places.	Agreed. The key drivers for introducing a TRO are road safety, and efficient traffic management.
Procedure for Promoting TRO • Identify issue to be addressed: usually a traffic or road safety issue. • Consider policy and strategy. Eg parking strategy usually encourages long stay parking on periphery of towns with short stay parking in town centres. • Officers design TROs to meet objectives. This may require consultation with affected groups. • Draft Traffic Regulation Orders implementing the strategy should be assessed against the strategy and against the requirements of Sections 32 and 45 of the Road Traffic Regulation Act 1984. • In order to do this in a consistent manner across the council area promotion of TROs should be	Agreed. TROs must have clear aims and comply with all legislative requirements. Agreed too that TROs should be considered consistently, and that a single committee would support this: to support this, the proposal is that TROs are considered by the PPSL Committee.

approved by the Environment, Development and Infrastructure Committee (EDIC)	
Consultation on Draft TROs • Consultation 1 goes to Emergency Services, public transport officer and Head of Planning(?) (Access Panel?) • If necessary draft TROs are modified until consultees are content. • Consultation 2 goes to wide list of consultees and is advertised for public comment. • Officers consider objections and write to objectors either (a) explaining why the objection is not considered sufficient to modify the order or, (b) detailing how the TRO will be modified (made less onerous) to take account of their objection or, (c) withdraw the part of the TRO being objected to. • Where objectors choose to maintain their objection there should be a hearing by a committee of between six and eight Members appointed from a standing panel of twelve Members nominated for that purpose by the EDIC. This committee can decide to make the TRO unaltered, make the TRO with changes to reduce the impact, or to abandon the TRO. **The Importance of Procedure** Consulting prior to drafting the TRO and considering objections should not be considered an inconvenient delay. Rather it is an important tool for improving the quality of the final TRO. It is far better to take the time to get the TRO right than to plough on with measures which worsen traffic and safety outcomes, damage the Authority's reputation and eventually have to be undone.	Agreed that TROs benefit from in-put from a wide range of relevant contributors. We have identified proposals for developing our approach to consultation.

APPENDIX 4 - NATIONAL ENGAGEMENT STANDARDS SUGGESTED IMPROVEMENTS

STANDARDS	CURRENT PRACTICE	IMPROVEMENTS
Inclusion: We will identify and involve the people and organisations that are affected by the focus of the engagement.	As per current procedure and consultee lists. Community councils and other relevant organisations that the department are aware of are invited to comment at Stage 2 of the process.	Include Community Development Officers to validate non prescribed consultees where relevant to facilitate a fair and transparent process
Support: We will identify and overcome any barriers to participation.	Allow additional time to respond and provide further detail on proposals, if requested. No requirement to carry out an EQSEIA at TRO stage	Improve consultation letter to encourage participation. EQSEIA process at strategic and policy level to be strengthened and promoted.
Planning: There is a clear purpose for the engagement, which is based on a shared understanding of community needs and ambitions.	Plan proposals based on Officer knowledge, data (traffic/speed surveys, accident analysis etc.) Local Member input or Community Council requests. The engagement always has a clear purpose i.e. to consult on the proposed TRO.	Include Community Development Officers to validate non prescribed consultees where relevant to facilitate a fair and transparent process.
Working Together: We will work effectively together to achieve the aims of the engagement.	Consultations inviting comments on proposals.	If required, meetings with community groups. Note that this will depend on what the proposal is (e.g. for a road safety issue additional engagement may not be appropriate) and must be proportionate.
Methods: We will use methods of engagement that are fit for purpose.	Engagement is planned as appropriate for each TRO but can include Letters, plans, and website. Occasionally drop-in events & leaflets.	Improved letters, early engagement. Additional non-statutory engagement (where appropriate).

		The level of pre-engagement will be determined by the extent or complexity of the proposed TRO and must be proportionate.
Communication: We will communicate clearly and regularly with the people, organisations and communities affected by the engagement.	Letters, plans, tables (schedules) etc. normally by letter. At stage 2 letters are sent out to key groups and organisations notifying them of the details of the proposed TRO, any proposed tariffs, vehicles affected etc. and is accompanied by a map which outlines the proposed affected areas.	Be more informative when consulting. Provide the details in more of a story form than legal/technical. Poor response rate at this stage – communities have been asked to comment on suggested improvements. Carry out plain-English check on consultation letters.
Impact: We will assess the impact of the engagement and use what we have learned to improve our future community engagement.	TROs are kept under review post implementation by a variety of officers. If it becomes evident that there are issues with a TRO then they may be amended or withdrawn. As we have become aware of local groups (e.g. Friends of Loch Lomond) these have been added to our list of consultees.	TRO Review currently being undertaken assessing how to improve community engagement by the Council. Community input is being sought re improvements

APPENDIX 5 – PROPOSED AMENDMENTS TO CONSULTATION LETTER

- Removal of the objections sentence '*when you will have an opportunity to lodge …. Procedures'* to see if this encourages a greater response at this stage of consultation.
- Inclusion of a paragraph making it clearer that comments received at this stage may contribute to the further development of the proposals prior to the draft TRO being finalised.
- Additional text to be incorporated within the consultation letter to better inform the consultees on the reasons for the proposals.

APPENDIX 6 – PROPOSED REVISALS TO EQSEIA GUIDANCE (REVISALS SHADED YELLOW)

Argyll and Bute Equality and Socio-Economic Impact Assessment

[Insert revision date]
Version 2.3

Contact: Jane Fowler
Head of Customer Support Services

Version	Date	Amended
2.0	**25 June 2018**	**Complete review of EqIA (approved by SMT 25 June) in light of new legislation and scheduled review of policy**
2.1	**6 July 2018**	**Guidance includes Islands (Scotland) Act (2018)**
2.2	**18 January 2019**	**Edited to ensure protected characteristic of 'sex' is used instead of 'gender'**
2.3	**[Insert revision date]**	**Updated to provide additional guidance around the circumstances when an EqSEIA is required. Provide guidance and to signpost to resources to effective consultation. Clarification around publication of EqSEIAs. Additional wording around elimination of discrimination, inequality of opportunity and fostering good relations. Updated references to Services aligning to 2019 management restructure. Minor changes to EqSEIA form.**

Contents

1.0 Introduction

1.1 This guidance sets out the council's Equality and Socio-Economic Impact Assessment (EqSEIA) process, why we have one, and how it is used. The guidance is designed mainly for officers who are required to complete an EqSEIA but may also be of use to anyone else who has a role to play or an interest in the EqSEIA process or equalities, more generally.

1.2 People with roles to play include:

- Chief Officers and Senior managers
- Elected Members
- Third Tier Managers
- Fourth Tier Managers
- Members of the HROD Performance and Improvement team

1.3 This guidance and associated documents replace the EqIA guidance and forms, approved by Council in December 2012.

2.0 Why do we do Equality and Socio-Economic Impact Assessments?

2.1 The EqSEIA process enables the council to demonstrate that it delivers on its obligations to pay due regard to issues relating to equalities and island communities.

2.2 The Equality and Socio-Economic Impact Assessment serves the following purposes:

- It helps the officers who are designing a new proposal **to check** that they have considered all equalities implications, including socio-economic inequalities, as well as impacts on island communities.
- It helps officers **to show** that they have considered all equalities implications, including socio-economic inequalities, as well as impacts on island communities.
- It helps people who are interested in equalities, socio-economic inequalities, and island impacts **to see** that these have been considered, and how.
- It **enables better / more informed consultation** around

proposals while they are still in development.

- It **enables better scrutiny** around decision making as issues around equalities and socio-economic inequalities are made more transparent.

2.3 To ensure that public authorities can demonstrate that they have paid 'due regard' to equalities issues, a record of the assessment process should be made publicly available. Thus, at the end of the EqSEIA process, a document is produced that can be clearly and quickly understood by people reading it; this document will be published on the Council's website.

3.0 Background

3.1 The Equality Act (2010) sought to harmonise discrimination law that previously had been covered in a range of separate pieces of legislation, and to strengthen the law to support progress on diversity. However, not all legislation contained within the Equality Act (2010) was enacted in 2010.

3.2 Those parts of the Equality Act (2010) that relate to people with 'protected characteristics' was enacted in 2010. The 'protected characteristics' are:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Race
- Religion or belief
- Sex
- Pregnancy and maternity
- Sexual orientation.

3.3 Part 1 of the Equality Act (2010) was enacted by Scottish Government in late 2017, and came into force on 1 April 2018. Although in the legislation Part 1 is referred to as the Socio-Economic Duty, it is more commonly referred to as the **Fairer Scotland Duty**. The Fairer Scotland Duty seeks to tackle socio-economic disadvantage and reduce inequalities of outcome.

3.4 As a public authority, the council must consider equality issues when making strategic certain types of decisions. See Section 6. In addition

to considering the impact the council's activities might have on people with one or more of the nine protected characteristics listed above, there is now a requirement for the council to take into account socio-economic disadvantage. To that end, the impact strategic decisions have on the following should be considered:

- Mainland rural population
- Island populations
- Low income
- Low wealth
- Material deprivation
- Area deprivation
- Socio-economic background
- Communities of place
- Communities of interest

3.5 For more information see the Scottish Government's **Fairer Scotland Duty Interim Guidance**

3.6 In addition, we have a duty, which is set out in the Island (Scotland) Act (2018), to consider the impact of proposals on island communities. Thus, the EqSEIA incorporates consideration of island communities within the wider impact assessment process.

3.7 The council has carried out Equality Impact Assessments for a number of years. Equality and Diversity Impacts were developed and approved in the 2000s. These were subsequently updated in light of the Equality Act (2010) and the updated EqIA was approved by council in December 2012.

3.8 In light of changes to the Equality legislation and the introduction of the Islands (Scotland) Act, the EqIA process has been reviewed and updated again, in 2018. This review has resulted in the EqSEIA process.

4.0 What has changed?

4.1 Key changes between the previous and current versions of the impact assessments are:

- The content of the impact assessment has been altered to take account of the Fairer Scotland Duty and the Islands (Scotland) Act (2018).
- Instead of having two forms (Rapid Impact Assessment and Full EqIA), there is now a single form to be completed.

- The guidance and form have been produced as separate documents. This is intended to increase the readability of the completed EqSEIA form.
- HROD no longer has a quality assurance role in the process, although completed EqSEIAs should be sent to HROD (Performance and Improvement) once a proposal has been approved for collation as evidence for audits and publication on the council's website.

5.0 How to use this guidance

5.1 This guidance is designed to help you to understand the council's EqSEIA process and roles and responsibilities within it. This section summarises the steps to be followed when carrying out a EqSEIA and should be read in conjunction with Appendices 1 to 4:

- Appendix 1: Glossary.
- Appendix 2: Sample form, with annotated notes.
- Appendix 3: Process Map for EqSEIA.
- Appendix 4: Consultation and the EqSEIA.

5.2 Work on the EqSEIA should take place in parallel with your proposal as it is designed to ensure that active consideration is given to equalities and island communities throughout the development and decision-making processes.

5.3 Carrying out an Equality and Socio-Economic Impact Assessment is an iterative process. Depending on the answers you develop at any particular step in the process, you may find that you have to return to an earlier step to revise or refine your proposal and EqSEIA.

5.4 The amount of effort put into completing the EqSEIA should be proportionate to the intended impact of the proposal being assessed.

5.5 The steps involved in following the EqSEIA process are outlined in Table 1. See also Appendix 3.

Table 1: Summary of steps involved in carrying out EqIA

Step 1	Determine whether an EqSEIA is required for the proposal. See Section 6. **If officers are of the opinion that an EqSEIA is not required, a note to this effect must be put in the implications section of any covering report against the Equalities / Fairer Scotland Duty heading. A similar statement must also be included in any consultation report that is produced in connection to the**

	proposal.
Step 2	Identify the purpose of the proposal and who should be involved in carrying out the assessment
Step 3	Identify the evidence needed to carry out the EqSEIA
Step 4	Assess the impact(s) that the proposal will have on the various groups covered by the Equality Act (2010), including those covered by the Fairer Scotland Duty. These include island communities. Consider both service users and employees. (You may wish to consider, for example, how specific groups are affected by the accessibility of facilities and information, or the availability of transport.)
Step 5	Identify any negative impacts the proposal is likely to have, and consider how these will be addressed.
Step 6	Develop monitoring and evaluation plans.
Step 7	Complete the EqSEIA documentation. • Officers may find it easier to complete the form as they work through the previous steps, or they may wish to leave completion until this point.
Step 8	Sign off the EqSEIA by the appropriate officer, and attach it to the proposal. • Normally the appropriate officer will be the Head of Service. • **The EqSEIA must accompany the proposal through the approval process.** • If consultation is carried out after initial approval, as further iterations of a proposal are developed, the EqSEIA must be included as part of any documentation provided as part of that consultation.
Step 9	When a decision regarding the proposal has been made, send a copy of the completed EqSEIA to HROD (Performance and Improvement): equality@argyll-bute.gov.uk .
Step 10	Carry out a review of your EqSEIA whenever your proposal is reviewed and / or updated.

6.0 When is an EqSEIA required?

6.1 You **must** carry out an EqSEIA for the following things:

- **Policy**: new or reviewed
- **Strategy**: examples of when an EqSEIA is required include:
  - Preparation of the Local Development Plan

- City deals or other major investment plans
- Preparing legislation
- Development of new strategic frameworks
- Development of significant new policies or proposals
- Preparation of an annual budget
- Major procurement exercises
- Decisions about the shape, size and location of the estate
- Preparing a Local Outcomes Improvement Plan as part of a CPP
- Preparing locality plans
- Preparation of a Corporate Plan
- Commissioning of service
- Note that this list is not exhaustive. Even if your strategy is not listed here, you may still need to carry out an EqSEIA.

- **Changes to service design and the way services are delivered**

6.2 If you are not sure whether you need to complete an EqSEIA, you should think about:

(1) Is your proposal a strategy that is of equivalent scale to those listed above?

If yes, then you must complete an EqSEIA.

(2) Is your proposal covered by an EqSEIA that has previously been completed at policy or strategy level?

If the answer is 'yes', you may not need to carry out an EqSEIA.

However, it is still good practice to consider whether specific groups will be adversely affected by your proposal and its implementation. It is also good practice to check that the policy/strategy has an up-to-date EqSEIA.

6.3 Across the organisation, there is confusion about how we describe things. Some plans are strategies; some policies are procedures. This is confusing and may make it hard to decide when EqSEIAs are required. To further clarify when EqSEIAs are required, see Table 2.

Table 2:

Type of proposal/document	Is an EqSEIA required?

Type of proposal/document	Is an EqSEIA required?
Policy An explanation of how we, as an organisation, will behave, and the rationale for that behaviour.	EqSEIA required.
Strategy What we want to achieve, usually over an extended period of time. A strategy may give an indication of the types of things we wish to do to reach our goal.	EqSEIA required.
Service redesign and changes to the way a service is delivered	EqSEIA required.
Plan Sets out detailed actions we will take to deliver our policy / strategy.	An EqSEIA may be required, depending on whether there is a separate strategy document. Note, though, that specific types of plans must have EqSEIAs done: these include the Argyll and Bute Outcome Improvement Plan and the Local Development Plan.
Procedure The steps we go through to deliver a policy. This is not a plan. This is more likely to be a description of the tasks that are involved in delivering a plan.	EqSEIA is not usually required.
Process Step-by-step instructions to carry out a task or tasks to deliver on a procedure.	EqSEIA not required.
Framework Usually a broad overview of something we do. Probably sits between policy and procedure.	EqSEIA may be required.
Progress reports, performance reporting and similar	EqSEIA is not required.

6.4 **If you are still not sure whether you should carry out an EqSEIA, it is probably better to be on the safe side and do one.**

Remember, if you decide that an EqSEIA is NOT required, you must be able to defend your position, and you are expected to record your reasoning in the relevant 'implications' section of any

committee report.

7.0 Roles and responsibilities

7.1 Members of each of the following groups have roles to play in the EqSEIA process:

- Chief Officers and Senior Managers
- Elected Members
- Third Tier Managers
- Fourth Tier Managers
- Members of the HROD Performance and Improvement team

These roles are described in more detail in Table 3.

Table 3: Roles and responsibilities

Who	What
Third Tier Managers	• May act as lead officer responsible for developing / reviewing the proposal. Lead officers are responsible for completing EqSEIA.
Fourth Tier Managers and other officers	• May act as lead officer responsible for developing / reviewing the proposal. Lead officers are responsible for completing EqSEIA. • May provide input into the EqSEIA where there is relevant experience.
HROD	• May provide input into the EqSEIA where there are implications affecting staff
HROD Performance and Improvement	• Copies of completed EqSEIAs should be sent to HROD P&I, where they will be retained as corporate evidence and published on the council's website.
Chief Officers and Senior Officers	• Heads of Service act as 'appropriate' officers for the sign off of the EqSEIA document.

	• Other Chief Officers / Senior Officers may have scrutiny and approval roles.
Elected Members	• Have scrutiny and approval roles where proposals go to committee or council for approval.
Trades Union representatives	• May provide input into the EqSEIA where there are implications affecting staff
Stakeholders	• Should be consulted as required as part of the EqSEIA process
Development and Economic Growth	• May provide advice with regard to assessing socio-economic impact and impact on island communities.
Community Development Officers	• May provide advice around consultation and engagement methods and how to reach stakeholder groups.
Research and Engagement Officer	• May provide advice around consultation and engagement methods and how to reach stakeholder groups.

8.0 Further Information

For further information and support around the EqSEIA process, contact HROD (Performance and Information) via: equality@argyll-bute.gov.uk.

For further information and support around consultation and engagement:

- See Appendix 4.
- Contact Community Development Officers and/or Research and Engagement Officer
- Refer to resources available on the Hub (available only within the organisation): How to carry out a consultation: http://intranet.argyll-bute.gov.uk/communicating/how-consultation . This page includes a link to the council's consultation toolkit: http://intranet.argyll-bute.gov.uk/sites/default/files/updated_consultation_toolkit.pdf .

Appendix 1: Glossary

Active consideration: Relates to 'due regard'. When making a decision, the public authority should actively think about whether there are opportunities to reduce inequalities caused by socio-economic disadvantage.

Area deprivation: Areas where there are concentrations of deprived households.

Communities of interest: refers to groups of people who share an identity or an experience. They do not need to live in the same area, however.

Communities of place: refers to people who are bound together because of where they live, work, visit, or otherwise spend a continuous portion of their time. This may include rural, remote and island areas.

Due regard: Due regard does not mean that there is an obligation to achieve a result. Public bodies are not required to reduce inequalities of outcomes as part of any decision made under the duty. There may be good reasons why it is not desirable or possible to seek to reduce inequalities in a particular case. However, the public authority should be able to demonstrate that it has considered options and why a decision has been made. Where there are no compelling reasons for not doing so, due regard would suggest that changes should be made.

Inequalities of Outcome: measurable differences for communities of interest or of place. Socio-economically disadvantaged households have a higher risk of experiencing negative outcomes.

Low income: There is no single definition or measure of low income. Some indicators suggest that low income is where individuals living in households receive below 60% of UK median income. Scottish Government's *Children in Families With Limited Resources Across Scotland 2014-2016* defines low income as 'household income below 70% of the Scottish median after housing cost'.

Low wealth: not having access to wealth (including for example, financial products, equity from housing, decent pension, accessible saving). People who have low wealth lack protection from socio-economic disadvantage.

Material deprivation: Inability to access basic goods and services.

Proportionality: How much regard is due will depend on the relevance of the decision to the scale of the socio-economic disadvantage and inequalities of outcome in relation to each strategic issue.

Proposal: Within this guidance and related documentation, 'proposal' refers to any decision that requires approval at board level or above.

Protected characteristics: The protected characteristics covered by the Equality Act (2010) are: age; disability; gender reassignment, marriage and civil partnership; race; religion or belief; sex; pregnancy and maternity; sexual orientation.

Socio-economic background: Relates to the context in which a person has been raised or in which they live. Disadvantage may arise from parents' education, employment and income (social class).

Socio-economic disadvantage means living on below average incomes, with little accumulated wealth, leading to greater material deprivation, restricting the ability to access basic goods and services. Socio-economic disadvantage can be experienced in both places and communities of interest, leading to further negative outcomes such as social exclusion.

Appendix 2: Sample form, with annotated notes

Argyll and Bute Council: Equality and Socio-Economic Impact Assessment

Section 1: About the proposal

Title of Proposal
This should be a written title that has some immediate meaning to the reader.

Intended outcome of proposal
Describe in a single sentence what the intended outcome of the proposal is.

Description of proposal
This should be no more than a few paragraphs that will give the reader an overview of what the proposal is about.

Business Outcome(s) / Corporate Outcome(s) to which the proposal contributes

Lead officer details: The lead officer is the person who has been charged with carrying out the EqSEIA. Normally, this would be the person developing the proposal.	
Name of lead officer	
Job title	
Department	
Appropriate officer details: The appropriate officer is normally the Head of Service for the Service in which the proposal is being developed.	
Name of appropriate officer	
Job title	
Department	
Sign off of EqSEIA	Signature of the appropriate officer to confirm they approve the EqSEIA as completed
Date of sign off	

Who will deliver the proposal?
List the partners / services / teams that will deliver the proposal.

Section 2: Evidence used in the course of carrying out EqSEIA

Consultation / engagement
Consultation / Engagement (give details of individuals / groups who have been consulted and results of the consultation; when consultation took place and methods used. This section should include details of consultation with partners).

See also Appendix 4.

Data
Data sources referred to in the process of carrying out the EqSEIA may include those suggested in the **Fairer Scotland Duty Interim Guidance** document or the **Scottish Government Equality Evidence Finder**. These, and any other sources you use (including internal and external data sources) should be referred to here.

Other information
Other research (data sources consulted/accessed) Existing documents that have been used to inform EqSEIA

Gaps in evidence
Gaps and uncertainties. (Areas for particular attention when monitoring (see below) need to be included in monitoring and evaluation arrangements).

Section 3: Impact of proposal

In this section, and based on the evidence you have identified in Section 2, you will check the boxes that best describe the impact(s) that you think your proposal will have on the groups listed.

With regard to the protected characteristics, you should consider whether your proposal will have any impact on the:

- Elimination of unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Equality Act 2010
- Advancement of equality of opportunity between people who share a relevant protected characteristic and those who do not
- Fostering of good relations between people who share a protected characteristic and those who do not.

In addition to the protected characteristics set out in the Equality Act (2010), there are nine categories that relate to the Fairer Scotland Duty. More information about these is given in the guidance.

The Islands (Scotland) Act requires that, when you consider impacts on island populations, you bear in mind that proposals may affect different island communities in significantly different ways.

Impact on service users:

	Negative	No impact	Positive	Don't know
Protected characteristics:				
Age				
Disability				
Ethnicity				

	Negative	No impact	Positive	Don't know
Sex				
Gender reassignment				
Marriage and Civil Partnership				
Pregnancy and Maternity				
Religion				
Sexual Orientation				
Fairer Scotland Duty:				
Mainland rural population				
Island populations				
Low income				
Low wealth				
Material deprivation				
Area deprivation				
Socio-economic background				
Communities of place				
Communities of interest				

If you have identified any impacts on service users, explain what these will be.

If any 'don't know's have been identified, at what point will impacts on these groups become identifiable?
Insert information here regarding when you will be able to identify the proposal's impact(s) on those groups where impact is currently unknown. Note that you should consider these groups in more detail when completing Section 5, relating to monitoring and review.

Impact on service deliverers (including employees, volunteers etc):

	Negative	No impact	Positive	Don't know
Protected characteristics:				
Age				
Disability				
Ethnicity				
Sex				
Gender reassignment				
Marriage and Civil Partnership				
Pregnancy and Maternity				
Religion				
Sexual Orientation				
Fairer Scotland Duty:				

	Negative	No impact	Positive	Don't know
Mainland rural population				
Island populations				
Low income				
Low wealth				
Material deprivation				
Area deprivation				
Socio-economic background				
Communities of place				
Communities of interest				

If you have identified any impacts on service deliverers, explain what these will be.

If any 'don't know's have been identified, at what point will impacts on these groups become identifiable?
Insert information here regarding when you will be able to identify the proposal's impact(s) on those groups where impact is currently unknown. Note that you should consider these groups in more detail when completing Section 5, relating to monitoring and review.

How has 'due regard' been given to any negative impacts that have been identified?
If you have identified any negative impact(s) on any of the groups listed in the tables above, you need to explain your justification for continuing with the proposal and why it cannot be amended or changed without compromising its intended outcome.

Section 4: Interdependencies

Is this proposal likely to have any knock-on effects for any other activities carried out by or on behalf of the council?	Y/N

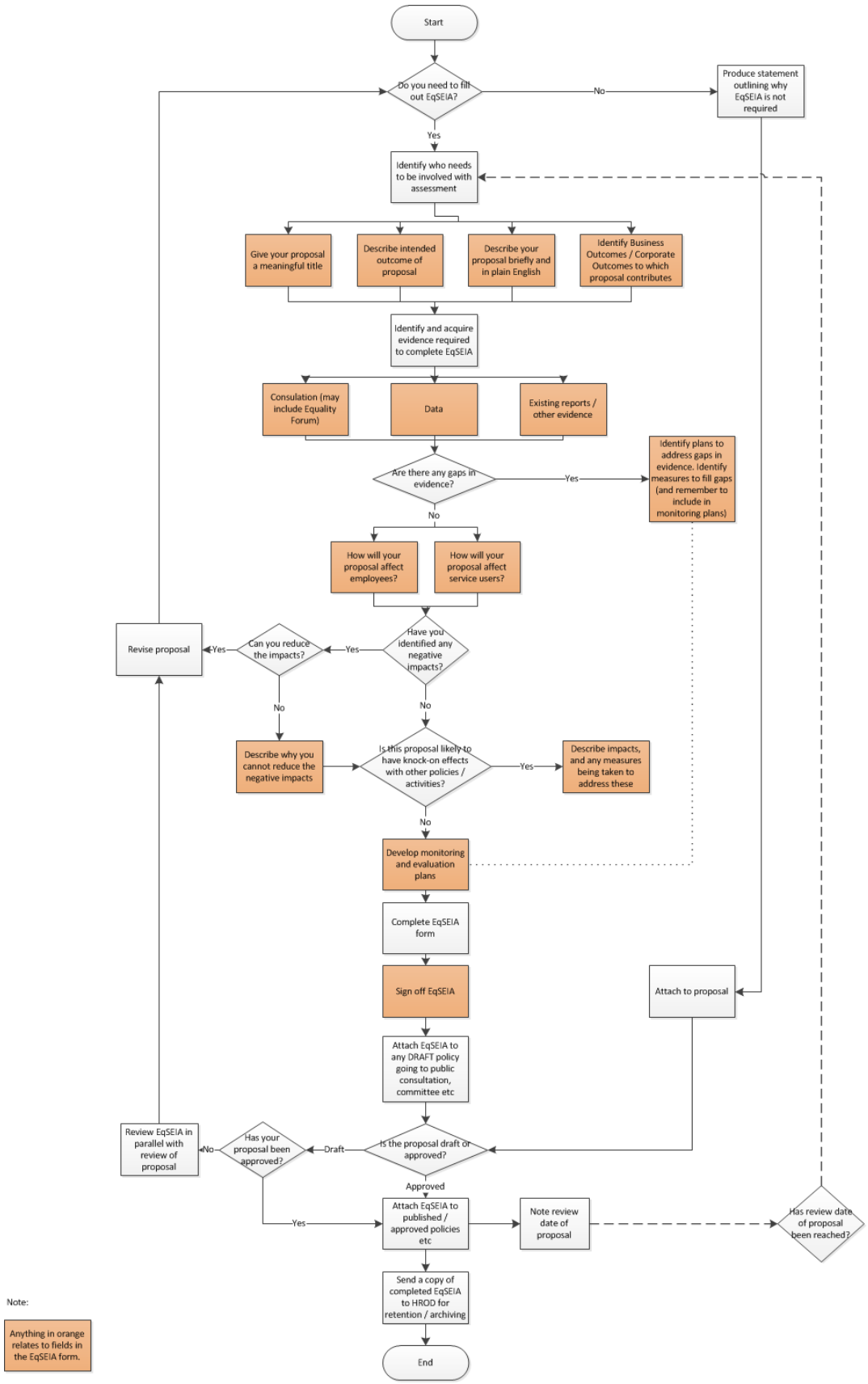
Details of knock-on effects identified
In addition to describing knock-on effects, you should also include information about how you have engaged with those individuals / groups responsible for delivering activities upon which the proposal will have impact.

Section 5: Monitoring and review

Monitoring and review

How will you monitor and evaluate the equality impacts of your proposal?
You should monitor your proposal as it is being delivered to ensure that the impacts are as expected. If they are not, what will you do to address the difference?
Include dates of scheduled monitoring activity relating to the EqSEIA.
In your monitoring arrangements, you should pay particular attention to any impacts you can identify on groups where you have recorded ‘Don’t know’ in Section 3.

Appendix 3: Process Map for EqSEIA



Appendix 4: Consultation and the EqSEIA

A4.1 **When and how to consult when carrying out an EqSEIA:**

For all proposals identified as needing an EqSEIA:

- If you are carrying out a questionnaire or survey as part of the development of your proposal, include a question about the likely impact of the proposal on the various groups included in the EqSEIA. (See Section 3 of the EqSEIA form.)
- If you are not carrying out a questionnaire, you should still consider whose feedback you need and capture their views on the standard EqSEIA form.
-

A4.2 **Who to consult:**

As a minimum, consider if you need these views when consulting:

- Employees
- External/service user groups
- The council's Equality Forum
- Community councils

All policies that involve employees must be considered by Trades Unions.

A4.3 **Encouraging responses:**

Avoiding consultation fatigue is vital in encouraging a good level of response to your consultation:

- Contact the council's Research and Engagement Officer to check the best timing for your consultation and to avoid clashes with other council consultation exercises that target the same people.
- If other council services are carrying out similar/same consultations at the same time, consider how to join up or better co-ordinate consultations.

A4.4 **What to do with consultation findings:**

- If council officers, based on their knowledge of their service and their service users/delivers, and/or the public believe there would be an impact, this must be reflected in the EqSEIA, particularly in Section 3, relating to 'due regard'.
- If neither council officers nor the public see an impact, complete the EqSEIA to reflect this.

APPENDIX 7 - A GUIDE FOR CONSULTATION ON TROs

A Guide for Consultation on Traffic Regulation Orders (TROs) for Community Organisations

What are Traffic Regulation Orders (TROs)?

Traffic Regulation Orders are legal orders put in place to control speed, movement and parking of vehicles.. You can view any proposed traffic regulation orders we have for our roads at https://www.argyll-bute.gov.uk/trafficorders. You can find out about any traffic regulation orders on Trunk Roads on the Transport Scotland website: https://www.transport.gov.scot/transport-network/roads/road-orders/#

Why would a TRO be needed?

The Traffic Regulation Order process is outlined in legislation and there are a number of reasons why they might be required. The following list provides some examples but is not exhaustive:

- To deal with a safety issue
- To improve flow of traffic
- Management of car parks
- Designated parking bays (e.g. disabled bays)
- Speed limits
- Prevent damage to a road (e.g. introduction of a weight limit)
- Preserve or improve the amenities of an area.

What is the TRO consultation process—what happens before a decision is made?

The need for a TRO is identified

Stage 1 consultation

Police Scotland are the statutory consultees at Stage 1.

Subject to comments received from Police Scotland, proposals are drafted.

Stage 2 consultation

Other public sector organisations like Scottish Fire & Rescue and key community organisations who represent communities that are likely to be affected are asked for comments. This is a chance for them to feed in their thoughts on the proposal before it goes out for public consultation. The proposals are not set in stone at

this point and community input can help shape the final draft of the TRO. We are keen to work with partners and communities to help make sure we design the best proposal to go out to public consultation. If you are a Stage 2 consultee group then it is really important that you engage at this stage.

Draft TRO is prepared

Stage 3 consultation

The final draft TRO goes out for public consultation and this is open to any organisation, group or person. At this stage objections to the proposal can be submitted.

Can I comment on a proposed TRO?

If you are part of a community organisation and we write to you as part of our Stage 2 consultation, then your organisation should seek comments from its members before submitting the group response. If we hold work- shops as part of the consultation process we will notify community councils of any workshops—they can help publicise the opportunity for the commu- nity to engage with us.

At Stage 3, the consultation is opened up to any organisation, group or person. We publicise this by circulating the Notice in a local newspaper, on the Councils' website and Tell Me Scotland. Copies of the draft Order can normally be viewed at the appropriate Council Service Points or Libraries or other public building (e.g. Post Office). The draft TRO is also available for viewing on the Councils website.

Can I include comments about other traffic issues when commenting on a TRO?

The TRO process is a statutory process followed when a specific action is being proposed. The TRO cannot be altered to include other traffic issues although any concerns may be submitted to the Council through a service request or through the complaints procedure.

How will I know my comments are listened to?

We consider all suggestions made by all partners during the TRO process—sometimes, at Stage 2, conflicting views might come in from different partners, or there may be a practical reason why a suggestion can't be taken forward. We will consider all community input but it is not always possible to incorporate all suggestions that come in. Stage 3 consultation is open to anyone in the community who wishes to object to the proposed TRO.

How will I find out what the outcome is

If you are a Stage 2 consultee, then we will send you notification when we move to Stage 3. Permanent Traffic Orders that have come in to place within the last six months, and proposed Traffic Regulation Orders, can all be found on our website: https://www.argyll-bute.gov.uk/trafficorders

ARGYLL AND BUTE COUNCIL **Audit and Scrutiny Committee**

17 March 2020

Corporate Complaints – Comparison of Complaints Received during the period 2018/19 and 2019/20 to date.

1.0 INTRODUCTION

1.1 Following the presentation of the 2018/19 annual complaints report to the Audit and Scrutiny Committee on 24 January 2020, a request was made by the Committee to review the common themes and areas of complaint from 2018/19 and 2019/20 to date. This report provides details in response to that request.

2.0 RECOMMENDATIONS

2.1 The Audit and Scrutiny Committee consider and note the content of this report.

3.0 DETAIL

3.1 A request was made by the Audit and Scrutiny Committee to see a thematic based presentation of complaints between this year and last, and to provide details around the areas subject to complaints.

3.2 This report provides a comparison between complaints received during the period 2018/19 and 2019/20, to date. The subject of complaints to Argyll & Bute Council were analysed to look at the broad themes of complaints submitted by member of the public. These key themes make up around 55% of all complaints received, with the remainder ranging from individual specific issues (i.e. a particular TRO), to numerous received about a one-off common issue such as the Atlantis Playpark in Oban (30 complaints received in 2018/19 about this issue). In 2018/19 we also saw 40 complaints in connection with a single Council Tax communication error, whereas in 2019/20 to date, no individual issues have generated this level of complaints. The comparison of key themes is shown in Appendix 1 to this report.

3.3 The Committee also asked to see details of complaints by area. Currently, the geographical area is not recorded in the “case file” in the complaints system, as not all complaints are associated with an area. A request will be made to the systems support staff to add a field to capture

area, when relevant to the complaint, from 01 April 2020.

3.4 In place of a report by area, a comparison by service area between the 2 years is shown at Appendix 2. With the restructuring of services during 2019/20, it is difficult to show a like for like comparison, however, notes have been added to provide detail around the types of complaints associated with each service area.

4.0 CONCLUSION

4.1 Although the current year is not yet complete, the reports show a significant decrease in the volume of complaints received.

5.0 IMPLICATIONS

5.1	Policy	None
5.2	Financial	None
5.3	Legal	None
5.4	HR	None
5.5	Equalities	None
5.6	Risk	None
5.7	Customer Service	None

Douglas Hendry
Executive Director with responsibility for Legal and Regulatory Support

26 February 2020

For further information contact: Iain Jackson, Governance and Risk Manager
01546 604188

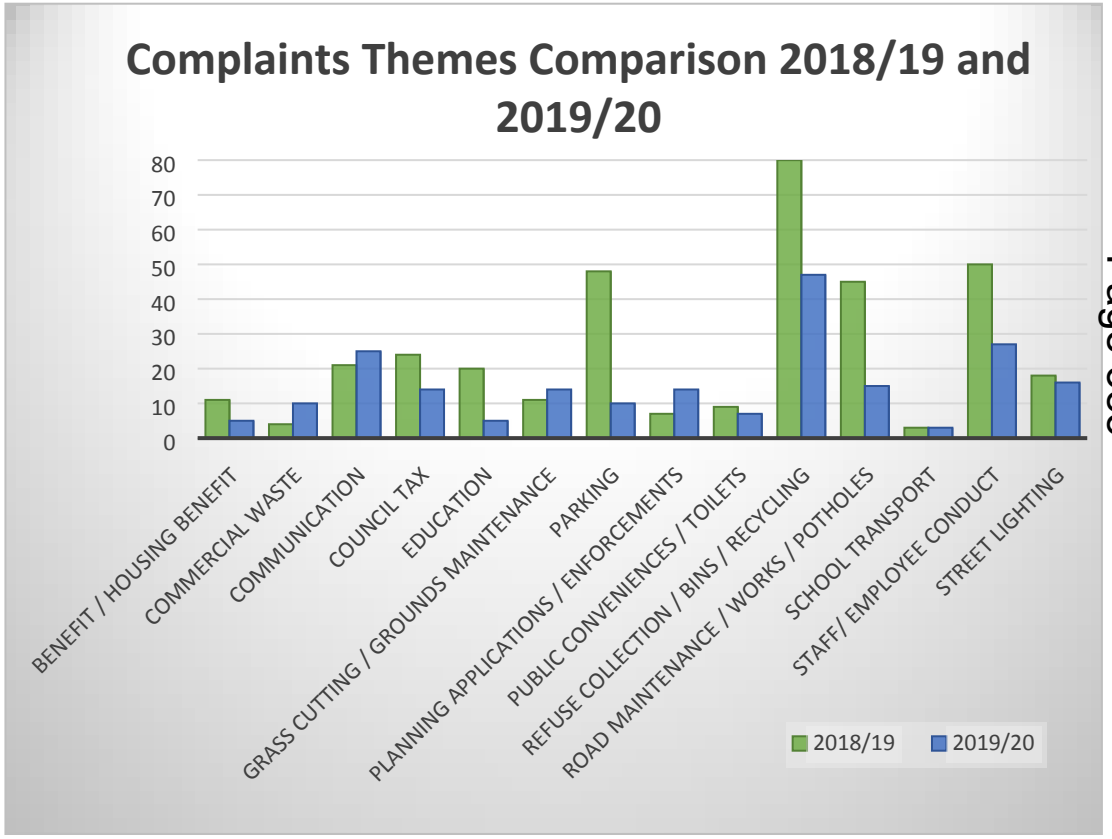
APPENDICES

Appendix 1 – Complaints key themes
Appendix 2 - Service area breakdown

Audit & Scrutiny Committee Complaint Comparison Report 2018/19 – 2019/20 **APPENDIX 1**

The subject of complaints to Argyll & Bute Council were analysed to look at the broad themes of complaints submitted by member of the public. These key themes make up around 55% of all complaints received, with the remainder ranging from isolated specific issues (i.e. a particular TRO), to numerous received about a one-off common issue such as the Atlantis Playpark in Oban (30 complaints received in 2018/19 about this issue).

Complaints Themes	2018/19	2019/20	Trend
Benefit / Housing Benefit	11	5	↓
Commercial Waste	4	10	↑
Communication	21	25	↑
Council Tax	24	14	↓
Education	20	5	↓
Grass cutting / Grounds Maintenance	11	14	↑
Parking	48	10	↓
Planning Applications / Enforcements	7	14	↑
Public Conveniences / Toilets	9	7	↓
Refuse collection / bins / recycling	80	47	↓
Road Maintenance / Works / Potholes	45	15	↓
School Transport	3	3	→
Staff/ Employee Conduct	50	27	↓
Street Lighting	18	16	↑



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Audit & Scrutiny Committee Complaint Comparison Report 2018/19 – 2019/20

APPENDIX 2

The table below shows a comparison of the number of complaints received broken down by Service area. It should be noted that some of the service areas have moved Directorate following the restructure in 2019, therefore a like for like comparison is not possible between the 2 periods shown. In particular, Financial Services now includes Revenues and Benefits, which sat within Customer and Support Services in the previous year.

Service Area	2018/19	2019/20
Development and Infrastructure Services*	4	4
Development and Economic Growth		
Building Standards	2	3
Development Management	8	28
Regulatory Services *Including: Environmental Health, Housing Services, Trading Standards (pre July 2019)*	22	17
Projects, Renewables & Regeneration	1	2
Road and Infrastructure Services		
Roads Management, Maintenance and Design *Including: Potholes, Parking, road marking/closure/operations/winter maintenance, pavements, flooding*	127	58
Amenity Services *Including: Cemeteries, civic amenity, commercial waste, Refuse collection, grounds maintenance, public conveniences, street sweeping*	202	140
Fleet, Waste and Transport	20	22
Marine Services	2	4
Customer Support Services *Including: ICT, HR&OD, Contact Centre and Registration*	98	25
Customer Services*	7	3
Commercial Services	10	7
Education	21	6
Legal and Regulatory Support	6	9
Financial Services	1	19
Live Argyll	22	10

*Where complaints cannot be associated with a specific Service area, they are assigned to the Directorate level

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Audit & Scrutiny Committee Work Plan 2019 – 2020

-

This is an outline plan to facilitate forward planning of reports to the Audit & Scrutiny Committee

17 March 2020	Reports to Committee Services by 21 February 2020	
Report	Lead Service	Regularity
Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2019/20 • Information Asset Registers • Grounds Maintenance • Fleet Management • Pupil Equity Fund • LiveArgyll – Performance Management	Chief Internal Auditor	Quarterly
Internal Audit Charter and Internal Audit Manual Update	Chief Internal Auditor	Annual
2020/21 Internal Audit Plan (Final)	Chief Internal Auditor	Annual
External Audit – 2019/20 Annual Plan	Audit Scotland	Annual
Audit Scotland Report – Financial Overview 2018/19	Head of Financial Services	Annual
2019/20 Unaudited Annual Accounts Preparation Plan and Timetable	Head of Financial Services	Annual
Treasury Management Strategy and Annual Investment Strategy	Head of Financial Services	Annual
Scrutiny Lessons Learned	Chief Internal Auditor	One-off
Scoping Report for possible Scrutiny Review – Rothesay Pavilion	Chief Internal Auditor	One-off
Final Review – Traffic Regulation Orders/Community Engagement Review	Procurement and Commissioning Manager	One-off
Complaints Comparison Report	Governance and Risk Manager	One-off
16 June 2020	Reports to Committee Services by 22 May 2020	
Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly

Audit & Scrutiny Committee Work Plan 2019 – 2020

Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2019/20 • Interfaces & Reconciliations • Legionella Improvement Plan • Cyber Security • Social Care Contract Management • Logical Access • School Procurement • Scottish Welfare Fund • Welfare Rights	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Council Performance Report – October 2019 to March 2020	Head of Customer Support Services	Bi-Annual
Strategic Risk Register Update	Chief Executive	Annual
Internal Audit 2019/20 Annual Report	Chief Internal Auditor	Annual
Review of Code of Corporate Governance	Governance, Risk and Safety Manager	Annual
External Audit 2019/20 Management Report	Audit Scotland	Annual
Local Government Benchmarking Framework Report	Head of Customer Support Services	Annual
Unaudited Financial Accounts	Head of Financial Services	Annual
2020/21 Scrutiny Plan	Chief Internal Auditor	Annual
Local Government in Scotland: Challenges and Performance 2020	Audit Scotland	Annual
Economic Strategy Scrutiny Report	Audit & Scrutiny Committee Chair	One-off
Strategic Housing Fund Scrutiny Report	Audit & Scrutiny Committee Vice Chair	One-off
22 September 2020	Reports to Committee Services by 28 August 2020	
Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2020/21	Chief Internal Auditor	Quarterly

Audit & Scrutiny Committee Work Plan 2019 – 2020

• Sickness Absence • LEADER • Management of Term Contracts • Homelessness • Warden Services		
External Audit Update Report	Audit Scotland	Quarterly
Internal Audit – PSIAS Self-Assessment	Chief Internal Auditor	Annual
Out of Authority Placements Scrutiny Report	Audit & Scrutiny Committee Chair	One-off
Audit & Scrutiny Committee 2018/19 Annual Report	Audit & Scrutiny Committee Chair	Annual
External Audit Annual Audit Report	Audit Scotland	Annual
Audited 2018/19 Annual Accounts	Head of Financial Services	Annual
Strategic Risk Register – Assurance Mapping	Chief Internal Auditor	Annual
15 December 2020	Reports to Committee Services by 20 November 2020	
Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2020/21 • Oban Airport • Live Argyll – Events Management • Contract Management/Monitoring • Charging for Care Services • School Security • Capital Monitoring	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Council 6-Month Performance Report – April to September 2020	Head of Customer Support Services	Bi-Annual
Internal Audit Benchmarking	Chief Internal Auditor	Annual

Audit & Scrutiny Committee Work Plan 2019 – 2020

2020/21 Internal Audit Plan (Draft)	Chief Internal Auditor	Annual
Corporate Complaints – Annual Report 2018-19	Governance and Risk Manager	Annual
16 March 2021	Reports to Committee Services by 19 February 2021	
Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2020/21 • Work Experience • Trading Standards • Disaster Recovery Planning • Workforce Planning	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Internal Audit Charter and Internal Audit Manual Update	Chief Internal Auditor	Annual
2021/22 Internal Audit Plan (Final)	Chief Internal Auditor	Annual
External Audit – 2020/21 Annual Plan	Audit Scotland	Annual
Audit Scotland Report – Financial Overview 2019/20	Head of Financial Services	Annual
2020/21 Unaudited Annual Accounts Preparation Plan and Timetable	Head of Financial Services	Annual
Treasury Management Strategy and Annual Investment Strategy	Head of Financial Services	Annual
15 June 2021	Reports to Committee Services by 21 May 2021	
Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2020/21 • Learning Disability Care Packages • Street Cleaning • Live Argyll – Inter Company Controls/Budget Monitoring	Chief Internal Auditor	Quarterly

Audit & Scrutiny Committee Work Plan 2019 – 2020

External Audit Update Report	Audit Scotland	Quarterly
Council Performance Report – October 2020 to March 2021	Head of Customer Support Services	Bi-Annual
Strategic Risk Register Update	Chief Executive	Annual
Internal Audit 2020/21 Annual Report	Chief Internal Auditor	Annual
Review of Code of Corporate Governance	Governance, Risk and Safety Manager	Annual
External Audit 2020/21 Management Report	Audit Scotland	Annual
Local Government Benchmarking Framework Report	Head of Customer Support Services	Annual
Unaudited Financial Accounts	Head of Financial Services	Annual
2021/22 Scrutiny Plan	Chief Internal Auditor	Annual
Local Government in Scotland: Challenges and Performance 2021	Audit Scotland	Annual

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