

Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry



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9 March 2021

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held **BY SKYPE** on **TUESDAY, 16 MARCH 2021** at **10:00 AM**, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

1. **APOLOGIES**
 2. **DECLARATIONS OF INTEREST**
 3. **MINUTE OF PREVIOUS MEETING HELD ON 15 DECEMBER 2020** (Pages 5 - 10)
- AUDIT ITEMS**
4. **INTERNAL AUDIT AND COUNTER FRAUD SUMMARY OF ACTIVITIES** (Pages 11 - 18)
Report by Chief Internal Auditor
 5. **INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2020-21** (Pages 19 - 44)
Report by Chief Internal Auditor
 6. **INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2020/21**
(Pages 45 - 74)
Report by Chief Internal Auditor
 7. **2021/22 INTERNAL AUDIT PLAN** (Pages 75 - 94)
Report by Chief Internal Auditor
 8. **INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL** (Pages 95 - 120)
Report by Chief Internal Auditor
 9. **2020/21 AUDIT PROGRESS REPORT** (Pages 121 - 130)

Report by Audit Scotland

SCRUTINY ITEMS

- 10. LOCAL GOVERNMENT IN SCOTLAND - FINANCIAL OVERVIEW 2019-20** (Pages 131 - 168)
Report by Section 95 Officer
- 11. VERBAL UPDATE BY CHAIR(S) OF SCRUTINY PANEL**
Verbal Update by Martin Caldwell and Councillor Sandy Taylor
- 12. ECONOMIC STRATEGY SCRUTINY REVIEW** (Pages 169 - 180)
Report by Chair of Audit and Scrutiny Committee
- 13. SCRUTINY FRAMEWORK AND MANUAL UPDATE** (Pages 181 - 206)
Report by Chief Internal Auditor
- 14. BEST VALUE IMPROVEMENT ACTION PLAN UPDATE** (Pages 207 - 224)
Report by Chief Executive/Head of Customer Support Services
- 15. PERFORMANCE MANAGEMENT REVIEW UPDATE** (Pages 225 - 230)
Report by Executive Director with responsibility for Customer Support Services
- 16. WASTE MANAGEMENT** (Pages 231 - 262)
Report by Executive Director with responsibility for Development and Infrastructure Services
- 17. REGULATION OF INVESTIGATORY POWERS (SCOTLAND) ACT 2000 (RIPSA) ANNUAL REPORT** (Pages 263 - 264)
Report by Executive Director with responsibility for Legal and Regulatory Support
- 18. UNAUDITED ANNUAL ACCOUNTS 2020-21** (Pages 265 - 300)
Report by Section 95 Officer
- 19. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY** (Pages 301 - 358)
Report by Interim Head of Financial Services
- 20. WORKPLAN** (Pages 359 - 364)
For noting and updating

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

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**MINUTES of MEETING of AUDIT AND SCRUTINY COMMITTEE held BY SKYPE
on TUESDAY, 15 DECEMBER 2020**

Present: Martin Caldwell (Chair)

Councillor Jim Findlay	Councillor Sandy Taylor
Councillor George Freeman	Councillor Richard Trail
Councillor Sir Jamie McGrigor	Councillor Andrew Vennard
Councillor Alan Reid	

Attending: Jane Fowler, Head of Customer Support Services
Laurence Slavin, Chief Internal Auditor
Shona Barton, Committee Manager
Sonya Thomas, Performance and Improvement Officer
Colin Rae, Counter Fraud Team Leader
Isla Binnie, Counter Fraud Investigator
Annemarie McLean, Auditor
Moir Weatherstone, Auditor
Mhairi Weldon, Senior Audit Assistant
Leanne Rennie, Audit Assistant
David Meechan, Audit Scotland
Jim Rundell, Audit Scotland

1. APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies for absence were intimated on behalf of John Cornett of Audit Scotland.

2. DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3. MINUTES

(a) Minute of Meeting held on 22 September 2020

The minute of the meeting of the Audit and Scrutiny Committee held on 22 September 2020, was approved as an accurate record.

(b) Minute of Special Meeting, held on 17 November 2020

The minute of the Special meeting of the Audit and Scrutiny Committee, held on 17 November 2020, was approved as an accurate record.

4. INTERNAL AUDIT AND COUNTER FRAUD SUMMARY OF ACTIVITIES

The Committee gave consideration to a report providing a summary of Internal Audit activity and progress during quarter three of 2020/21 against the following areas:

Audits Completed

- System Interfaces and Reconciliations
- Oban Airport
- Scottish Welfare Fund
- Welfare Rights
- LEADER
- Homelessness
- Special Investigation – Primary School Finances

Audits in Progress

- Charging for Non-residential Care services
- Capital Monitoring
- Work Experience/Placements
- Management of Term Contracts
- Disaster Recovery Planning (ICT)

Information was also provided on the progress of the Counter Fraud Team (CFT), which is now fully operational utilising desktop investigations.

Decision

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

(Reference: Report by Chief Internal Auditor, dated 15 December 2020, submitted)

5. INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2020-21

Consideration was given to a report providing an update on all open actions as at 30 September 2020 including information on actions where the agreed implementation date had been rescheduled.

Decision

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

(Reference: Report by Chief Internal Auditor, dated 15 December 2020, submitted)

6. INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2020/2021

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

- Interfaces/Reconciliation
- Oban Airport
- Scottish Welfare Fund
- Welfare Rights
- LEADER
- Homelessness

Decision

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

(Reference: Report by Chief Internal Auditor, dated 15 December 2020, submitted)

7. INTERNAL AUDIT - ANNUAL SELF-ASSESSMENT

The Committee gave consideration to a report presenting the findings of the recent internal self-assessment of the Council's Internal Audit service performed by a member of the Internal Audit team.

Decision

The Audit and Scrutiny Committee agreed to endorse the findings of the assessment including the identified areas for improvement.

(Reference: Report by Chief Internal Auditor, dated 15 December 2020, submitted)

8. VERBAL UPDATE BY CHAIR(S) OF SCRUTINY PANEL

Councillor Taylor advised of the delay in progressing the review of the Strategic Housing Fund due to the Covid-19 pandemic. He advised that a meeting has been arranged for 17 December to agree on the best way to take this forward, and hoped to provide a fuller update at the next meeting of the Committee.

The Chair provided a short update on the progress made in relation to the review of the Council's Economic Strategy. He advised that a draft report has been prepared and it was hoped to bring it to the next meeting of the Committee for consideration.

Decision

The Audit and Scrutiny Committee agreed to note the contents of the verbal updates by the Chairs of the Scrutiny Panels.

9. COUNTER FRAUD TEAM PRESENTATION

Consideration was given to a short presentation by the Counter Fraud Team (CFT) who introduced themselves to the Committee and outlined the nature of works they will focus on during the duration of the two year pilot scheme. Mr Rae outlined the reporting mechanism of the team and the procedural legislation and legal requirements that require to be followed in executing their duties. He advised that both the internet and intranet hub web pages had been updated to promote the service.

Decision

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

(Reference: Presentation by Counter Fraud Team, submitted)

10. COUNCIL 6-MONTH PERFORMANCE REPORT - APRIL TO SEPTEMBER 2020

The Committee gave consideration to a report presenting the Council's 6-month Performance Report and Scorecard for April to September 2020 as agreed by the Senior Management Team (SMT).

Decision

The Audit and Scrutiny Committee:-

1. reviewed the Council's 6-month Performance Report and Scorecard as presented for the purposes of scrutinising the Council's performance;
2. noted that due to Covid-19 demands on staff and resources, Performance Management was deprioritised; and
3. noted the planned activity for Performance Management and Reporting during 2020/21 onwards.

(Reference: Report by Chief Executive/Executive Director with responsibility for Customer Support Services, dated 15 December 2020, submitted)

11. LOCAL GOVERNMENT BENCHMARKING FRAMEWORK 2018/19 - ANALYSIS AND COMMENTARY

The Committee gave consideration to a report presenting the Local Government Benchmarking Framework 2018/19 data for Argyll and Bute. Information provided included performance data; information about trends; comparison with Scottish performance and, where appropriate, with other councils. It was noted that commentary relating to performance had been provided by Heads of Service.

Decision

The Audit and Scrutiny Committee agreed to note the contents of the report ahead of its publication as part of the statutory Public Performance Reporting duty.

(Reference: Report by Executive Director with responsibility for Customer Support Services, dated 15 December 2020, submitted)

12. NATIONAL FRAUD INITIATIVE 2018/19

Consideration was given to a report outlining the findings of Audit Scotland's National Fraud Initiative (NFI), which provided some key messages in respect of NFI activity and also recommendations for consideration.

Decision

The Audit and Scrutiny Committee reviewed and endorsed the report and the attached self-appraisal checklist.

(Reference: Report by Chief Internal Auditor, dated 15 December 2020, submitted)

13. AUDIT AND SCRUTINY WORKPLAN

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

Decision

The Audit and Scrutiny Committee agreed to note the outline workplan.

(Reference: Audit and Scrutiny Committee workplan, dated 15 December 2020, submitted)

The Committee resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public for the following item of business on the grounds that it is likely to involve the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

14. RESTRICTED ITEM - INTERNAL AUDIT REPORT - ST JOSEPH'S PRIMARY SCHOOL FUNDS AND PTA FUNDS

The Audit and Scrutiny Committee gave consideration to a report presenting the findings of the audit performed in respect of St Joseph's Primary School Funds and PTA Funds.

Decision

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

(Reference: Report by Chief Internal Auditor, dated 15 December 2020, submitted)

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ARGYLL AND BUTE COUNCIL**AUDIT & SCRUTINY COMMITTEE****FINANCIAL SERVICES****16 MARCH 2021**

INTERNAL AUDIT AND COUNTER FRAUD SUMMARY OF ACTIVITIES

1. SUMMARY

1.1 The objective of the report is to provide the Audit and Scrutiny Committee (the Committee) with a summary of Internal Audit activity and progress during quarter four of 2020/21.

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

- **2020/21 Audit Plan progress:** On track
- **Individual Audits undertaken:** Two audits have been completed during the period. Both audits have been assessed as providing reasonable assurance.
- **Scrutiny:** Work has resumed on Scrutiny Plan to recap on progress to date and consider arrangements to proceed within current COVID guidelines.
- **Counter Fraud:** The team is fully resourced, progressing through training and functioning well.
- **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.

2. RECOMMENDATIONS

2.1 To review and endorse the Summary of Activities report

3. DETAIL

3.1 Two audits have been completed since the previous Committee in December 2020. Five audits are currently in progress and these will be reported to a future meeting of the Committee.

Audits Completed

- Pupil Placements
- Contract Management – Property Services

Audits in Progress

- Capital Monitoring
- Sickness Absence
- Intercompany Controls
- Charging for Non-residential Care services
- Disaster Recovery Planning (ICT)

- Warden Services
 - Workforce Planning
- 3.2 In addition to those already in progress indicative audits planned for Quarter 1 2021/22 are:

2021/22 Audit Plan

- Land and Asset Disposal
 - Purchasing Cards
 - Civil Contingencies
 - Planning Applications
 - Contract Management – Roads and Amenity Services
- 3.3 The 2020/21 internal audit plan included an audit of Learning Disability Care Packages. Officers are currently working on a draft Learning and Disability/Autism vision which will be supported by an associated strategy and service specific action plans. As this work is still being progressed it is considered that would be limited value in conducting an audit at the current time and so this audit has been removed from the 2020/21 plan. There is a possibility that this audit will be replaced by an audit of the Care Programme Approach which is a package of care provided to service users to support mental health recovery. The CIA is currently in discussion with officers over in relation to this. If it is decided not to progress this alternative audit then no further audit will be identified. For the reasons set out in paragraphs 3.14 and 3.15 there is limited resource availability at the current time.

Scrutiny

- 3.4 The Economic Strategy review panel met on 3 December 2020 and the final report is submitted to this Committee.
- 3.5 The Strategic Housing Fund review panel met on 17 December 2020 to recap on progress made to date and consider progression. It was decided to hold a further meeting with representatives from Scottish Government and a panel has been scheduled for 8 April 2021. As a consequence of ongoing COVID related restrictions scrutiny panels will be held virtually for the foreseeable future.

Counter Fraud

- 3.6 The Counter Fraud Team (CFT) is now fully operational utilising desktop investigations to date. Both officers have completed the CIPFA (Chartered Institute of Public Finance and Accountancy) Accredited Counter Fraud Specialist Course and passed module one and two and passed their written. This means both officers are now fully accredited.
- 3.7 The proposed amendments to the Council Constitution specifically Part D, Financial and Security regulations have been drafted, and are currently with Legal & Regulatory Support Officers for review.
- 3.8 To raise awareness of the CFT a presentation has been prepared and delivered to the full Strategic Management Team (including Heads of Service), the Financial Services Management Team and to this Committee. An internal e-learning course has been prepared and is with the Talent Management Team for testing and review.

- 3.9 As reported to Committee in December one whistleblowing referral has been fully reviewed and the CFT's conclusions passed to the relevant head of service. There are currently proceedings underway using the appropriate Council HR policies.
- 3.10 Investigations into reports of potential Council Tax anomalies are being carried out. These mainly consist of potentially false claims for single person discounts, fictitious tenants or claims of second home status for the avoidance of 100% premium of Council Tax. Investigations are mainly desk based utilising online tools for credit referencing and utility checks.
- 3.11 A rolling programme of reviews is carried out on Council Tax Discount and Exemptions and our current focus is to review:
- student exemptions and discounts that are 2 or 3 years old
 - repossessed dwellings
 - agricultural dwellings and buildings
 - levies due to be applied from 1 April 2021
 - properties changing to second homes and/or main residence.
- 3.12 Table 1 summarises our counter fraud activity work in 2020/21

Table 1: Counter Fraud Activity 2020/21

Investigation Area	No. of Referrals	Summary
Council Tax	24	Fourteen resulted in action, ten resulted in no action.
Benefits	1	Referred to DWP as falls under their remit.
Blue Badge	1	No offence found, but limitations of badge discussed with family member of badge owner by relevant department.
Employee	3	One currently subject to appropriate Council HR policies One with no evidence to support the accusation One ongoing.
Other	1	Allegation of council tax fraud and drug misuse whilst a minor is in home. Fraud not substantiated. Drug misuse allegation referred to police and social work for further investigation.
Proactive Work	N/A	Proactive reviews not based on referrals has resulted in removal of exemptions and applying extra charges and penalties where appropriate.
TOTAL	30	Total Billing to Date £16,921

Additional Updates from Quarter Four

- 3.13 Acting up arrangements affecting the Chief Internal Auditor which were first reported to the Committee in January 2020 are ongoing and will remain in place until a new Head of Financial Services is appointed. The post has been advertised with a closing date of 19 March 2021 so this issue will be resolved soon.
- 3.14 Internal Audit are taking the lead in managing the new Discretionary Fund to support local businesses impacted by COVID. The fund is now open to

applications. Initially two members of the Internal Audit team will be redeployed to assess applications, supported by colleagues from the NDR team. We will consider if this is sufficient as the volume and complexity of applications becomes known. If redeployment of staff puts pressure on completion of the 2020/21 Internal Audit Plan and commencement of the 2021/22 Plan, we will backfill using agency staff with the costs associated with that met from funding via financial flexibilities made available by the UK and Scottish Governments to help fund COVID specific costs.

- 3.15 Audit work is taking longer due to ongoing COVID restrictions, we are finding that it is taking longer to perform fieldwork due to officer availability and accessing documents which are held in offices. This and the redeployment of the team means more audit reports will be presented to the June Committee than would be usual. However I am still confident that the entire 2020/21 audit plan will be completed and reported by the time of that June Committee.
- 3.16 The Council tendered for a three year contract to provide Internal Audit work for the Health and Social Care Partnership (HSCP), we can confirm that this was successful and will commence on 1 April 2021.

Continuous Monitoring

- 3.17 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.
- 3.18 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 2.

Table 2: Continuous Monitoring Findings

Auditable Area	Areas Tested	Issues Identified	Management comment / action
Payroll	Timesheets are appropriately authorised	Timesheets from one service area were appropriately authorised, however, the authorised signatory list has not been updated to reflect this responsibility.	Awaiting response

National Reports

- 3.19 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 3 details the national reports issued during quarter three 2020/21.

Table 3: National Reports

National Report	Issued To	Detail	Management response/ Action taken
Audit Scotland: Digital Progress in Local Government	Executive Director Kirsty Flanagan	Responding to Covid-19 has increased the pace at which Scotland's 32 councils are delivering services through digital technology. Greater collaboration, use of shared expertise, citizen engagement and strategic planning are needed, however, to fully realise the potential of digital technology.	Self-assessment checklist will be completed and a full report submitted to the June Audit and Scrutiny Committee.
Audit Scotland: Housing Benefit Performance Audit Annual Update 2020	Revenue and Benefits Manager	Annual update of Audit Scotland's housing benefit performance audit work with key messages and findings provided.	No action required, performance issues were previously addressed and quarterly improvements have been achieved.
Audit Scotland: Local Government in Scotland: Financial Overview 2019-20	Chief Executive	Funding received by councils from the Scottish government increased by £500 million in 2019-20. But Covid-19 will drive large rises in costs and spending, combined with falling income.	The report has been shared with SMT for information, there are no actions to take in response to this report. This report appears as an agenda item at this Committee.

National Fraud Initiative (NFI)

- 3.20 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.
- 3.21 All required datasets for the 2020-21 exercise have now been uploaded to the NFI application and matches were released for review on 29 January 2021. Existing users have been reviewed and new users added where requested, all users have been informed that matches are available for review and progress will be monitored monthly by the Counter Fraud team and reported quarterly to the Audit and Scrutiny Committee.

Table 3: National Fraud Initiative Progress at 14/02/2021):

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
CT to Elect Register	1000	n/a	0	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	194	n/a	0	0	
Housing Benefits	26	12	8	0	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	55	31	0	0	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	255	157	0	0	Blue badge records to DWP data to identify deceased claimant with valid badge.
Housing Waiting list	245	66	0	0	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Council Tax Reduction	395	76	25	1	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	4839	253	4	0	Analyses Creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.

Overall Summary of Matches

Matches Complete	Work In Progress	Cleared	Frauds	Errors	Total Value £	Recovering	Recovering Value £
37	1	37	0	0	0	0	0

Internal Audit Development

3.22 The table below details progress against the action points in our Internal Audit development plan. No additional items have been added in quarters one and two.

Table 2: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Update Scrutiny Manual and Framework	Update the Scrutiny Manual and Framework to reflect Audit and Scrutiny Committee Decisions resulting from the lessons learned report previously submitted to the Committee. Delayed due to acting up arrangements and staff being redeployed due to the council's response to the pandemic situation.	Completed	March 2021
Drafting Annual Internal Audit Plan	CIA to provide members of the Audit and Scrutiny Committee with the opportunity to input into the planning process to create the annual internal audit plan	Completed	March 2021
VC and conference facility	Progress plan to use former audit room at Whitegates as a video conference facility. The new facility is well progressed but paused due to the Council's response to the pandemic situation.	Delayed	No current timescale due to ongoing office closures

3.23 Internal Audit scorecard data is available on pyramid. The indicators reported are aligned to those for internal audit in the Financial Services service plan. All indicators are shown as on currently being on track.

Internal Audit Team Scorecard 2020– 21 – FQ3 20/21 (as at December 2020)			
BO115 We Are Efficient And Cost Effective			
Internal Audit Level of Satisfaction	Actual	93%	G
	Target	80%	↓
Review of Strategic Risk register	Status	Complete	G
	Target	On Track	↑
Percentage of audit plan completed	Status	On Track	G
	Target	100%	→
Percentage of audit recommendations accepted by management	Actual	100%	G
	Target	100%	→

4 CONCLUSION

4.1 The revised 2020/21 Audit Plan is on track. A draft 2021/22 audit plan has been drafted and is submitted to this committee for noting. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control effectiveness.

5 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 – None
- 5.7 Customer Service – None

For further information please contact Internal Audit (01436 657694)

Laurence Slavin

Chief Internal Auditor

16 March 2021

ARGYLL AND BUTE COUNCIL
AUDIT AND SCRUTINY COMMITTEE**FINANCIAL SERVICES****16 MARCH 2021**

INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2020-21

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 30 December 2020 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 30 December 2020.

Actions Due before 30 December 2020

Service	Complete	Delayed / Rescheduled	Total
Internal Audit			
Adult Care	0	2	2
Commercial Services	0	4	4
Customer Support Services	1	1	2
Development & Economic Growth	0	1	1
Education	1	5	6
Financial Services	6	3	9
Legal & Regulatory Support	7	3	10
Lifelong Learning & Support	0	1	1
Roads & Infrastructure Services	1	4	5
External Audit			
	0	0	0
TOTAL	16	24	40

Actions due after 30 December 2020

Service	Complete	On Course	Delayed & Rescheduled	Total
Internal Audit				
Adult Care	0	0	1	1
Commercial Services	0	2	0	2
Cross Cutting	0	6	0	6
Customer Support Services	0	1	0	1
Development & Economic Growth	0	1	0	1
Education	0	3	0	3
Financial Services	0	3	0	3
Legal & Regulatory Support	0	17	0	17
Lifelong Learning & Support	0	1	0	1
LiveArgyll	0	1	0	1
Roads & Infrastructure Services	1	6	1	8
External Audit				
Financial Services	0	0	1	1
Customer Support Services	0	1	0	1
TOTAL	1	42	3	46

3.2 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 up.

4.0 CONCLUSION

4.1 COVID19 continues to impact on the progress services are making to complete audit action points.

5.0 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
16 March 2021

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

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 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Roads & Infrastructure Services – Fleet Management	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.	Medium	Policies and procedures will be reviewed and updated.	31 Dec 2020 31 May 2021	This is being progressed. An external audit will determine the full criteria of information required to fulfil this action. The action will be completed in the spring. Delayed & Rescheduled	Procurement/ Technical Officer
Roads & Infrastructure Services – Fleet Management	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.	Medium	Policies and procedures will be reviewed and updated.	31 Dec 2020 31 May 2021	This is being progressed. An external audit will determine the full criteria of information required to fulfil this action. The action will be completed in the spring. Delayed & Rescheduled	Procurement/ Technical Officer
Roads & Infrastructure Services – Fleet	Driving Licence Checks Fleet Services check driving licences of fleet	Low	The key officer will ensure a review takes place relating to the driver licence	31 Dec 2020 30 Jun 2021	Delay due to COVID-19. Due to office closures there is difficulty in checking licences. However, these	Procurement/ Technical Officer

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Management	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.		checks. Measures will then be implemented to ensure that all checks take place.		checks are being conducted at local depots and details shared with the fleet team. There is no end date to licence checks. This action should be removed as this piece of work is continuous with no end date. June 2021 would close down the action. The action would then reopen for future checks. Delayed & Rescheduled	
Roads & Infrastructure Services – Fleet Management	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	VFM	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	30 Sep 2020 31 Dec 2020 30 Jun 2021	The roll out of this link to the Tranman system is delayed due to the system administrator being unavailable and focusing on the implementation of the amenity plant and small tool module to comply with HSE requirements. Delayed & Rescheduled	Procurement/ Technical Officer

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	of: <ul style="list-style-type: none"> <input type="checkbox"/> a more centralised approach to the administration and booking of pool cars <input type="checkbox"/> better promotion of the use of pool cars <input type="checkbox"/> providing greater visibility of bookings and destinations to encourage pool car sharing <input type="checkbox"/> implementing or developing a pool car booking system <input type="checkbox"/> identifying ways of transferring the balance of pool car usage from shorter journeys to longer ones 		increase usage.			
Financial Services – Following the Public Pound	Guidance on Following the Public Pound (FtPP) Although the Council has an approved process to manage external funding requests it is limited in detail, is not closely aligned to the Code of Guidance on Funding	High	Following the Public Pound guidance will be drafted to provide a consistent approach to managing the award of external funds.	30 Jun 2020 31 Dec 2020 30 Jun 2021	FtPP guidance has been drafted however it can't be completed until the Asset Mgt Board have completed their review of how the Council deals with business cases as the two processes are heavily linked. The SAMB are currently considering progress against this review.	Head of Financial Services

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	<p>External Bodies and Following the Public Pound and there is a general lack of awareness amongst officers that it exists. Audit testing identified a number of areas of good practice within the Council and overall compliance with the principles of FtPP however there were examples of inconsistent practice. A more comprehensive 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 including funding assessments and post award monitoring and reporting. The audit</p>				Delayed & Rescheduled	

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	team researched a number of examples of FtPP guidance which had been created by other councils during the planning phase of the audit and can make these available to inform the creation of an Argyll and Bute equivalent.					
Financial Services – Logical Access	Logon Controls A number of issues were identified where logon controls fell short of good practice. In some circumstances the systems do not have the required functionality. We have only highlighted issues where the system does have the functionality however it has not been turned on. <input type="checkbox"/> Open Revenues o No control over inactive users	Low	Open Revenues – System supplier will be asked if a solution is possible to address issues identified.	30 Sep 2020 31 Dec 2020 30 Jun 2021	Based on feedback it appears unlikely this functionality will be implemented – we have rescheduled till end of June to see if there is any further update. Delayed & Rescheduled	Open Revenues Systems Administrators
Financial	Budget Monitoring	Low	Budget over or	31 Dec 2020	Further delayed due to staff	Revenues and

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Services – Scottish Welfare Fund	Prior to the COVID outbreak a monthly report was sent to FSMT and then on to SMT, detailing the budget allocation and spend to date as a percentage of the profiled monthly spend to date. Based on the budget information a recommendation is also made with regards to the prioritisation level for awarding applications for the following month. This reporting was ceased during COVID and has not recommenced yet.		underspends may be left unmonitored with prioritisation levels incorrectly set.	31 Mar 2021	involvement in the response to COVID. Paper has gone to FSMT on 25 January and will go to SMT as soon as possible thereafter. Delayed & Rescheduled	Benefits Manager
Commercial Services – Legionella improvement Plan	Appointment of Key Positions The Standard requires the Chief Executive to appoint the Duty Holder in writing and for the Duty Holder to then appoint the FRPs, Deputy Duty Holder and Responsible Persons	High	Appointments to be made after appropriate training.	31 Dec 2020 31 Mar 2021	On track to revised target Draft Appointment Letters being considered by DMT on 18th January 2021 for issue thereafter. Delayed & Rescheduled	Executive Director with Responsibility for Commercial Services/Head of Commercial Services

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	(Legionella) in writing. None of this has occurred although the Standard does establish an anticipation that the Duty Holder will be the Executive Director with responsibility for Commercial Services and that the FRPs will be Heads of Service.					
Commercial Services – Legionella improvement Plan	Staff Resources Significant progress requires to be made to fully appraise staff resources and appoint key staff to undertake legionella management tasks within properties.	High	Undertake benchmarking exercise and review staff resource, following which provide guidance to FRP's for them to appoint key staff.	31 Dec 2020 31 Mar 2021	<p>1. Resources template developed and sent to other local authorities. Returns had to be chased up meaning information not available until mid-December 2020. Returns to be analysed to allow appraisal of resource to be finalised.</p> <p>2. FRPs/Site & Premises Managers available on Premises Inspection Sharepoint. Heads of Service to confirm details on list for their properties as part of their appointment.</p> <p>Delayed & Rescheduled</p>	Executive Director with Responsibility for Commercial Services/Head of Commercial Services

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Commercial Services – Legionella improvement Plan	Risk Based Approach to Legionella A Contractor specialising in water quality undertakes various water hygiene checks on a monthly, quarterly, six monthly and annual basis at 72 of the 327 Council owned properties which have a water supply. The properties selected for Contractor visits were chosen on a risk based approach based on discussions with representatives within the water group and included consideration of users, location, water outlet types rather than a formalised risk based approach informed by the risk assessments. In addition flushing is currently being undertaken at 13 properties and again this was based on risk based discussions	Medium	Review all properties with water and produce a written record of the nature and frequency of tasks that require contractor visits.	31 Dec 2020 31 Mar 2021	<p>1. A number of tasks are ongoing as follows</p> <p>a. A reconciliation of all sites with water from various sources including Concerto records, billing records etc.</p> <p>b. A matrix of contractor tasks for each property has been produced and is being populated</p> <p>2. Vacancies within the business support team have hampered progress but it is anticipated that additional resource should be in place in February 2021.</p> <p>3. Once item 1a is completed the matrix will be finalised allowing the audit action to be completed.</p> <p>Delayed & Rescheduled</p>	Property Services Manager/Energy & Building Services Performance Manager/Mechanical Services Technician

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	rather than a formalised risk based approach					
Commercial Services – Legionella improvement Plan	Legionella Log Books Legionella log books which are required at all properties requiring testing have, at the time of original audit 121 have been distributed to Council properties. 262 had been distributed by August 2020. Furthermore sample testing identified inconsistencies in the information recorded in log books.	Medium	Complete the distribution of logbooks to appropriate properties.	31 Dec 2020 31 Mar 2021	All log books have been produced and with the exception of 18, log books have now all been distributed to sites. The 18 that have still to be distributed are generally on islands so distribution has been hampered by travel restrictions. It is preferable to personally deliver logbooks so if travel is not possible before the end of February they will be posted. Once the final 18 logbooks have been distributed the audit action will be completed. Delayed & Rescheduled	Property Services Manager/Energy & Building Services Performance Manager/Mechanical Services Technician
Education – Pupil Equity Fund	School Quality Improvement Visits QIOs are required to perform quality improvement visits to schools three times per year with PEF progress assessed	Medium	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	30 Jun 2020 31 Dec 2020 31 Mar 2021	Due to the March-June lockdown and subsequent current lockdown only one visit has been possible to date. The second visit will be conducted digitally if schools continue to be in lockdown or there is a blended learning approach.	Education Manager, Education Officer

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	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.		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		Delayed & Rescheduled	
Education – St Josephs Primary School PTA & School	PTA Fund Cash and Banking Arrangements The management of	High	Principles of best practice as outlined in the Circular will be implemented in the	31 Dec 2020 30 Jun 2021	Delayed by high levels of absence of key personnel, including the HT, due to COVID-19 between August	Education Manager (Acting)

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Funds	<p>St Joseph's PTA Fund account has not applied many principles of good practice in relation to fund management. In particular there:</p> <ul style="list-style-type: none"> • are four authorised signatories for the PTA bank account however only two are current • was no cashbook available for review • was no evidence of bank reconciliations being performed • had been no funds banked for 18 months despite numerous fundraising events taking place • was no petty cash record maintained to facilitate purchase of small items for fund raising events • is no secondary review of 		management of PTA funds and banking arrangements.		<p>and December, and the resulting prioritisation of learning provision to children.</p> <p>Delayed & Rescheduled</p>	

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	<p>PTA transactions by another member of the committee</p> <ul style="list-style-type: none"> • is no record of the value of proceeds raised by the PTA committee members prior to handing cash to the treasurer • is no record of fundraising proceeds being transferred to the treasurer • are no cash handling procedures issued to committee members. <p>Application of the education management circular relating to school fund management is optional for PTA accounts where the account is not managed by a council officer. However it establishes the key principles that, if applied, would have helped to prevent the misappropriation of</p>					

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	PTA funds. If the new treasurer of the St Joseph's PTA fund is not a council officer then the fund committee should consider applying the principles of the Circular.					
Education – St Josephs Primary School PTA & School Funds	<p>Compliance with Education Management Circular 1.10</p> <p>The management of the St Joseph's general school fund has not complied with the requirements of Education Management Circular 1.10 in a wide range of areas. In particular:</p> <ul style="list-style-type: none"> • a committee has not been established to manage school funds • cash books are not up to date • formal monthly bank reconciliations are not performed • expenditure 	High	Requirements as set out in the Circular will be implemented in the management of the school funds and banking arrangements.	31 Dec 2020 30 Jun 2021	<p>Delayed by high levels of absence of key personnel, including the HT, due to COVID-19 between August and December, and the resulting prioritisation of learning provision to children.</p> <p>Delayed & Rescheduled</p>	Education Manager (Acting)

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	<p>limits have not been formally set</p> <ul style="list-style-type: none"> • receipts are not provided for all payments and donations • petty cash float values have not been agreed but are topped up in multiples of £50 when required • there is no documented evidence of independent auditor being elected or instruction issued to sign both accounts and cash books upon completion of review • school fund documentation is not retained in accordance with section eight of the Circular outlining the requirement for retention of records. St Joseph's Primary School should implement the required controls and processes contained within the Circular. 					

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Education – St Josephs Primary School PTA & School Funds	PTA Constitution and Committee The PTA constitution should be updated to include a description of what is considered to be PTA funds and formally presented to the committee and approval recorded on minutes. PTA committee meetings appear to be of an informal nature with no secretary appointed to record formal minutes of discussions. Furthermore there are no formal Treasurer's reports as these are often provided verbally.	Medium	The St. Joseph's Primary School PTA constitution will be updated, governance arrangements formalised and office bearers appointed.	31 Dec 2020 30 Jun 2021	Delayed by high levels of absence of key personnel, including the HT, due to COVID-19 between August and December, and the resulting prioritisation of learning provision to children. Delayed & Rescheduled	Education Manager (Acting)
Education – St Josephs Primary School PTA & School Funds	PTA Accounts 2018/19 PTA financial statements have not been prepared and provided to the appointed independent auditor.	Medium	2018/19 accounts will be prepared and provided to the independent auditor for review.	31 Dec 2020 30 Jun 2021	Delayed by high levels of absence of key personnel, including the HT, due to COVID-19 between August and December, and the resulting prioritisation of learning provision to children. Delayed & Rescheduled	Education Manager (Acting)

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
Legal & Regulatory Support – Information Asset Registers	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.	High	Clarify where responsibility for Live Argyll IAR lies and have it completed and approved by appropriate management team	31 Dec 2020 30 Jun 2021	Issue has been discussed within Live Argyll management team, and agreement reached to complete and approve the IAR by June 2021. Action required additional time due to Live Argyll staff being furloughed. Delayed & Rescheduled	Governance, risk & Safety Manager
Legal & Regulatory Support – Information Asset Registers	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	High	Social Work IARs to be completed and approved by appropriate management teams	31 Dec 2020 30 Jun 2021	Social Work IARs have been partially completed, work continues to progress these and identify the appropriate approval mechanism. Delayed & Rescheduled	Governance, risk & Safety Manager

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	requirements. Clarity over whether the Live Argyll IAR comes under the remit of the Governance, Risk & Safety Manager's responsibility is required.					
Legal & Regulatory Support – trading Standards	Standard Operating Procedures There are very limited documented procedures for the majority of the areas of work within Trading Standards. Provision of step-by-step instructions would act as guidelines for employees to undertake work processes in a consistent manner in line with legal and regulatory requirements and best practice. Trading Standards should perform an exercise to identify all processes which	Medium	Standard operating procedures will be prepared and reviewed by management in accordance with the Trading Standards Improvement Plan.	31 Dec 2018 28 Feb 2019 31 Mar 2019 31 May 2019 31 Jul 2019 31 Oct 2019 31 Mar 2020 31 July 2020 31 Dec 2020 31 Mar 2021	Agreement reached with Trading Standards for a programme for approval and review to be in place by 31 March 2021, and development included within the 2021-22 workplan. Delayed & Rescheduled	Trading Standards Manager

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	would benefit from having documented procedures and then create a programme of work for them to be drafted and approved.					
Lifelong Learning & Support – Systems Interfaces & Reconciliations	General Ledger Reconciliations There is no reconciliation performed between the source system and the general ledger for ResourceLink, PECOS, Concerto and Tranman and the SEEMiS interface for clothing grants.	Medium	Data in the source system may not be accurately reflected in the general ledger.	31 Dec 2020 31 Mar 2021	System established not working, looking at modifying this to streamline system. Delayed & Rescheduled	Seemis - School Services Support Manager
Customer Support Services – Logical Access	Password Controls A number of issues were identified where password controls fell short of good practice. In some circumstances the systems do not have the required functionality. We have only highlighted issues where the system does have the functionality however it	Low	Payroll – Password complexity will be introduced by end of December 2020.	31 Dec 2020 31 Mar 2021	Due to Resourcelink upgrade issues which has involved continuous resource this has not progressed as planned. Further year end upgrade due Feb/March. Delayed & Rescheduled	ResourceLink Systems Administrator

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	has not been turned on. <input type="checkbox"/> Payroll <input type="checkbox"/> Password complexity not enforced					
Development & Economic Growth - Leader	Clarification from Scottish Government Clarification is required from the Scottish Government regarding the implications for the Council if projects are not being completed by 31 March 2021 especially regarding: <input type="checkbox"/> the definition of when a project is deemed to be completed e.g. a completion certificate issued by building control <input type="checkbox"/> for projects not completed by the deadline (therefore not qualifying for LEADER funding) will the Council be reimbursed by the Scottish Government for	Low	A meeting was held with the Scottish Government on 15 September. The new Head of the LEADER Team is to provide the Council with a written response to these issues for audit purposes. The relevant Executive Director and Head of Service have been briefed on this issue.	31 Dec 2020 31 Dec 2021	The Cabinet Secretary, Fergus Ewing has advised that the LEADER programme will be extended to the end of December 2021 to allow projects to complete given delays caused by the pandemic. Discussions are still being had with the Scottish Government to provide clarity on the issues noted about project completion. Delayed & Rescheduled	Economic Growth Manager

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	monies already disbursed.					
Adult Care – Social Care Contract Management	Care Contracts Sample testing of eight contracts highlighted two situations where there is no agreed and signed contract between the Council and the provider. In both cases these are continuations of previous contracts and they are currently operating on previously agreed contractual terms. HSCP officers are continuing to negotiate revised terms and, in one case, these negotiations have been ongoing for in excess of a year.	Medium	Contract Negotiations with two providers nearing conclusion – awaiting confirmation of estimated capacity from providers to allow terms to be finalised.	31 Dec 2020 31 Mar 2021	Negotiations are continuing – information from providers remain incomplete. Further meeting scheduled 4th February. Delayed & Rescheduled	Locality Manager – HSCP
Adult Care – Social Care Contract Management	Call Up Letters Sample testing highlighted situations where services are being provided without a call up letter being in place. This is contrary	Low	Updated call up letters will be issued when providers confirm estimated capacity for year.	31 Dec 2020 31 Mar 2021	Meeting on 4th February to clarify estimated capacity with providers. Delayed & Rescheduled	Locality Manager – HSCP

Action Plan Points Due by 30 December 2020						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	to Council policy.					

Action Plan Points Due After 30 December 2020						
Financial Services – External Audit – Financial Strategy	<p>The current medium to long term financial strategy does not contain detailed financial plans beyond 3 years.</p> <p>There is risk that the impact of changes in funding or expenditure scenarios beyond three years are not fully taken into account across all aspects of the Council's activities.</p> <p>The council should enhance its long term strategy when next it is reviewed. In particular it should consider providing detailed financial plans for up to five years, providing details of changes in assets, liabilities and reserves over time and including an</p>	N/A	The Council will give consideration to enhancing its long term strategy when it is reviewed during 2019-20.	31 Mar 2020 30 June 2020 31 Dec 2020 31 Mar 2021 30 Jun 2021	<p>The strategy has been drafted but we are we are waiting to get the 2021/22 budget settlement so we can update it with the most up-to-date figures prior to P&R approval. This was agreed by SMT. Revised Strategy will now go to May P&R.</p> <p>Delayed & Rescheduled</p>	Head of Financial Services

Action Plan Points Due After 30 December 2020						
	analysis of levels of service demand.					
Roads & Infrastructure Services – Logical Access	<p>User Management Controls</p> <p>A number of issues were identified where user management controls fell short of good practice. In some circumstances the systems do not have the required functionality. We have only highlighted issues where the system does have the functionality however it has not been turned on.</p> <ul style="list-style-type: none"> □ Tranman <ul style="list-style-type: none"> o Leaver and change notifications are not always received in a timely manner o No review of user access rights and permission levels o No audit trail is available 	Low	Tranman – on 25 august a call was logged with Civica regarding audit trail. Resolution and timescale will depend on response to logged call.	30 Sep 2020 31 Jan 2021 31 Mar 2021	We have been advised that this has been put back until February. Delayed & Rescheduled	Tranman Systems Administrators
Adult Care – Logical Access	<p>Password Controls</p> <p>A number of issues were identified where password controls fell short of good practice.</p>	Low	CareFirst – On 21 August a call was logged with OLM asking if the relevant	30 Sep 2020 31 Jan 2021 28 Feb 2021	CareFirst Programme Board is performing the governance on this topic. It met on 16th Dec and agreed that a complex password	CareFirst Systems Administrators

Action Plan Points Due After 30 December 2020

	<p>In some circumstances the systems do not have the required functionality. We have only highlighted issues where the system does have the functionality however it has not been turned on.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Carefirst <ul style="list-style-type: none"> o Old passwords can be reused o Password complexity not enforced 		<p>configurations can be amended. Resolution and timescale will depend on response to logged call.</p>		<p>format, minimum of 14 characters, will be adopted with no replacement, consistent with A&B Council policy.</p> <p>Delayed & Rescheduled</p>	
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ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

FINANCIAL SERVICES

16 MARCH 2021

**INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE
2020/2021**

1. EXECUTIVE SUMMARY

- 1.1 There are two 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
Pupil Placements	Reasonable	0	4	1	1
Contract Management – Property Services	Reasonable	1	2	1	1

- 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 the detail within each individual report.

3. DETAIL

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

Pupil Placements: 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. There are procedures in place which reflect national standards however these are not being fully complied with. Staff feel the procedures, and the associated templates, no longer reflect current practice, in addition records of pupil placements are not held consistently. There is no formal handover process in place or formal training provided. The Council liaises with the appropriate Regional Developing the Young Workforce (DYW) Group to promote the placement opportunity amongst key stakeholders however no management reports on pupil work placements are issued and considered.

Contract Monitoring – Property Services: 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. Contractors have not been asked to provide Key Performance Indicators as required by the contract management plans and contract monitoring has only been in place since September 2020. None of the existing contractors have been subject to a formal annual review or the contracts subject to a formal risk assessment. Roles and responsibilities require clarification and the officer responsible for contract management should undertake appropriate training.

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
16 March 2021

For further information contact:

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APPENDICES

1. Pupil Placements
2. Contract Monitoring – Property Services

Argyll and Bute Council
Internal Audit Report
February 2021

Pupil Work Placements

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	4	1	1

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1. Executive Summary

Introduction

1. As part of the 2020/21 internal audit plan, approved by the Audit & Scrutiny Committee in March 2020, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Pupil Work Placements.
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 Council has a core role to play in delivering work-based and work-related learning within secondary education as described in Building the Curriculum 4: Skills for Learning, Life and Work. Work placements should enable young people to develop their skills, confidence and abilities to become the employees, employers and entrepreneurs of the future.
5. The essential purpose of an effective work placement programme is to enhance the education of young people and their understanding of the world and should help a young person to make informed career choices. With the launch of Developing Scotland's Young Workforce (DSYW), and the development of a National Work Placement Standard by Education Scotland, the traditional work placement experience has an increased and sharper focus.
6. Senior phase pupils within the Council's school estate are able to choose to either pursue a general work placement or an extended work placement dependent upon their own individual circumstances, needs and career planning journey. Work placements are generally considered to be a shorter five day experience with a participating employer. An extended work placement may be offered to pupils to enhance their employability skills and options available to them as they make the transition from secondary school into a positive post school destination e.g. S4 summer or S5 December leaver. The pupil should spend no more than six half days per week, per term with an employer.
7. The Scottish Government has produced Developing the Young Workforce - Work Placements Standard. The Standard sets out expectations for the young person, employer, school and local authority and parent/carer before, during and after work placements.

Scope

8. The scope of the audit was to ensure appropriate arrangements are in place for Pupil Work Placements and that these are being adhered to as outlined in the Terms of Reference agreed with the Acting Head of Education: Lifelong Learning and Support on 16 November 2020.

Risks

9. The risks considered throughout the audit were:
- ORR - Failure to deliver the Developing Young Workforce programme
 - Audit Risk 1 - Failure to have robust policies and procedures in place
 - Audit Risk 2 - Failure to comply with established policies and procedures

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 four medium priority recommendations, one low priority recommendation and one value for money recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- guidance and associated templates should be reviewed and updated to reflect current work practice and provide for a more streamlined process
 - record keeping should be standardised and, if possible, a document management system adopted
 - robust handover procedures should be implemented
 - appropriate training should be provided
 - schools should consider undertaking the Education Scotland's suggested bench marking exercise
 - periodic management reports should be prepared and circulated.
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

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	Policies and procedures are in place which reflect national standards	ORR Audit Risk 1	Reasonable	There are procedures which reflect national standards however these are not being fully complied with. Staff feel the procedures, and the

	and are being complied with			associated templates, no longer reflect current practice. Records of pupil placement are not held consistently.
2	Policies and procedures are readily available and training has been provided to staff	ORR Audit Risk 1	Limited	Whilst all schools have access to the Council procedures and national standards there is no formal handover process in place to ensure staff taking on responsibility for pupil placements are provided with the appropriate governance documents and knowledge to perform the role. No formal training is provided.
3	Procedures are appropriately amended to safeguard pupils with additional support needs	ORR Audit Risk 2	Reasonable	The Guidance sets out what should be considered when placing a pupil with additional support needs. Schools reported considering each case individually, adapting the procedures and putting additional supports in place as required. However there was a lack of awareness of the process set out in the Guidance to ascertain whether a PVG check is required.
4	Management and performance reports are submitted to relevant parties	Audit Risk 1 Audit Risk 2	Limited	The Council liaises with the appropriate Regional Developing the Young Workforce (DYW) Group to promote the placement opportunity amongst key stakeholders however no management reports on pupil work placements are issued and considered. These reports would form an important understanding of the success and challenges of the programme.

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

3. Detailed Findings

Policies and procedures are in place which reflect national standards and are being complied with

15. Since the 1980's young people have been given the opportunity to complete a stand-alone, week-long experience of the workplace normally during S4. The Council's guidance, based on this model, was revised and updated following an internal audit undertaken in 2010.
16. Work based vocational learning has developed since 2010 and the Scottish Government issued developing the Young Work Force Work Placement Standard (the Standard) in 2015. This sets out

the expectations of the main stakeholders namely the young person, the employer, the parent/carer, the school and local authority in advance of, during and after a placement.

17. In 2017, following the introduction of the Standard, the Council refreshed their Work Based Vocational Learning Guidance (the Guidance) and resources to reflect the expectations established by the Standard. The Guidance contains procedures which have been designed as a tool to help staff manage work placements effectively in their school.
18. Through random sampling (12 placements) and discussions with relevant officers in each of Argyll and Bute's secondary schools we identified that, whilst the spirit of the Guidance is being adhered to, the procedures contained within it are not being fully complied with. In particular officers were of the view that the Guidance:
 - is no longer aligned to how work based placements are managed
 - is onerous and would benefit from being streamlined
 - contains templates which are not useful or aligned to current practice.
19. In many cases schools have adapted the paperwork to better suit their needs. One school does use the standard templates, however they recognised this was only possible through utilising a considerable amount of clerical support.

Action Plan 1

20. The Guidance details roles and responsibilities including the role of the database administrator. The establishment of a database containing all relevant information relating to work placements was a key recommendation in the 2010 internal audit. The Standard requires that we "have robust record keeping in place which monitors and tracks where and when each young person participates in a work placement". Responsibility for recording pupil placements has been de-centralised. We saw no evidence that schools had access to a database and schools have designed their own recording systems. One school was unable to access any records relating to one of the sampled pupils. Consideration should be given to whether there is scope to adopt a document management system which the Council already utilises.

Action Plan 2

21. There are a number of key procedural areas which, whilst adapted to school needs, are being complied with. For example:
 - there is regular contact with employers with good working relationships maintained
 - there is engagement with pupils relating to their future career aspirations and availability of pupil work placements to meet these aspirations
 - parents are encouraged to participate in the process, are advised of placement choices and provide written agreement to the placement
 - health and safety checks are undertaken by the Council's Health and Safety team and a database is maintained which records employer visits and scheduled reviews.
22. There are also a number of areas of notable practice that have been introduced by individual schools, for example:
 - careers fayres held as part of career week with employers invited to attend and speak with pupils, including providing workshops

- assemblies are provided to pupils on Developing the Young Workforce in advance of placements which explain the placement and covers topics such as health and safety
- development of a log book which pupils complete prior to, during and after the placement incorporating a section for employer assessment, parent/guardian comments and teacher comments.

23. Education Scotland provides a benchmarking exercise which schools can undertake as part of a self-evaluation exercise to help assess how activity is being performed in relation to the requirements of the Standard. We found no evidence that any schools had undertaken this.

Action Plan 5

Policies and procedures are readily available and training has been provided to staff

24. Whilst all schools confirmed they had copies of the Standard and the Guidance there is no robust handover process in place to ensure that staff taking on responsibility for pupil work placements are provided with the necessary governance documents and appropriate information to help them perform the role. Reliance is placed on schools to ensure a proper handover and anecdotal evidence gathered during the audit suggests handovers, where they have been necessary, have been limited.

Action Plan 3

25. The procedures state that *“Training in work placement procedures will be offered annually by the Lead Officer: Developing Young Workforce (LO). The Head Teacher should notify the LO when a new member of staff is appointed to assist with the delivery of work placements.* There is no evidence of formal training taking place and training records were unavailable.

26. It was confirmed that until 2017, central training was delivered by the Lead Officer (Opportunities for All). Since the removal of this post no formal training has taken place, however, there has been staff development sessions and discussions on work placements held with the Developing Young Workforce Secondary Group.

Action Plan 4

Procedures are appropriately amended to safeguard pupils with additional support needs

27. The Guidance provides information on the additional arrangements which may need to be put in place for work based learning opportunities for those pupils with additional support needs (ASN). In addition, there is no specific guidance on placing pupils with ASN within the Standard.

28. The Guidance provides details on when a PVG check should be undertaken and the process to follow. However none of the schools were aware of the requirement for the School Work Placement Coordinator to work through the five stage assessment process set out in the Guidance to ascertain whether a PVG check is required.

Action Plan 4

29. The Guidance states that the basic procedures for work based learning may need to be altered and additional help/support put in place for pupils with ASN. Each case should be looked at on

an individual basis by all staff involved with the young person. Where a pupil already has a support person assigned to them, then the support person should accompany the pupil at all times, including when on work based placement. Through random sampling and discussions with secondary schools we were able to gain assurance that schools do consider individual pupil needs when organising work placements and, where considered appropriate, ASN pupils were placed with a support worker.

Management and performance reports are submitted to relevant parties

30. The Standard requires councils to “liaise with the appropriate Regional Developing the Young Workforce (DYW) Group to promote the placement opportunity”. Responsibility for ensuring there is sufficient suitable provision available for young people lies with a number of key partners. The Council attends the DYW regional group which includes attendance by employers, the Council and other key partners. In addition there is also a DYW secondary school group which is school focused. This is attended by staff responsible for work placements and provides an opportunity to share experiences, ideas and issues regarding work placements and offers good peer support.
31. During discussions with various officers across all the secondary schools an emerging theme was the increasing challenge of getting employers to sign up to the placement scheme and that the pool of employers is decreasing. Argyll and Bute has a large number of sole traders who are not eligible to take part in the programme and pupils are not allowed to attend placements which take place on water or which involve working on pontoons. One school spoke about experiencing particular difficulties getting a placement with the Council and the NHS.
32. At the present time there are no regular reports on the pupil work placements issued and considered. These reports would form an important understanding of the success and challenges of work placements.

Action Plan 6

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p>Policies and Procedures</p> <p>The Council has Work Based Vocational Learning Guidance in place which reflect the Scottish Government issued Developing the Young Workforce Work Placement Standard, however whilst testing provided assurance that schools are adhering to the spirit of the guidance they are not fully complying with them. The Guidance no longer reflects current work placement practices as schools have made their own adaptations to fit their needs. There is also a general sense amongst schools that the guidance is onerous and the templates contained within it are not useful. There would be benefit in reviewing the guidance and associated templates to see if they can be streamlined to ensure more consistent working practices.</p>	Inconsistent working practices may lead to a lack of compliance with Scottish Government standards.	Consult, review and update ABC Work Based Vocational Learning Guidance.	<p>Head of Education – Support and Lifelong Learning</p> <p>31 December 2021</p>

Medium	2	<p>Record Keeping</p> <p>The Standard requires the Council to have “have robust record keeping in place which monitors and tracks where and when each young person participates in a work placement”. The establishment of a database containing all relevant information relating to work placements was a key recommendation of an audit of work placements carried out in 2010 however responsibility for recording pupil placements has been de-centralised since then and there is no centralised database and schools have designed their own recording systems. One school was unable to access any records relating to one of the sampled pupils.</p> <p>Consideration should be given to whether there is scope to adopt a document management system which the Council already utilises.</p>	A lack of robust and consistent recording may result in pupil records being misplaced.	Explore options, identify and adopt a suitable document management system.	<p>Head of Education – Support and Lifelong Learning</p> <p>30 September 2021</p>
Medium	3	<p>Handover Process</p> <p>There is no robust handover process in place to ensure that staff taking on responsibility for pupil work placements are provided with the necessary governance documents and appropriate information to help them perform the role.</p>	Staff may not be aware of their responsibilities and the existence of the relevant governance documents.	Develop handover and induction procedures for school staff taking on lead role in delivering work placements.	<p>Head of Education – Support and Lifelong Learning</p> <p>30 September 2021</p>

Medium	4	<p>Training</p> <p>There is no training programme to support officers involved in the work placement programme including ensuring appropriate steps are taken to determine whether a PVG check is required.</p>	Appropriate checks may not be carried out before placing a child and more general procedures may not be followed.	<p>Conduct a training needs analysis with school staff leading on work placements.</p> <p>Produce a programme of centrally run CPD opportunities for next academic year (or include in Education Service Training Programme).</p>	<p>Head of Education – Support and Lifelong Learning</p> <p>30 September 2021</p>
Low	5	<p>Self-evaluation</p> <p>Education Scotland provides a benchmarking exercise which schools can undertake as part of a self-evaluation exercise. This provides a check list on how things are being undertaken against the requirements of the Standard. Schools have not completed this exercise.</p>	Areas for improvement might not be identified	<p>CPD session to be held on benchmarking tool for school staff.</p> <p>Introduce an annual benchmarking exercise for all secondary schools.</p>	<p>Head of Education – Support and Lifelong Learning</p> <p>31 December 2021</p>
VFM	6	<p>Reporting</p> <p>There are no periodic management reports on pupil work placements. These would form an important understanding of the success and challenges of work placements and facilitate discussions about how to overcome some of the barriers which are resulting in a decreasing pool of employers signing up to the scheme.</p>	Management may be unaware of issues relating to the work placement programme	<p>Identify and agree meaningful KPIs for new service plan, monitoring and reporting.</p> <p>Implement new KPI data collection in schools. Establish robust reporting framework including EMT and CSC.</p>	<p>Officer title: Head of Education – Support and Lifelong Learning</p> <p>30 June 2022</p>

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.

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Argyll and Bute Council
Internal Audit Report
February 2021
Final

Contract Management-
Property Services

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	1	2	1	1

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1. Executive Summary

Introduction

1. As part of the 2020/21 internal audit plan, approved by the Audit & Scrutiny Committee in March 2020, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Contract Management-Property Services.
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 purpose of contract and supplier management is to work closely with suppliers to maximise efficiencies for the Council and suppliers throughout the supply chain by:
 - ensuring the contract is successfully executed
 - maximising value for money
 - providing a system of monitoring, managing and improving performance
 - ensuring all parties recognise and understand their contractual roles and responsibilities
 - monitoring compliance by all parties to the terms of the contract, including contract Key Performance Indicators
 - driving continuous improvement
 - identifying lessons learned to inform future contract terms or strategies.
5. The Council's property portfolio comprises of approximately 645 buildings/sites. These assets require to be maintained so they function effectively and efficiently in supporting the delivery of services. Any deterioration in a building's physical condition, due to a lack of maintenance, can adversely affect service delivery, and also create legal, health & safety and reputational issues for the Council.
6. The property portfolio is maintained by six external contractors who are managed under nine term contracts split on a geographical basis covering:
 - Helensburgh and Lomond
 - Bute
 - Cowal
 - Mid-Argyll
 - Kintyre
 - Islay and the Isles
 - Oban and Lorn
 - Mull

- Coll & Tiree
7. The total value of the contracts is approximately £1.0m per annum with each lasting three years with an option of a one year extension.

Scope

8. The scope of the audit was to assess the arrangements for managing and monitoring property maintenance term contracts as outlined in the terms of reference agreed with the Head of Commercial Services on 13 November 2020.

Risks

9. The risks considered throughout the audit were:
- **Audit Risk 1:** Failure to have appropriately resourced and robust contract management arrangements in place
 - **Audit Risk 2:** Failure to ensure that services provided are in line with agreed contractual conditions
 - **Audit Risk 3:** appropriate performance monitoring arrangements are not in place

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 recommendation, two medium priority recommendations, and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. We have also highlighted one recommendation which may lead to more efficient working practice. These are summarised below:
- Key Performance Indicators (KPIs) should be supplied by contractors
 - annual review of contractors and contract risk assessments should be carried out
 - roles and responsibilities for contract management should be reviewed
 - the property contract manager should undertake contract management training
 - explore the possibility of a more efficient way to collate and report KPIs.
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 appropriately resourced and robust contract management processes in place	Audit Risk 1	Reasonable	There are contract management plans for all contracts to provide guidance on the operational management of contracts. A single contract manager is assigned to cover all term contracts however roles and responsibilities for contract management require clarification and, whilst contract management training was delivered to property staff in 2019, the officer with overall responsibility for contract management was unable to attend and is still to receive the training.
CO2	Supplier performance is monitored and reported in line with established arrangements	Audit Risk 2	Limited	Until September 2020 no formalised supplier review meetings had taken place nor had KPIs been received from contractors to allow service delivery to be monitored. Annual contractor reviews and contract risk assessments have not been carried out.
CO3	Appropriate arrangements are in place for performance monitoring and reporting	Audit Risk 3	Substantial	Monthly reporting on actual spend versus budget is carried out and quarterly customer satisfaction surveys are carried out with the most recent highlighting 87% satisfaction. There may be scope to better automate the process to generate KPI reports however this would need to be assessed against any potential costs.

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 appropriately resourced and robust contract management processes in place](#)

16. Property Maintenance have prepared contract management plans for each of the six contractors. The plans adopt a standardised approach for operational day-to-day management

throughout the lifecycle of each contract that ensure both the Council and contractors obligations are understood and managed. They provide guidance on key areas such as:

- level of contract management based on assessed contract risk
- contract objectives
- contract meetings
- key performance indicators (KPIs)
- escalation protocols.

17. Each of the six contracts has been assigned a 'high' level of risk which means the following is required:

- attendance by contract provider at monthly contract review meetings
- provision of contract monitoring data to be supplied by contract provider (e.g. KPI's) prior to meetings
- completion of a full balanced scorecard
- contract performance monitoring data to be reviewed at meetings and minutes kept .

18. Property Maintenance are responsible for co-ordinating the contract monitoring activity, analysis of information from the external contractors, identifying issues and risks and producing contract monitoring reports. A nominated contract manager is in place who is responsible for ongoing engagement with the contractor throughout the life of the contract. Discussions with the contract manager highlighted that some clarification regarding roles and responsibilities in relation to managing property services contracts is required.

Action Plan 3

19. The Procurement, Commercial and Contract Management Team (PCCMT) provided training on contract and supplier management to all relevant Council staff during 2019. A review of the training provided confirmed it was comprehensive and the list of attendees confirmed that Property Services staff attended. However the contract manager responsible for the term contracts was unable to attend due to prior commitments. The contract manager should undertake the training course as soon as possible to ensure robust contract monitoring arrangements are in place.

Action Plan 4

20. Each contract has an escalation procedure outlined within the contract management plan for both the Council and the contractor. The plan identifies responsible persons for the Council and the contractor and the process involved.

21. During the current contract period of the nine term contracts, the technical support to the contract administrator has reduced from five officers to two, however there has been no change to the technical/administrative requirements of the contracts.

[Supplier performance is monitored and reported in line with established arrangements](#)

22. All maintenance contractors are required to sign up to the Council's standard terms and conditions which cover all aspects of contract performance including:

- performance of service
- financial regime
- contract manager

- disputes
- monitoring and reporting.

23. We reviewed the arrangements for the six contract providers to ensure that:

- there is an established and signed contract
- contracts are monitored in line with the requirements of the contract management plan including attendance at performance review meetings
- KPIs are provided by the contractors
- contracts are regularly reviewed for risk and the contract management plan updated accordingly.

24. We confirmed that signed contracts are in place for all nine geographical areas and that three of the nine contracts have been extended for one year.

25. Formal engagement with contract providers is required to be carried out via regular contract review meetings the frequency of which is dependent upon the risk category assigned to the contract. Proposed dates are specified within each contract monitoring plan. These meetings are critical as they should highlight where the service is performing well, where the provider is not meeting contract requirements and where corrective action is required with corresponding timescales and responsible person. As all contracts have been designated high risk there is a requirement for these meetings to be monthly.

26. Prior to September 2020 no formalised contract review meetings had taken place with any of the contract service providers. Since September 2020 the PCCMT have engaged with Property service officers to reinstate contract review meetings. The contract manager confirmed that, in some instances, informal telephone meetings had taken place with contract providers prior to September 2020 in order to resolve ongoing service issues however no records of these meetings were taken.

27. No action point has been raised in regard to supplier meetings as we recognise that corrective action has been taken since September 2020. However given that no formalised engagement with service providers had taken place for some two years prior to September 2020 and that corrective action has only recently been implemented it is too early for us to provide assurance over the new arrangements. However, as set out, at paragraph 36, it is clear that repairs are predominantly being carried out to a satisfactory standard and some assurance can be taken from this.

28. KPIs are a standard tool for contract management to ensure contracts are managed to determine whether or not best value is being achieved. The KPI information required from each contractor is specified in the contract management plan and is set out in exhibit 2.

Exhibit 2 – Established KPIs

Category	KPI	Target
Quality	• Photo records taken of the work and repair log book showing attendance periods	98%
	• Community benefits	Varies
Service	• Number of complaints	5% (Max)
	• Complaints not rectified within 21 days from date of notification	0%
Delivery	• Response times met	95%
	• Completed targets	95%

	<ul style="list-style-type: none"> Follow up work reported to help desk 	99%
Cost	<ul style="list-style-type: none"> Submission of invoices within 21 days of completion date Returned invoices to contractor Outstanding returned invoices from previous month 	98% 5% (Max) 0%

29. We found that no KPI information has been supplied by any contractor during the course of the current contracts. Minutes from supplier meetings held since September 2020 highlighted that contractors were querying why they were now being asked to supply KPIs as they had not previously been asked to.

Action Plan 1

30. None of the contractors have been subject to a formal annual review nor have the contracts been subject to a formal risk assessment during the contract life.

Action Plan 2

[Appropriate arrangements are in place for performance monitoring and reporting](#)

31. Property services sit within Commercial Services and have three layers of reporting:

- departmental management team
- property management team meetings within Property Services
- property maintenance staff meetings.

32. Property Services have a budget which reflects the expected total spend for the term contracts across all geographical areas. The budget is split between emergency, planned and statutory maintenance. Reports are produced on a monthly basis of actual spend against budget. These reports are discussed at appropriate management meetings.

33. As noted at paragraph 28 it is a requirement that contractors supply quarterly KPI information however this has not been occurring. However the Council's Concerto management information and administrative processes do allow the contract manager to monitor the three cost KPI's referenced at paragraph 28.

34. In order to do this the contract manager needs to download raw data from Concerto into an excel spreadsheet and then use pivot tables to extract the required performance data. There would be merit in investigating whether the required KPIs can be generated via a standard reporting package rather than through data manipulation although we acknowledge there may be a cost involved in this which would need to be considered.

Action Plan 5

35. Property Services undertake quarterly satisfaction surveys for all clients. The survey covers the following areas:

- initial contact from property/contractor
- emergency repairs
- planned maintenance
- statutory maintenance
- contractors performance.

36. The survey request respondents to quantify performance from “very satisfied” to “very dissatisfied” and are scored accordingly. Customers are also given the opportunity to provide a comment on performance. Results from the last survey carried out for the period July-September 2020 highlighted an 87% satisfaction score against a target of 80%. Where clients are dissatisfied or very dissatisfied follow up calls are made to attempt to resolve any particular issues.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Key Performance Indicators</p> <p>Contractors have not been asked to provide the KPI information required by their contract management plans during the course of the current contracts.</p>	Issues in relation to service delivery may not be highlighted and corrective action taken	Instruct the various term contractors to provide KPI information and review at progress meetings.	Property Services Manager/Maintenance Manager: 30 September 2021
Medium	2	<p>Annual Contract Review</p> <p>Property Service contracts have been assigned a high level of risk which determines the level of contract monitoring required. None of the existing contractors have been subject to a formal annual review nor have the contracts been subject to a formal risk assessment during the contract life.</p>	Contracts may not be subject to the appropriate level of contract monitoring.	<p>Discuss level of risk with colleagues in the PCCMT and ensure that is included in any new contracts.</p> <p>Undertake formal annual reviews/risk assessments on all 9 term contracts</p>	Property Services Manager/Property Maintenance Manager: 30 September 2021
Medium	3	<p>Roles and Responsibilities</p> <p>There is a need for greater clarity over the roles and responsibilities of those involved in the overall management of the term contracts.</p>	Contract management may not be carried out in line with requirements.	<p>Review resource required to administer term contracts</p> <p>Issue roles and responsibilities guidance to staff involved in the overall management of the term contracts</p>	Property Services Manager/Property Maintenance Manager: 30 September 2021

Low	4	<p>Training</p> <p>Training on contract and supplier management was rolled out to all relevant property staff by the Procurement Commissioning and Contract Management Team in 2019 however the officer with overall responsibility for term contracts was not able to attend and therefore should do so as soon as possible</p>	Contract management may not be carried out in line with requirements.	Property Maintenance Manager to attend training	Property Services Manager: 30 June 20201
VFM	5	<p>Concerto</p> <p>In order to present cost KPI data the Contract Manager needs to extract data from Concerto and manipulate it in Excel using pivot tables. There would be merit in investigating whether the required KPIs can be generated via a standard reporting package rather than through data manipulation although we acknowledge there may be a cost involved in this which would need to be considered.</p>	Officer time is not being used efficiently.	Investigate and develop functionality of Concerto as necessary to minimise data manipulation and therefore officer time.	Property Maintenance Manager: 30 September 2021

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Appendix 2 – Audit Opinion

Level of Assurance	Definition
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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**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****16 MARCH 2021**

2021/22 INTERNAL AUDIT PLAN

1. INTRODUCTION

1.1 This report introduces the 2021/22 Internal Audit Annual Audit Plan.

2. RECOMMENDATIONS

2.1 To agree and endorse the Internal Audit Annual Plan 2021/22 (Appendix 1).

3. DETAIL

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 CIA to provide an annual opinion on the Council's internal control framework, based on the work undertaken during the year. This annual opinion informs the Annual Governance Statement.

3.2 The Annual Audit Plan is shown at Appendix 1. The creation of the plan gave consideration to a number of factors including:

- the audit universe risk assessment which is based upon a matrix taking account of scores for each potential audit area in respect of materiality, sensitivity, time elapsed since it was last subject to audit and the overall audit assessment when it was last reviewed.
- the Council's strategic risk register and operational risk registers
- input from Executive Directors, the Health and Social Care Partnership (HSCP) Chief Officer and Heads of Service
- a consideration of the need to provide audit coverage across all Heads of Service, the HSCP and LiveArgyll
- significant changes within the Council (i.e. new systems, new policies)
- wider issues in the public sector environment
- an internal audit team meeting to discuss possible areas of focus based on cumulative audit knowledge.

3.3 The Audit plan is broken down into 3 main areas which are:

- Service department reviews
- Continuous monitoring programme
- Other Activity

3.4 Service department reviews include auditable units within the audit universe which are specific to an individual department. Our continuous monitoring programme includes a number of auditable units which were historically subject to individual annual audits. These areas are now tested on a regular recurring basis with control weaknesses reported by exception. Internal Audit also undertake other activities during the year including verification work and following up on previous internal audit recommendations for improvement.

- 3.5 An indicative outline scope is given for each of the audit reviews. Full terms of reference will be discussed and agreed with the relevant Head of Service as part of the planning process for each audit.
- 3.6 The plan is based on an estimated available 789 audit days with suitable contingency factored in. The plan remains fully flexible, to accommodate changes in the Council's risk profile and /or emerging risks.
- 3.7 Feedback on the draft plan has been obtained from the SMT, the two Council DMTs, the Chief Officer of the HSCP and the Live Argyll General Manager. This has been incorporated into the plan included as appendix 1 to this paper

4. CONCLUSION

- 4.1 The draft annual audit plan is risk based and is aligned to the Council's long term outcomes, corporate objectives and strategic risk register. The plan also incorporates continuous monitoring and verification activity.

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 – Delivery of an effective internal audit function and plan should help reduce the Council's risk exposure.
- 5.7 Customer Service – None

**Laurence Slavin,
Chief Internal Auditor
16 March 2021**

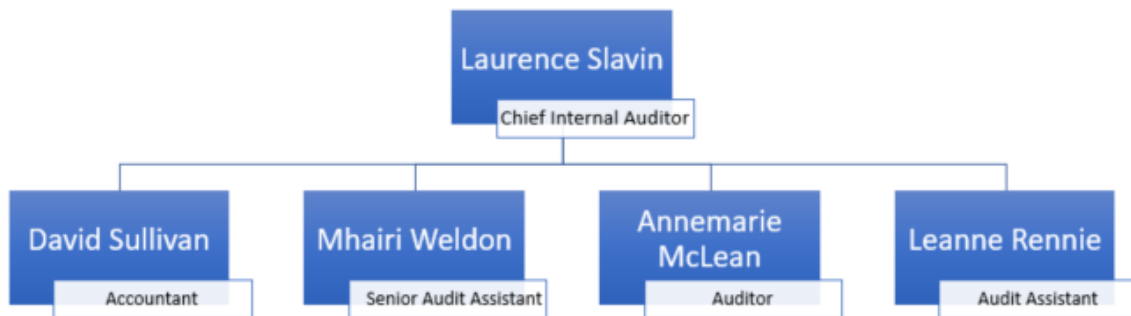
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APPENDICES

Appendix 1 – 2021/22 Internal Audit Plan

Argyll and Bute Council Internal Audit Plan 2021/22



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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 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 2020) 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 789 days (including 85 days of management and administration time), following the deduction of annual leave, training, a small provision for sickness, 90 days to deliver scrutiny work and 50 days to deliver the HSCP internal audit function. This 789 days total includes the CIA's input to audit reviews and the running of the internal audit team and a contingency of 55 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 and CIA qualified member 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 2021/22 annual audit plan are independent and objectivity is not compromised.

2021/22 Internal Audit Plan

14. Appendix 1 presents the internal audit plan for 2021/22. 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 2020/21 and those we are projecting to cover in the period 2021/22-2022/23. 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 2021/22 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 2020/21 internal audit carried out an internal self-assessment against PSIAS which was reported to Committee in December 2020. 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 – 2021/22 Internal Audit Plan

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Cross Cutting	Continuous Monitoring Programme	Fraud	5	Handover of participation in National Fraud Initiative, to new Counter Fraud Team	
		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	Financial Services	Purchasing Cards	20	Review purchase card procedures and spend to assess compliance with Procurement Manual and achievement of Best Value.	
	Financial Services	Fixed Asset Register (AIRS)	25	Asses the accuracy and completeness of the information that is fed into the Fixed Asset Register, via both IT systems and departmental processes.	
Douglas Hendry	Education	School Fund Governance	30	Follow up from previous audit report 2018/19. Assess progress implementing Education Management Circular No 1.10	
	Education	ELC Parental Satisfaction	25	Review of the parental engagement/ feedback process for provision of 1140 hours expansion rolled out August 2020.	
	Education	Education Processes	25	Review of processes that feed into the wider pupil transport service with specific reference to ASN/Complex needs	
	Legal and Regulatory Support	Civil Contingencies	25	Assess compliance with the Civil Contingencies Act	SRR08 SRR13
	Legal and Regulatory Support	Complaints Handling	20	Assess the implementation and compliance with revised SPSO Model Complaints Handling Procedures	SRR05 SRR06
	Commercial Services	Land and Asset Disposal	15	Follow up on issues raised in 2018/19 audit report including progress and compliance with revised policies & procedures	SRR02

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
	Commercial Services	Climate Change Act	25	Assess extent to which the Council is discharging it's climate change duties as required by Climate Change (Scotland) Act	
Kirsty Flanagan	Roads and Infrastructure Services	Street Cleaning	20	Review of control environment and compliance with relevant policies and procedures	
	Roads and Infrastructure Services	Procurement and Contract Management - Roads and Amenity Focus	25	Review of governance and contract monitoring for Roads and Amenity Service contracts	
	Development and Economic Growth	Planning Applications	20	Review the Planning Application process to assess compliance with statutory requirements and Council policy.	
	Development and Economic Growth	Environmental Health	25	Assess the controls relating to the application of statutory requirements and Council policy	
	Development and Economic Growth	Oban Airport (Mandatory)	15	Assess compliance with the aerodrome operating manual	
	Development and Economic Growth	LEADER	5	Annual review to assess compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement	
	Customer Support Services	ICT - Remote Working	25	Assess the adequacy of policies, procedures and guidance relating to future remote working arrangements	
	Customer Support Services	HR Project Management - Payroll Business Process Review	25	Provide assurance that the Payroll Business Process Review has been carried out in a robust manner	
Joanna MacDonald	H&SCP	Adult Protection Services	30	Compliance with internal policies and procedures	
	H&SCP	Child Protection Services	30	Compliance with internal policies and procedures	
Kevin Anderson	LiveArgyll	Budget Monitoring	20	Carried forward from 2020/21 due to furloughing of staff and limited Budget Monitoring carried out. Assess the adequacy and effectiveness of the Live Argyll's Budget Monitoring arrangements (performance of this audit is dependent on extent to which Live Argyll services are	

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
				open during 2021/22) – to be discussed with Live Argyll General Manager at an appropriate time.	
Verification Activity	LGBF	Accuracy	9	Accuracy of submission	
	Stores	Stock count	5	Assess stock count procedures	

Summary of Days

Directorate Contact	Number of Days
Cross Cutting – Continuous Monitoring	185
Pippa Milne	45
Douglas Hendry	165
Kirsty Flanagan	160
Joanna MacDonald	60
LiveArgyll	20
Verification Activity	14
Contingency	55
Total	704

Appendix 2 – 2021/22 Internal Audit Plan by Council Directorate / Head of Service

Pippa Milne	Douglas Hendry			Kirsty Flanagan			Joanna MacDonald
Financial Services	Education	Legal & Regulatory Support	Commercial Services	Customer Support	Roads & Infrastructure	Development & Economic Growth	Health & Social Care Partnership
Purchasing Cards	ELC Parental Satisfaction	Civil Contingencies	Land and Asset Disposal	ICT- Remote Working	Street Cleaning	Planning Applications	Adult Protection Services
Fixed Asset Register (AIRS)	Education Processes School Fund Governance	Complaints Handling	Climate Change Act	HR Project Management BPR	Procurement and Contract Management	Environmental Health Oban Airport LEADER	Child Protection Services
Continuous Monitoring Programme Budgeting, General Ledger, Creditors, Debtors, Payroll, Treasury Management, Council Tax & Non-Domestic Rates, VAT							
Live Argyll Budget Monitoring (TBC)				Other Activity NFI – Hand over to Counter Fraud Team 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	<p>Population and Economic Decline</p> <p>Failure to identify relevant factors contributing to the decline and failure to develop strategies and actions targeting these factors.</p>	20	<ol style="list-style-type: none"> 1. Local outcome improvement plan targets population and economic recovery 2. Maximise external funding opportunities 3. Strategic economic development action plan 4. Strategic infrastructure plan 5. Area economic development action plans 6. Promote and Market Argyll and Bute 7. Maximise social-eco benefits via effective partnership working 8. Single Investment Plan 	16	Treat	<ol style="list-style-type: none"> 1. Rural Growth Deal Heads of Terms due to be signed early 2021 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 2021) 4. Rural Growth Deal Outline Business Cases and Final Business Cases to be developed (2021/22) 	2019/20 (Scrutiny)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
2	<p>Condition and suitability of Infrastructure & Asset Base</p> <p>Infrastructure and asset base does not meet current and future requirements and is not being used or managed efficiently and effectively.</p>	16	<ol style="list-style-type: none"> 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. Community Empowerment and Community Asset Transfer – Arrangements in place to evaluate and determine requests. 7. Roads Asset Management Plan 8. Status and Options Report 9. R&A Services control hub and joint operations team 10. One Council Property Approach 	12	Treat	<ol style="list-style-type: none"> 1. Development of capital strategy (May 2021 to align with revised Financial Strategy) 2. Consider conclusions of property theme review in relation to potential asset rationalisation – February 2021 	<p>2020/21</p> <p>2021/22</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
3	<p>Financial Sustainability</p> <p>Insufficient resource to meet current and future service requirement. Budget not aligned / does not support business outcomes.</p>	16	<ol style="list-style-type: none"> 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. RPIF / Business Outcomes 	12	Treat	<ol style="list-style-type: none"> 1. Ongoing financial resilience building project including knowledge sharing and development of guidance notes (March 2022) 2. Complete review of financial strategy (May 2021) 3. Development of medium to longer term savings options (February 2020) 4. Rural Growth Deal Heads of Terms due to be signed early 2021 	<p>2019/20 (Scrutiny)</p> <p>2020/21</p> <p>Ongoing via Continuous Monitoring</p>
4	<p>Governance and Leadership</p> <p>Governance and leadership arrangements are not conducive to effective working and lead to a lack of strategic direction.</p>	16	<ol style="list-style-type: none"> 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 6. Performance Improvement Framework and Service Planning. 7. Leadership development programme. 8. Council constitution regularly reviewed and updated. 9. Established partnership governance arrangements 10. Scrutiny arrangements in respect of Police, Fire and Health. 	12	Treat	<ol style="list-style-type: none"> 1. Monitor delivery of BV action plan (ongoing date) 2. Review the governance and remits of DMT/SMT and Strategic Boards (March 2021) 	2020/21 (Scrutiny)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
			11. Governance arrangements for scrutiny established 12. Governance arrangements for scrutiny 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, citizens 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
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	Treat	1. Monitor progress of performance mgt project and implement recommendations (Ongoing from Oct 2020 to June 2022)	2020/21

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
7	<p>Health and Social Care Partnership</p> <p>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.</p>	20	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 1. Develop options to deliver sustainability of future years budgets (March 2020 and ongoing) 2. Monitor development of IJB 20/21 Recovery Plan (October 2020 and ongoing) 	<p>2019/20</p> <p>2020/21</p> <p>Assurance also taken from IJB internal audit function</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
8	Civil Contingency & Business continuity arrangements are not effective.	8	<ol style="list-style-type: none"> 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 reporting to the West of Scotland Resilience Partnership 	6	Treat	1. Develop a business continuity policy (December 2020)	2021/22
9	Welfare Reform Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis	20	<ol style="list-style-type: none"> 1. Welfare reform group established. 2. Joint working with DWP, CPP and other agencies. 3. Money Skills Argyll 	12	Treat	1. In relation to MSA - Engage with partners, BIG and other project leads on compliance framework/requirements. Working toward a project closure in first half of 2021.	2019/20 2022/23

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. Update paper to EDI December 2020 and report on progress to A&SC in March 2021, paper will include possible options for compliance.	2021/22 (Scrutiny)
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	Tolerate		2019/20 2022/23
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

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
13	<p>Impact of COVID - 19</p> <p>The Council are unable to deliver core services as a result of the Covid 19 virus with adverse impact to community and the economy</p>	25	<ol style="list-style-type: none"> 1. Establishment of Strategic and Tactical Groups with links to HSCP, NHS and national/regional resilience groups 2. Tactical team via the Civil Contingencies Manager liaising/ collaborating with Regional Resilience Partnerships and other resilience partners. 3. Development and delivery of an integrated approach to deliver decisions and mitigations 4. SITREP reporting thorough contingency planning structures in place 5. Standing item on SMT agenda 6. Working towards "ready" status on the Regional Resilience Dashboard 	20	Treat	<ol style="list-style-type: none"> 1. Development and regular review of dedicated risk register with input from representatives across the organisation and the Health and Social Care Partnership. 2. Ongoing Tactical meetings reporting to SMT 	<p>2021/22</p> <p>2022/23</p>

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 ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

FINANCIAL SERVICES

16 MARCH 2021

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 minor 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 subject to review and Committee approval in March 2019 and March 2020. As a consequence the amendments made in this 2021 review are very minor in nature and summarised in the table below:

Internal Audit Charter

Page	Para	Summary of change
Front	N/A	Date updated.
3	6	Amended to reflect that S95 Officer is now Kirsty Flanagan as

		Executive Director rather than as Head of Financial Services
4	10	Final sentence added to reflect that Internal Audit are to be the new HSCP internal auditors from 1 April 2021.
5	19	Removed reference to Head of Financial Services being the S95 Officer
6	30	Updated text which previously said the Counter fraud team was established 1 April 2020 to reflect that this was delayed due to COVID
8	36	Added last sentence regarding social work relevant audit reports being reported to HSCP Audit and Risk Committee
8	42	Changed approval date to this Committee

Internal Audit Manual

Page	Para	Summary of change
Front	N/A	Date updated.
4	6	Amended to reflect that S95 Officer is now Kirsty Flanagan as Executive Director rather than as Head of Financial Services

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
16 March 2021

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 2021

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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 March 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 Strategic 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 Executive Director (Kirsty Flanagan) (s95 officer) and the Committee in the discharge of their duties
 - support the Council's Monitoring Officer (Douglas Hendry)
 - 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. As of 1 April 2021 Internal Audit will be providing audit services to the Argyll and Bute Health and Social Care Partnership (HSCP). Arrangements for that service have been agreed with the HSCP's Head of Finance and Transformation.

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 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 November 2020 after a delay due to COVID-19 pandemic) 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. Any audit reports relating to social work services will also be presented to the Argyll and Bute HSCP Audit and Risk Committee.
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 16 March 2021 and shall be subject to regular review by the CIA and the Committee.



Argyll and Bute Council

Internal Audit Manual

March 2021

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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 March 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)
 - Executive Director (Kirsty Flanagan) (Section 95 Officer)
 - Monitoring Officer (Douglas Hendry)
 - 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 March 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 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 2021/22.

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

2020/21 Audit Progress Report



 AUDIT SCOTLAND

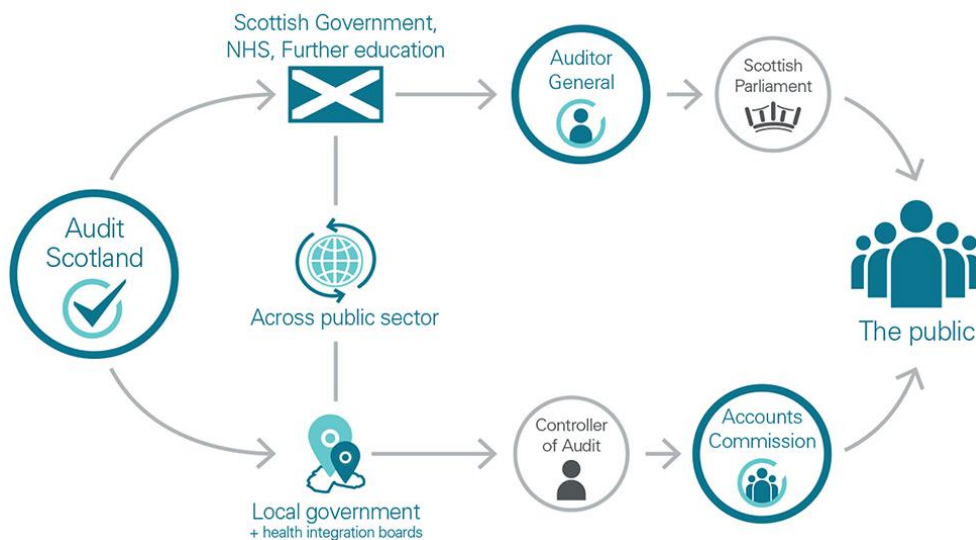
Prepared for Argyll and Bute Council Audit and Scrutiny Committee

March 2021

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.

Introduction

1. This paper is intended to give members an update of current progress on external audit activity and any recent national performance reports which have been published or are due.

Impact of Covid-19 on the public sector audit

2. Audit Scotland's initial planning assumptions had expected that 2020/21 would have been a transitional year and that we would start to get back to the normal cycle of auditing. However, this is not the case.

3. Audit Scotland issued a briefing paper back in June 2020 on the impact of Covid-19 and this was updated in January 2021. The full text of the briefing paper can be accessed via the following [link](#). It contains several important messages, including:

- In 2020 the deadlines for preparing public bodies' accounts for the 2019/20 year were extended. The extension to audit timetables in 2019/20 means that planning work required for audits of the 2020/21 year has started much later than in previous years.
- There has been significant additional public spending in response to Covid19. A key focus of audit is the governance and outcomes of this funding, as far as they are becoming apparent, or 'following the pandemic pound'.
- Over the past year Audit Scotland has needed to be flexible with its resources to manage the changing timescales and priorities. The world we audit has changed. Audit Scotland is changing to ensure we can continue to deliver high-quality, independent public audit at a time when Scotland's public sector will face greater challenges than at any point since devolution. We are increasing our capacity, infrastructure, and skills, and investing in realising the capabilities in areas such as digital audit. Our approach when necessary, we will be flexible about deadlines to safeguard quality.
- The Accounts Commission have extended the current audit appointments until 2022 to provide continuity and stability in a challenging environment.

4. If anything, 2020/21 is going to be a more challenging year as we seek to deliver a full years audit programme in a much shorter timeframe.

Audit Planning for 2020/21

5. We had hoped to have our 2020/21 audit plan available for consideration at this meeting, but our planning work is behind schedule although we are now making good progress. We are working closely with finance staff to progress the audit and finalise the audit plan which should be available as soon as practicable.

6. We have summarised some of the key points that will feature in our audit plan for members attention.

Audit Fee

7. We have agreed an audit fee of £266,490 for 2020/21 (2019/20: £259,570). This represents an increase of £6,920 or 2.66% from last year.

Internal audit

8. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication.

9. Having reviewed internal audit's plans we aim to use internal audit's continuous monitoring work which includes testing of controls within key financial systems. We will use this work wherever possible to avoid duplication of effort and to complement our financial statements' responsibilities. Also, we will consider their assurance work in relation to the Governance Statement that you will be including in your 2020/21 Annual Accounts.

Wider dimensions

10. In terms of our wider dimension responsibilities the focus of our audit work will be to review progress in implementing the action plan which the council approved in response to our Best Value Assurance Report (May 2020). Also, we will be looking at financial sustainability and governance arrangements

Main outputs from the audit

11. As in previous year the main outputs from our audit work in 2020/21 will be:

- Independent auditor's report containing our audit opinions
- Annual Audit Report containing a summary of our findings from all audit activity during the year including our judgements.

Reporting timelines

12. The statutory deadline for certifying the annual accounts has been pushed back to 31 October 2021. There is still considerable uncertainty around the impact of Covid-19 and therefore, our approach when necessary will be flexible. Whilst we will do our best to achieve the statutory deadlines we are unable to make any definitive commitments to meeting them at this early stage of the audit. We will continue our ongoing and regular dialogue with finance staff to ensure they, and we, remain sighted on these challenges.

National Performance Reports / Other publications

13. Several reports have been published by Audit Scotland since the last meeting of the Audit and Scrutiny Committee. The table below provides a summary of the main publications that may be of interest to members including hyperlinks to our website.

Report title	Scope and objectives of the audit	Key messages
Report: Covid-19: What it means for public audit in Scotland (Jan 2021)	<p>This paper restates Audit Scotland's principles and approach during the ongoing Covid-19 pandemic. It also updates progress on our financial and performance audit programmes, and how we are assessing the pandemic's impact on public bodies and reviewing the Scottish public sector's response.</p>	<ul style="list-style-type: none"> Public bodies' accounts for the 2019/20 year were extended. These impacted on timings for audit work and reporting. While almost all audits were completed within the revised deadlines, the extensions mean that the planning work required for audits of the 2020/21 year has started much later than in previous years. Audit Scotland is monitoring developments and guidance which may affect the timelines and scope of 2020/21 accounts. We will issue guidance to auditors as required in due course. There has been significant additional public spending in response to Covid19. Audit Scotland will work with colleagues, including appointed audit firms, to promote consistency of judgement on complex issues. Audit Scotland will maintain audit quality while continuing to be flexible about timelines.
Report: Local government in Scotland: Financial overview 2019/20 (Jan 2021)	<p>This report provides an overview of local government finances in 2019/20.</p>	<ul style="list-style-type: none"> Funding received by councils from the Scottish Government increased by £500 million in 2019/20. Covid-19 will drive large rises in costs and spending, combined with falling income. Councils received higher revenue and capital funding than in previous years but much of the additional funding councils received from the Scottish Government must be used for specific purposes. And capital finance funding will drop by 30 per cent in 2020/21. Looking ahead, Scotland's councils face significant additional pressures due to Covid-19. This includes substantial and ongoing reductions in income, increased

Report title	Scope and objectives of the audit	Key messages
		<p>costs and the administration of business support grants and other measures of support to their communities during Covid-19.</p> <ul style="list-style-type: none"> • The Commission has also repeated its serious concerns about the financial stability and leadership of Integration Joint Boards (IJBs), the bodies set-up to manage local health and social care services. • Most IJBs couldn't deliver services within their budgets and needed extra money from health boards and councils. There were also changes of chief officer in 12 IJBs, and this leadership instability makes
<p>Report: Digital progress in local government (Jan 2021)</p>	<p>This report looks at how local government is responding to the challenge of delivering services through digital technology.</p>	<ul style="list-style-type: none"> • Responding to Covid-19 has increased the pace at which Scotland's 32 councils are delivering services through digital technology. Greater collaboration, use of shared expertise, citizen engagement and strategic planning are needed, however, to fully realise the potential of digital technology. • Councils are at different stages of digital transformation. The long-term focus should now be on how digital technology can provide better opportunities and services for people across Scotland, with citizens placed at the heart of this process. • Councils have responded to Covid-19 by using technology to ensure many essential council services continue and supported thousands of council staff to work from home. But further progress may be restricted due to a lack of staff with the right skills and insufficient workforce planning. • Careful planning is needed to ensure the expansion of digital services does not widen existing inequalities. • The Commission is clear that the current work of the Scottish Government and COSLA to refresh the national digital

Report title	Scope and objectives of the audit	Key messages
<p>Report: Covid-19: Tracking the implications of Covid-19 on Scotland's public finances (Feb. 2021)</p>	<p>This briefing is part of a series of work Audit Scotland is undertaking relating to Covid-19 spending and its impact in Scotland. It provides a snapshot of the current position in advance of the Spring Budget Revision to be published by the Scottish Government shortly.</p>	<p>strategy provides an opportunity to drive digital transformation across all Scotland's 32 councils. Strong leadership and co-ordination at a national level is essential, to provide a consistent vision and clear direction.</p> <ul style="list-style-type: none"> • Pressures on the public sector are felt throughout, including the difficulties policing lockdown restrictions, managing the consequences of school closures for children's education, and addressing the backlogs in Scotland's courts. Dealing with the direct consequences of the public health crisis in hospitals has led to delays to non-Covid-19 related treatments, such as cancer referrals. • For now, spending to support people, the economy and public services through the pandemic continues. These interventions will continue into future years as Scotland recovers, and additional funding to this end is reflected in the 2020/21 and 2021/22 budget. • Over 170 Covid-19 related spending announcements have been made to tackle the effect of the pandemic and the uncertainty it brings. These announcements are in addition to UK Government spending commitments that apply to Scotland, such as ongoing furlough support. The Scottish Government has received £9.7 billion of additional funding to the Scottish budget in 2020/21 through the Barnett formula. • The complexity and scale of announcements makes following the public pound difficult. Barnett consequentials in 2020/21 are guaranteed, meaning that funding has been confirmed as available to the Scottish Government before any potential UK Government spending decision that would normally generate them. • This gives the Scottish Government some certainty over funding, but also provides

Report title	Scope and objectives of the audit	Key messages
		<p>challenges in following how Scottish Government and UK Government spending decisions relate.</p> <ul style="list-style-type: none">• Several different public bodies are distributing the funds across Scotland, including NHS boards, local authorities, and enterprise agencies. Some Scottish Government announcements, such as elements of business support, are demand-led, with underspends being used to fund future announcements

Argyll and Bute Council

2020/21 Progress Report – March 2021

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



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LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2019-20

1. SUMMARY

- 1.1 The purpose of this report is to present the main issues raised in the recent Local Government Financial Overview 2019-20 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 2019-20.
 - Part 2 considers councils' financial position at the 2019-20 year end.
 - Part 3 considers the financial outlook for councils in 2020-21.
 - Part 4 provides an overview of Integration Joint Boards' finances in 2019-20.
- 1.3 The report's key messages are listed on Page 5 of the document and are summarised as follows:
- Councils' funding and income increased by £0.8 billion in 2019/20. There was an increase in Scottish Government funding of £0.5 billion, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget.
 - Nearly half of the increase in Scottish Government funding in 2019/20, and all the initial additional funding in 2020/21, was to fund the expansion in early learning and childcare.
 - Councils continue to plan for, and deliver, savings as part of their annual budgets, but there are significant variations in individual councils' ability to deliver planned savings.
 - The financial cost of COVID-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income.
 - Councils' auditors reported wider medium-term financial implications of COVID-19.
 - A majority of IJBs (22) struggled to achieve break-even in 2019/20 and many received year-end funding from partners.
 - Total mobilisation costs for Health and Social Care Partnerships for 2020/21 due to COVID-19 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all of these costs.
 - Instability of leadership continues to be a challenge for IJBs. There were changes in chief officer at 12 IJBs in 2019/20.
- 1.4 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.

2. RECOMMENDATIONS

- 2.1 The Audit and Scrutiny Committee is asked to consider the contents of the Accounts Commission report.

3. IMPLICATIONS

- | | | |
|-------|------------------------|-------|
| 3.1 | Policy - | None. |
| 3.2 | Financial - | None. |
| 3.3 | Legal - | None. |
| 3.4 | HR - | None. |
| 3.5 | Fairer Scotland Duty - | None. |
| 3.5.1 | Equalities - | None. |
| 3.5.2 | Socio-Economic Duty - | None. |
| 3.5.3 | Islands Duty - | None. |
| 3.6 | Risk - | None. |
| 3.7 | Customer Services - | None. |

Kirsty Flanagan
Section 95 Officer
10 February 2020

For further information contact:

Anne Macdougall, Finance Manager (01586 555269)

Appendix 1 - Audit Scotland Local Government in Scotland Financial Overview 2019-20.

Local government in Scotland

Financial overview 2019/20



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
January 2021

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Audit team

The core audit team consisted of: Blyth Deans, Lisa Duthie, Chris Lewis and Lucy Ross, under the direction of Brian Howarth.

Links

 PDF download

 Web link



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.

Chair's introduction

Councils and Integration Joint Boards (IJBs) play a vital role in supporting Scotland's communities. This has been amplified by the Covid-19 global pandemic. Covid-19 has fundamentally affected local government services and increased the uncertainty of how those services will be provided in the future. The financial impact of the pandemic on our public services is extreme. At the same time, we have seen the strength and resilience of many communities highlighted as they have worked with public service partners to provide invaluable support to those who need it most.

In 2019/20, before the pandemic really took hold in Scotland, the financial impact of Covid-19 was limited. This report notes that more councils added to their usable revenue reserves than in previous years. Reserves play an important role in effective financial management and provide a cushion for future unexpected events. I think that the emergence of the global pandemic and resultant UK lockdown from 23 March 2020 could be described as a once-in-a-lifetime event and Council reserves can be a key tool to manage the medium-term financial impacts of Covid-19.

Scottish Government funding accounts for the majority of council income. After several years of reductions in funding, there has been a real terms increase in 2019/20. It is important to note though that around 40 per cent of the increase was intended to meet the Scottish Government's policy of expanding early learning and childcare provision. As we have reported before, councils have limited flexibility over how they use this type of additional funding. It is also important to recognise that although funding in 2019/20 improved, reductions in local government funding over the past six years are still larger than in other areas of the Scottish Government budget.

Capital funding had experienced significant increases in the past three years by 33 per cent between 2017/18 to 2019/20. But Scottish Government capital funding in 2020/21 is now decreasing by 30 per cent in real terms. This will have an impact on councils' future investment plans.


In IJBs, the bodies set-up to deliver local health and social care services, the financial pressures are significant, with many needing additional funding from councils and health board partners to break-even in 2019/20. We also continue to see a high turnover in leadership in many IJBs, at a time when they are tackling both the impact of Covid-19 along with the ongoing and longer-term pressures of increased demand.

2020 presented significant challenges to the preparation and audit of councils', pension funds' and IJBs' annual accounts. However, 92 per cent of annual accounts were signed off by the revised audit deadlines due to the dedication of local government finance staff and of our auditors in these challenging circumstances. I am grateful for everyone's hard work and diligence to achieve this outcome.

During 2020/21, the pandemic and associated lockdown has affected many aspects of Councils' and IJB's finances and created significant financial uncertainty. Councils face the challenge of meeting additional mobilisation and recovery costs as well as the lost income resulting from closures of leisure facilities and reductions in income from fees and charges. Councils are also administering support schemes on behalf of the Scottish Government. Substantial additional funding for councils has been announced by the Scottish Government together with some further financial flexibilities, but it is currently unclear whether this will cover all cost pressures faced by councils in 2020/21 and beyond.

2020/21 also saw a large shift in the way that public services and communities worked together to support those most in need. Many communities and individuals stepped in to provide much needed local services and were empowered and encouraged to do so by councils, IJBs and their partners. We have heard of much good practice and hope that this continues.

The Accounts Commission's future reporting, together with the Auditor General for Scotland, will be refocused on the significant impact of Covid-19 across all public services. This report highlights the emerging and developing financial challenges due to Covid-19, but future financial overview reports will be better able to assess the full year impact in 2020/21, based on financial reporting to 31 March 2021. Our Local Government Overview 2021 report, due to publish in May, will consider the initial response phase of the pandemic.

Audit Scotland has published a [Guide for audit and risk committees](#)  to support effective scrutiny of how public bodies have responded to Covid-19. This covers key areas, including internal controls and assurance, financial management and reporting, governance and risk management. Good governance, strong financial management and transparency of decision making will be critical for local government bodies in dealing with the implications and fallout from the pandemic.

Elma Murray

Interim Chair of the Accounts Commission

Key messages

Councils and pension funds

- 1** Councils' funding and income increased by £0.8 billion in 2019/20. There was an increase in Scottish Government funding of £0.5 billion, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget
 - 2** Nearly half of the increase in Scottish Government funding in 2019/20, and all the initial additional funding in 2020/21, was to fund the expansion in early learning and childcare
 - 3** Councils continue to plan for, and deliver, savings as part of their annual budgets, but there are significant variations in individual councils' ability to deliver planned savings
 - 4** More councils added to their usable revenue reserves totalling £65 million (net) in 2019/20
 - 5** Glasgow City Council's equal pay funding strategy had a significant impact on total reserves, debt and capital expenditure this year (2019/20)
 - 6** The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income. We estimate that funding announced by November 2020 meets 60 to 70 per cent of the cost pressures identified by councils, although total costs and funding are still uncertain
 - 7** Councils' auditors reported wider medium-term financial implications of Covid-19
-

Integration Joint Boards (IJBs)

- 8** A majority of IJBs (22) struggled to achieve break-even in 2019/20 and many received year-end funding from partners
 - 9** Total mobilisation costs for Health and Social Care Partnerships for 2020/21 due to Covid-19 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all of these costs
 - 10** Instability of leadership continues to be a challenge for IJBs. There were changes in chief officer at 12 IJBs in 2019/20
-

About this report







1. This report provides a high-level independent analysis of the financial performance of councils and IJBs during 2019/20 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils and IJBs. It is one of two overview reports that the Accounts Commission publishes each year. The second report, commenting on councils' initial response to the Covid-19 pandemic, will be published in May 2021.

2. Our primary sources of information for the financial overview are councils' and IJBs' 2019/20 unaudited accounts, including management commentaries and the 2019/20 external annual audit reports, where available. We have supplemented this with data submitted by councils to COSLA as part of their Covid-19 cost collection exercise, and mobilisation plan financial summaries submitted to the Scottish Government by IJBs. COSLA returns were requested and obtained from auditors. We received 29 returns, with 3 outstanding. The COSLA returns are not subject to audit review.

3. The Covid-19 pandemic has created new challenges which have affected the preparation of this report. The rescheduling of audit timetables meant that audited accounts for all councils were not available for analysis and, as a result, judgements are based on data from unaudited accounts, except where significant audit adjustments have been identified. We are comfortable with this approach, and our analysis of available audited information tells us that the level of change between unaudited and audited accounts has not significantly affected our key judgements. We have reviewed external annual audit reports for 2019/20 that were available at 30 November 2020.

4. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2019/20 prices, adjusted for inflation so that they are comparable. Similarly, where 2020/21 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.

Key facts

	2019/20 £ billion	2018/19 £ billion	Movement
 Councils' funding and income	£18.5	£17.7	4.5%
 Scottish Government revenue funding	£10.3	£9.8	5.4%
 Councils' capital spending	£3.6	£2.8	29.0%
 Councils' usable revenue reserves	£2.0	£1.9	3.4%
 IJBs' spending	£9.2	£8.6	7.0%
 Additional estimated cost in councils and IJBs due to Covid-19 in 2020/21	£1.2 billion		

Councils' income in 2019/20

Key messages

- 1** Councils' funding and income increased by £0.8 billion in 2019/20
 - 2** The cash increase in Scottish Government funding (£0.5 billion) in 2019/20 improved the position relative to others, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget
 - 3** Nearly half of the increase in Scottish Government funding in 2019/20 was to fund the expansion in early learning and childcare
-

Total revenue funding and income

Councils' funding and income increased by £0.8 billion in 2019/20

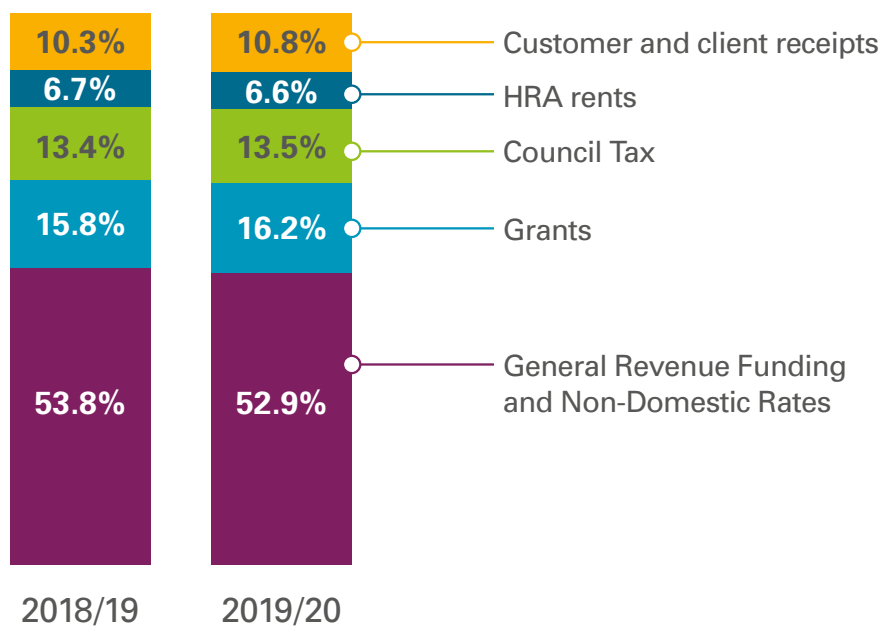
5. Total revenue funding and income received by councils was £18.5 billion in 2019/20, representing an increase of £0.8 billion (or five per cent) on the previous year. A comparison between years ([Exhibit 1](#)) shows that most of the funding comes from the Scottish Government and the relative value of specific grant income to councils has increased.

Councils' funding and income increased by £0.8 billion in 2019/20.

Exhibit 1

Sources of funding and income, 2018/19 and 2019/20

The majority of funding for councils comes from the Scottish Government.



Source: Unaudited financial statements 2019/20 (audited financial statements 2018/19)

6. Grant income includes housing benefit and Scottish Government specific grants (eg Early Learning and Childcare and Criminal Justice Social Work), which are treated as service income by councils generally. Scottish Government direct grants increased by £0.2 billion in 2019/20. There were also increases in grants from other sources. For example, Aberdeen City Council received £0.1 billion from Transport Scotland for the Aberdeen Western Peripheral Route.

7. Council tax income has increased by £0.1 billion (or 5 per cent) mainly as the Scottish Government raised the cap on council tax rate increases to 4.8 per cent. Twelve councils took the decision to increase the council tax rate by the full amount.

Scottish Government funding

Scottish Government revenue funding increased by 3.4 per cent in real terms in 2019/20

8. In 2019/20, the total revenue funding from the Scottish Government increased by 5.4 per cent in cash terms and increased by 3.4 per cent in real terms ([Exhibit 2](#)). Total revenue funding of £10.3 billion consists of the general revenue grant funding of £7.0 billion; Non-Domestic Rates distribution (NDR) £2.8 billion and specific grants of £0.5 billion.

Exhibit 2

Changes in Scottish Government revenue funding in 2019/20

Scottish Government revenue funding increased by 3.4 per cent in real terms in 2019/20.

	2018/19	2019/20	Cash %	Real %
General Revenue Grant and Non-Domestic Rate Income	9,521	9,811	3.0%	1.1%
Specific Revenue Grants	274	508	85.5%	82.0%
Total revenue funding	9,795	10,319	5.4%	3.4%
Health & Social Care funding via NHS	355	355	0.0%	-1.9%
	10,150	10,674	5.2%	3.2%

Source: Finance Circulars 04/2020 and Scottish Government budget documents (June 2020 ONS deflators)

Funding in 2019/20 improved relative to others, but an historic difference still exists

9. Funding from the Scottish Government to local government between 2013/14 and 2019/20 decreased by 4.7 per cent, in real terms ([Exhibit 3, page 12](#)). The increased funding in 2019/20 improved the position that existed last year (2018/19), when the total reduction was 7.6 per cent. Scottish Government funding to other areas of the total Scottish budget decreased by 0.8 per cent between 2013/14 and 2019/20, demonstrating that local government funding has still undergone a larger reduction than the rest of the Scottish Government budget over this period.

Nearly half of the increased funding in 2019/20 was to fund the expansion in Early Learning and Childcare

10. There is an element of the revenue settlement for funding that is linked to specific ongoing policy initiatives and expectations.

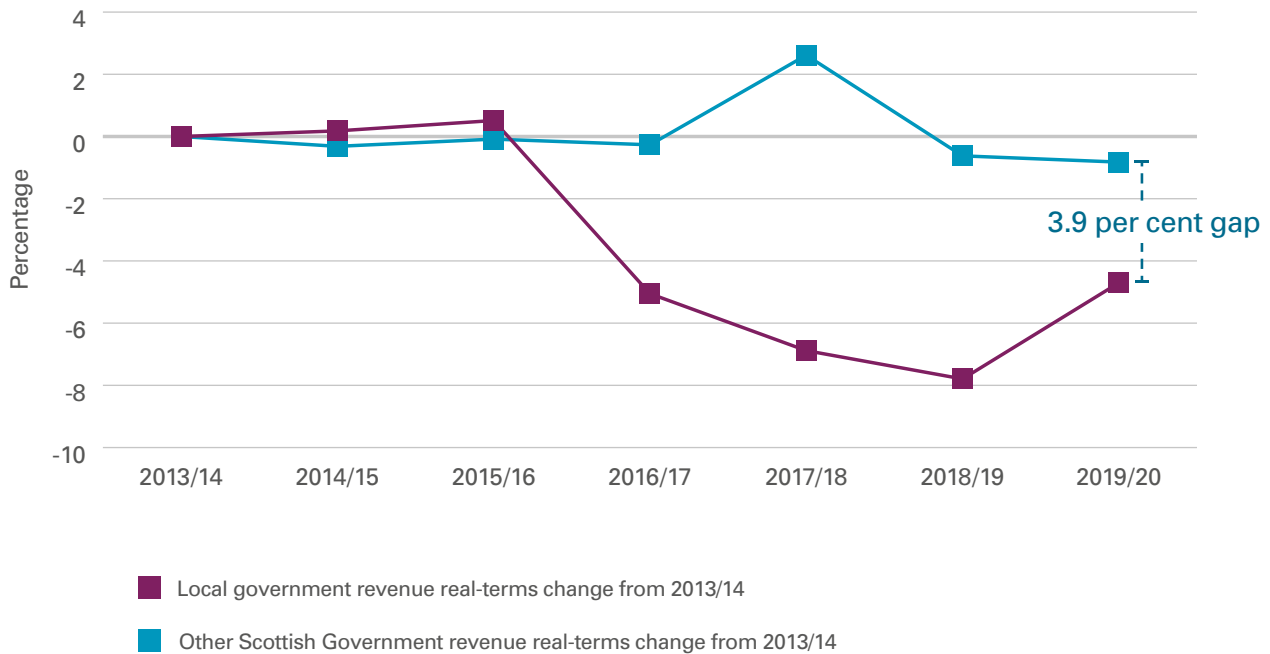
11. Specific revenue grants increased in cash terms by £234 million in 2019/20, growing from 2.8 per cent of total revenue funding to 4.9 per cent. This represented 45 per cent of the increase in revenue funding in cash terms between 2018/19 and 2019/20. The majority of this increase could be attributed to an additional £210 million allocated to councils to support the expansion in funded Early Learning and Childcare entitlement to 1,140 from 600 hours by 2020 for all three- and four-year-olds and eligible two-year-olds.

Scottish Government revenue funding increased by 3.4% in real terms in 2019/20. Nearly half of this was to support the expansion in Early Learning and Childcare.

Exhibit 3

A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas

Over the last six years local government revenue funding from the Scottish Government fell by 4.7 per cent, while other Scottish Government revenue funding fell by 0.8 per cent.



Source: Finance Circulars 04/2020 and Scottish Government budget documents (June 2020 ONS deflators)

Councils' financial position in 2019/20

Key messages

- 1** On the whole councils continue to deliver savings as part of their budget in 2019/20, but there are significant variations in individual councils
 - 2** In 2019/20 councils' auditors reported wider medium-term financial implications of Covid-19
 - 3** More councils added to their usable revenue reserves in the year totalling £65 million (net)
 - 4** Two councils are at risk of running out of general fund reserves in the medium-term if current trends continue
 - 5** Glasgow City Council's equal pay funding strategy had a significant impact on total reserves, debt and capital expenditure this year
 - 6** Councils had the highest level of capital expenditure of the last five years
 - 7** Local auditors drew attention to material uncertainty in property and investment valuations due to Covid-19
 - 8** Local government pension funds returns were negatively affected by Covid-19, but the majority of funds still tended to outperform their benchmarks
-

Council budgets and outturn 2019/20

In 2019/20 budget gaps were to be addressed by planned savings

12. In 2019/20, councils identified budgeted net expenditure of £12.6 billion. The initial budget gap in 2019/20 was £0.5 billion (three per cent). In 2018/19, the initial budget gap was similar at £0.4 billion. Planned savings were the most common way of addressing funding gaps in 2019/20.

Councils appear to have delivered 2019/20 savings plans, but with significant variation

13. A sample analysis of 14 councils identified that 84 per cent of the planned savings were delivered. However, there was significant variation in how individual councils performed against their savings targets:

- East Lothian Council, which planned savings of £5.2 million, and Stirling Council, which planned savings of £7.3 million, reported achieving 100 per cent of their targets.
- Comhairle nan Eilean Siar planned to deliver savings of £2.6 million but achieved savings of £0.8 million or just 31 per cent of its target.

Impact of Covid-19

The effect of Covid-19 was not material in 2019/20 and councils were able to manage this within existing budgets

14. Covid-19 restrictions began in March 2020 and the financial effect on councils (excluding social care – see [paragraph 70](#)) in 2019/20 was limited to between £20 million and £25 million.¹ Councils reported that lost income and unachieved savings accounted for two-thirds of identified financial impacts. The remaining costs were mainly associated with mobilising support services for vulnerable groups and the wider community.

15. There were no additional Covid-19-related funding allocations from the Scottish Government in 2019/20. Our review of available annual audit reports confirms that Covid-19 did not have a significant impact on councils' outturn, and costs were mostly managed within existing available budgets. Additional Covid-19-related funding allocations to councils were not received until 2020/21.

In 2019/20, councils' auditors reported wider financial consequences of Covid-19 in their annual reports

- **Delays in growth deals:** Dumfries and Galloway Council. The impact of Covid-19 has delayed some of the progress in establishing governance structures and formal sign off of the Borderlands' Collaboration Agreement as part of the Borderlands growth deal.
- **Additional borrowing:** East Lothian Council and Inverclyde Council both took out additional loans towards the end of March 2020 to ensure sufficient liquid funds to address the expected consequences of Covid-19.
- **Planned savings proposals:** East Lothian Council identified that many of the plans related to savings have effectively been placed on hold to enable the council to focus its attention and support on responding to Covid-19. East Dunbartonshire Council anticipated that transformation programme savings for 2020/21 were unachievable due to the impact of the pandemic.

The financial effect of Covid-19 was not material in 2019/20 and councils were able to manage this within existing budgets.

- **Medium term financial planning:** West Lothian Council reported that early planning arrangements for its next medium-term financial plan have been deferred to 2021/22 as management focuses on the more immediate impact and actions arising from the impact of Covid-19.
- **Capital programmes:** Aberdeenshire Council identified that the capital programme was suspended for around three months with a phased restart thereafter. In Inverclyde Council officers have reviewed the phasing of the 2020–23 Capital Programme in light of Covid-19 and have estimated the slippage for 2020/21 as 47 per cent. An initial additional budget of £2.7 million has been agreed to cover the potential cost pressures resulting from the site working requirements, increases in the price of materials and general cost increases generated by Covid-19.
- **Delays in bad debt collection:** Aberdeenshire Council reported that elements of the debt recovery processes had been suspended for several months owing to Covid-19 and recognised the potential for bad debts to increase.
- **Expected capital receipts:** West Dunbartonshire Council identified that expected capital receipts of £9 million from the sale of sites were subject to greater uncertainty due to Covid-19 effects on asset values.
- **Going concern issues in subsidiary/joint venture partners:** Some auditors of group component bodies, including those arms-length external organisations (ALEOs) and partners that provide housing repair and leisure services, drew attention to the additional going concern uncertainty due to the financial impact of the Covid-19 pandemic.

Reserves

More councils (22) added to their usable revenue reserves, but most of the total relates to Glasgow City Council

16. Last year we reported that councils were increasingly using up revenue reserves to balance their budgets. This trend did not continue into 2019/20 ([Exhibit 4, page 16](#)). Twenty-two councils reported increases in their revenue reserves balance (13 last year) with a net increase of £65 million (or 3 per cent) across all councils.

17. The most significant increase was Glasgow City Council, where usable revenue reserves went up by £87 million (or 80 per cent) mainly due to the equal pay funding strategy that was implemented in the year ([paragraph 28](#)).

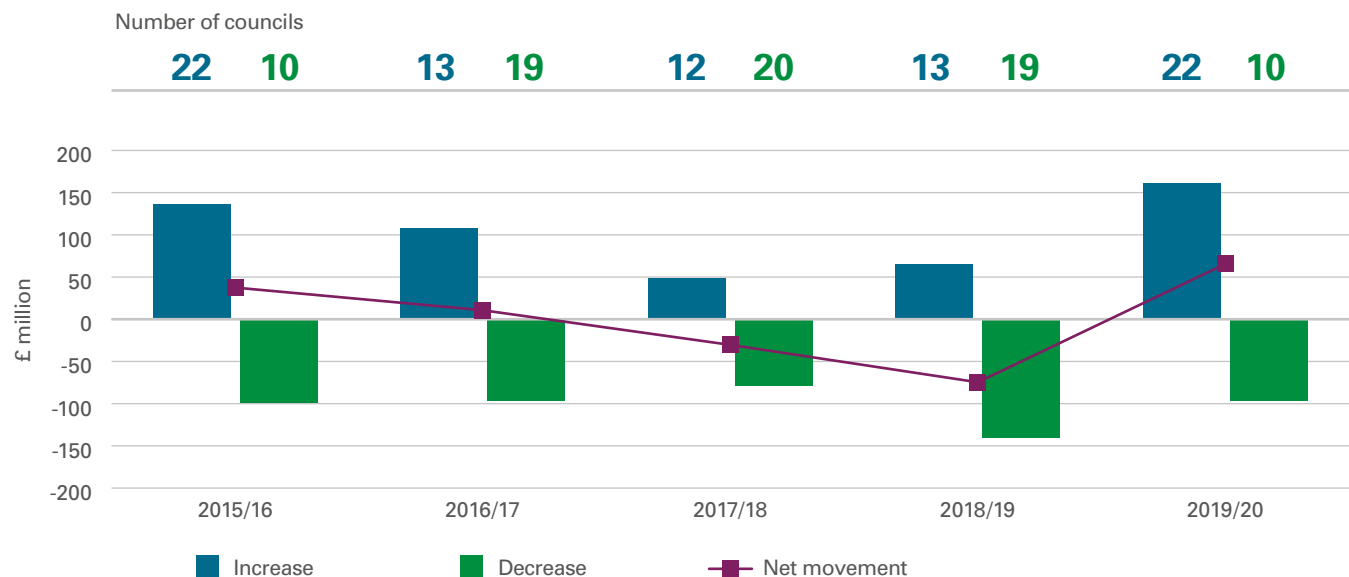
18. Highland Council also experienced a significant increase in its usable revenue reserves of £15 million (or 47 per cent). Contributing factors include spending constraints on recruitment and discretionary spend and £22 million of delivered savings and additional income.

More councils added to their usable revenue reserves in 2019/20, with a net increase of £65 million across all councils.

Exhibit 4

Movement in usable revenue reserves over the past five years

More councils added to their usable revenue reserves in 2019/20.



Source: Unaudited financial statements 2019/20, except where significant audit adjustments identified, and audited financial statements 2015/16 to 2018/19

There is variation in whether councils have been adding to or using up general fund reserves

19. Councils have different strategies for managing their financial position and reserves position over time, so we would expect to see variation in the movements and balances held. Reserves play an important role in effective financial management. They provide a working balance to smooth out uneven cashflows, protect against the financial impact of unexpected events, as well as enabling funds to be built up for known future commitments.

20. Exhibit 5 (page 17) shows the annual average rate of general fund use at 31 March 2020, based on the last three years. It indicates how long it would take for a council to run out of its general fund reserve if the pattern of use (over the last three years) were to continue. An amount less than minus 25 per cent would indicate reserves would be depleted in less than four years.

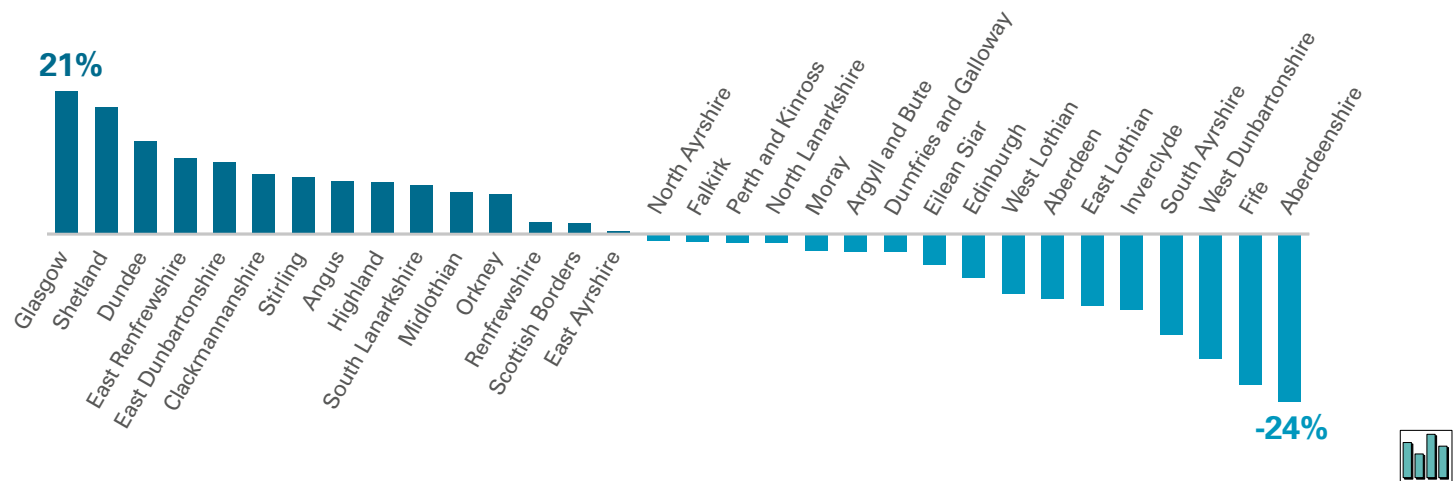
Moray Council sustainability has improved with a significant surplus in 2019/20

21. In our 2018/19 report, we highlighted Moray Council as being at risk of depleting its reserves within five years. In 2019/20, the council's financial position improved, with the general fund increasing by £7 million. This was in contrast to a budgeted reduction of £5 million in the general fund. The turnaround was largely due to better than expected funding and income, including council tax income, Business Rates Incentivisation Scheme (BRIS) retention, a one-off VAT refund and insurance settlement and additional general revenue grant funding. The council also exceeded its savings target and delivered £13 million of savings in year.

Exhibit 5

Average annual movement in the general fund (including HRA) over the last three years

The movement on councils' general fund reserves varies significantly.



Source: Unaudited financial statements 2019/20, except where significant audit adjustments identified, and audited financial statements 2018/19 and 2017/18

Two councils are now at risk of running out of general fund reserves in the medium term if current trends continue

22. Fife and Aberdeenshire Council are now at risk of running down their general fund balance within four to five years if their current trend of using these continues ([Exhibit 5](#)). Neither council planned to use general fund balances as part of their 2020/21 initial budget, but the unusual circumstances of Covid-19 may now affect this.

23. Local auditors report that Aberdeenshire Council regularly reviews reserves as part of its medium-term financial strategy. The recent [Best Value Assurance Report](#) (October 2020) identified that reserves have largely decreased due to planned use. However, this also includes some unplanned use, including additional contributions of £5.5 million to the Aberdeenshire Integration Joint Board (IJB), to meet the council's share of IJB revenue budget overspends. The Report notes that the remaining balance is low relative to other councils.

24. Fife Council has been drawing on its reserves over the last few years, particularly the planned use of committed balances. However, the council's medium-term financial strategy forecasts the level of general fund will continue to deteriorate over the next three years and will be insufficient to fully mitigate against the financial impact of Covid-19.

Capital

Councils recorded the highest level of capital expenditure over the last five years

25. Capital expenditure increased by £0.8 billion (or 29 per cent) to £3.6 billion in 2019/20. Glasgow City Council's sale and leaseback transactions, as part of the equal pay funding strategy, make up £0.5 billion of the increase ([paragraph 28](#)). Excluding this, capital expenditure is still the highest level recorded by councils



Best Value Assurance
Report: Aberdeenshire
Council

October 2020 [Download](#)

over the last five years. This is aligned with a peak in Scottish Government capital funding ([Exhibit 12, page 29](#)).

Some councils had significant increases in their capital investment:

- City of Edinburgh Council: £0.15 billion (or 49 per cent) increase. New or additional investment across several areas including the Trams to Newhaven Project, creation and expansion of educational properties, investment in council houses, sports facilities and road infrastructure.
- Moray Council: £0.04 billion (or 87 per cent) increase. Investment in schools and early learning and childcare facilities, council houses and waste management facilities. This includes a joint venture with Aberdeen City and Aberdeenshire Councils to build an energy from waste plant.

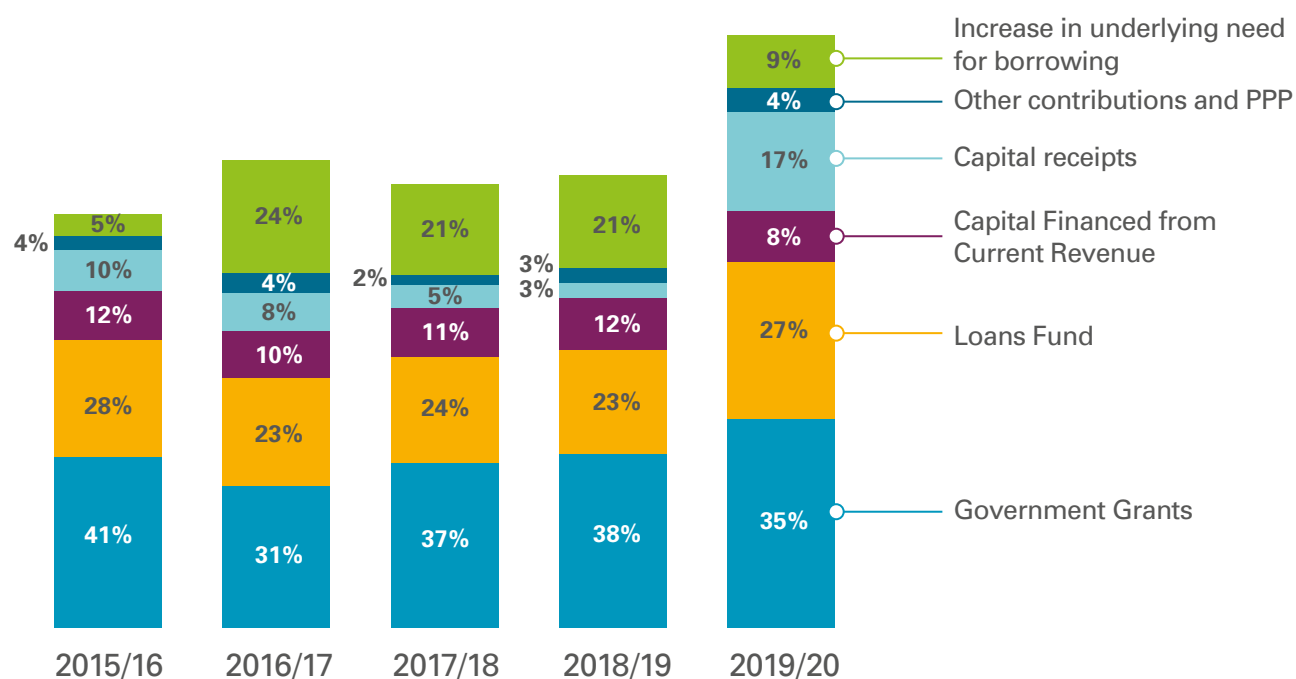
The main sources of capital financing are still government grants and internal loans fund repayments from council services

26. Government grants continued to provide the main source of capital finance. The effect of the sale and leaseback arrangements at Glasgow City Council significantly increased the element of funding generated from capital receipts in 2019/20 ([Exhibit 6](#)).

Exhibit 6

Capital expenditure analysed by source of finance 2015/16 to 2019/20

Sixty-two per cent of capital expenditure was financed by government grants or internal loans fund repayments.



Source: Unaudited financial statements 2019/20 and audited financial statements 2015/16–2018/19

Debt

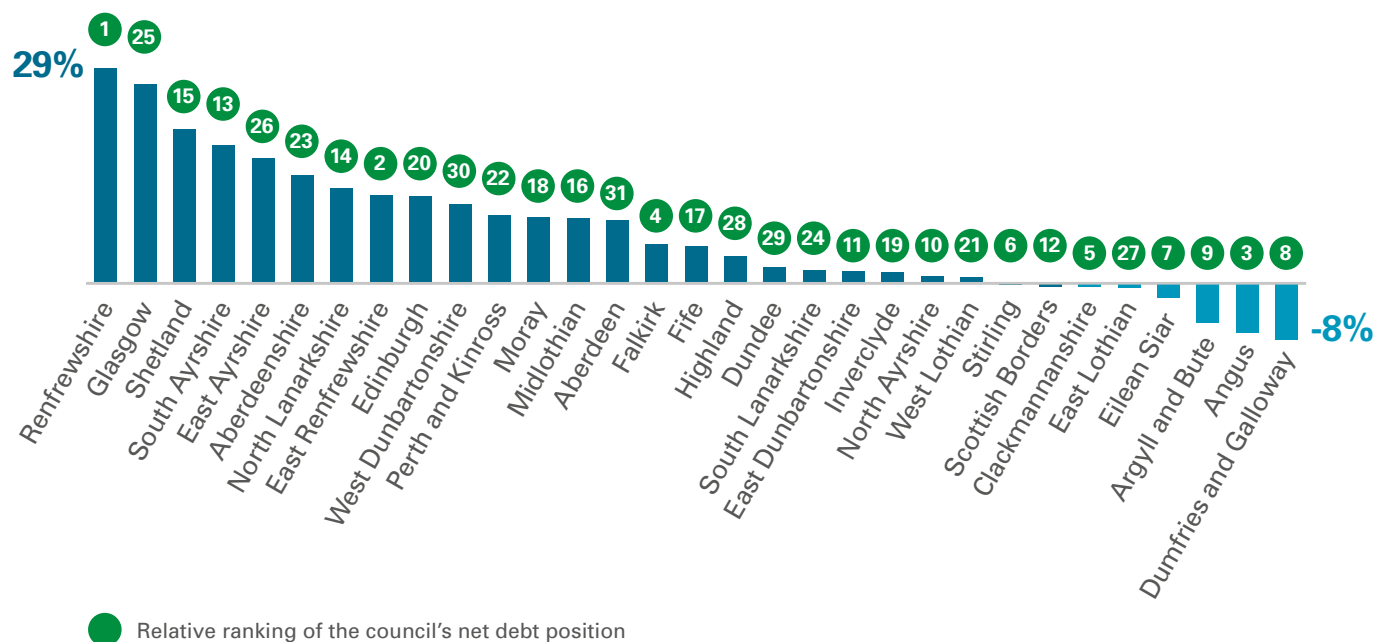
Most councils increased their net debt, typically by 4 per cent or more in 2019/20

27. Total net debt (total debt² less cash and investments) across councils has increased by £1.4 billion, or nine per cent, to £17 billion. [Exhibit 7](#) shows the relative movement in net debt between 2018/19 and 2019/20 for each council. The median movement is 4.3 per cent. Renfrewshire Council incurred the most significant increase, but this is due to lower cash balances, rather than an increase in borrowing. Renfrewshire Council still has the lowest level of net debt relative to its annual revenue. As noted earlier in this report, the Glasgow City Council sale and leaseback of council properties ([paragraph 28](#)) also contributed to a significant increase in its net debt position.

Exhibit 7

Percentage movement in net debt between 2018/19 and 2019/20 at council level with relative ranking of total net debt

Most councils increased their net debt by 4 per cent or more.



Note: Orkney has been excluded as it has net investments.

The rankings (1 to 31) indicate the net debt position of the council relative to others, with 1 being the lowest. Net debt is shown as a proportion of net annual revenue.

Source: Unaudited financial statements 2019/20.

Equal pay settlements at Glasgow City Council were financed through sale and leaseback

28. Glasgow City Council included a provision for equal pay costs in 2018/19 and during 2019/20 settled the majority of outstanding equal pay claims. The £500 million cost of settlement was met by a funding strategy that raised £549 million. This included the refinancing of a City Property loan arrangement (the Council's Arm's Length Organisation or ALEO) and the sale and leaseback of 11 council properties to City Property. As the income from the funding strategy exceeded the cost of settlement, the council has earmarked £70 million to support any

future equal pay liability arising from the implementation of a new pay and grading system. This accounts for the majority of the net increase of £84 million in the general fund balance held by the council ([paragraph 17](#)).

29. The arrangement is represented in non-current assets and by a deferred liability. This contributed £453 million to the total Scottish debt. The total annual rent payable to City Property by the Council is now £20.4 million and is subject to annual inflation of 2.75 per cent.

Audit of 2019/20 annual accounts

Auditors drew attention to material uncertainty in property valuations relating to Covid-19

30. Most councils' auditors reported a material valuation uncertainty in council property valuations related to the potential impact of Covid-19. An 'emphasis of matter' paragraph was included in the independent auditor's reports to draw attention to this matter.

Local Government Pension Funds

Pension Fund investment returns were negative in 2019/20 as a result of Covid-19

31. The eleven main Scottish Local Government Pension Funds experienced negative investment returns as a result of the impacts of Covid-19 on global markets in the last quarter of 2019/20. The annual return was between -1.9 per cent and -8.3 per cent in individual funds, based on the average assets position ([Exhibit 8](#)).

Exhibit 8

Investment returns based on average assets in Scottish Pension Funds 2019/20

2019/20 investment returns were adversely affected by Covid-19.



Source: Audited accounts of the Pension Funds 2019/20

Funds still tended to outperform their benchmarks

32. In the majority of funds, the overall investment returns still outperformed their individual annual benchmarks to 31 March 2020. Since then there has been a partial recovery in global markets. The auditors of Tayside Pension Fund report that net assets fell by 16 per cent due to Covid-19 in the last quarter of 2019/20 but had recovered over two-thirds of these losses by the end of June 2020.

Some elements of pension investments were more uncertain as result of Covid-19

33. A number of pension fund auditors drew attention to the levels of greater uncertainty attached to 'level 3' investments, by including an 'emphasis of matter' paragraph in their auditors' reports. In Fife Pension Fund, level 3 investments include investments in property, infrastructure and private equity. These make up around £270 million or 11 per cent of the fund's total investments at 31 March 2020. As there is no market data to support the valuation these are based on judgements by investment funds. These valuations included material valuation uncertainty disclosures this year due to Covid-19.

The next triennial valuation of Scottish Local Government Pension Funds is due to be completed in March 2021

34. Triennial valuations of Scottish Local Government Pension Funds are due to be completed in March 2021. This will identify the funding level in each scheme and inform future funding and investment strategies as well as determining the level of employer and employee contribution rates from 2021/22 onwards.

Pension Fund investment returns were negative in 2019/20 as a result of Covid-19, but most funds still tended to outperform their benchmarks.

Councils' financial outlook

Key messages

- 1** 2020/21 initial budgets identified savings targets as the main way to close a budget gap of £0.5 billion, with more councils setting multi-year indicative budgets
 - 2** Before the impact of Covid-19, Scottish Government revenue funding in 2020/21 increased by 1.4 per cent in real terms, but this is to fund the expansion in Early Learning and Childcare
 - 3** The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income
 - 4** We estimate that funding announced by the Scottish Government by November 2020 meets 60 to 70 per cent of the cost pressures identified by councils through COSLA's cost-gathering exercise, although total costs and funding are still uncertain
 - 5** Scottish Government capital funding to local government in 2020/21 is decreasing by 30 per cent in real terms
 - 6** Councils need to review and revise their medium-term financial plans due to Covid-19
-

Budget gap 2020/21

Initially councils identified a total budget gap of £0.5 billion in 2020/21 and again plan to address these through savings targets

35. Councils original 2020/21 budgets were set before the Covid-19 pandemic emerged in Scotland. Councils set net expenditure budgets after taking into account projections of local income from fees and charges. Councils approved net expenditure budgets of £13.5 billion for 2020/21 including a budget gap of £0.5 billion (or three per cent). The budget gap is shown before action such as savings, council tax rate increases and use of reserves. There is still some inconsistency in how councils present their own budget gaps. For example, whether it is stated before or after the council tax increase. The relative size of the budget gap was consistent with the two previous years. Savings plans were the main way councils planned to bridge the budget gap, contributing 55 per cent with council tax increases contributing a further 23 per cent.

36. Eighteen councils approved a council tax rate increase in line with the 4.84 per cent cap set by Scottish Government in 2020/21. Six councils increased their council tax rate by three per cent and the remaining eight councils approved an increase of between 3.95 per cent and 4.8 per cent.

More councils presented multi-year indicative budgets in 2020/21

37. A new development was for more councils to set multi-year indicative budgets, as part of the 2020/21 budget setting process. Fifteen councils presented multi-year indicative budgets. In four councils (Aberdeen, Aberdeenshire, Scottish Borders and Stirling) budgets covered the next five years, with the others covering three years.

2020/21 funding settlement

Prior to additional Covid-19 related funding, Scottish Government revenue funding in 2020/21 increased by 1.4 per cent in real terms

38. The Local Government revenue settlement from the Scottish Government in 2020/21, before taking into account changes due to Covid-19, increased by 3.4 per cent (cash terms) from 2019/20 to £10.7 billion. This was a real terms increase of 1.4 per cent ([Exhibit 9](#)).

Exhibit 9

Changes in Scottish Government revenue funding in 2020/21 (excluding Covid-19 funding)

Scottish Government revenue funding increased by 1.4 per cent in real terms in 2020/21.

	2019/20	2020/21	Cash %	Real %
General Revenue Grant and Non-Domestic Rate Income	9,811	9,958	1.5%	-0.5%
Specific Revenue Grants	508	710	39.8%	37.1%
Total revenue funding	10,319	10,668	3.4%	1.4%
Health & Social Care funding via NHS	355	355	0.0%	-1.9%
	10,674	11,023	3.3%	1.3%

Source: Finance Circulars 04/2020 and Scottish Government budget documents

Most of the increased funding in 2020/21 was to fund the expansion in Early Learning and Childcare

39. Specific revenue grants increased in cash terms by £202 million in 2020/21, growing from 4.9 per cent of total revenue funding to 6.7 per cent. This represented 1.4 per cent of the increase in revenue funding in cash terms between 2019/20 and 2020/21. Most of this increase was due to an additional £201 million allocated to councils to support the expansion in funded Early Learning and Childcare entitlement to 1,140 hours by 2021.

Financial impact of Covid-19 in 2020/21

The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million³

40. As noted above, initial budgets and funding settlements did not reflect the changed environment and financial effects of Covid-19. During the early phases of Covid-19, the Convention of Scottish Local Authorities (COSLA) worked with councils to summarise the expected financial effects of Covid-19 on local government. This was summarised by COSLA in their *Cost Collection Exercise: Analysis and Narrative – 3rd Iteration (Full Year Figures), (July 2020)* and the financial impact of Covid-19 in 2020/21 is estimated to total £767 million (excluding Education and Early Learning and Childcare costs). The projected amount covers the full financial year and includes gross additional costs of £855 million, offset by savings of £88 million (from lower property costs and school meal costs). £86 million of the gross additional cost figure relates to projected capital costs.

41. This estimate does not include additional social care costs which are covered in [paragraph 70](#) as part of Health and Social Care Partnership costs.

Lost income accounts for over half of Covid-19 costs in councils

42. Loss of income accounts for over half of the forecast additional costs. Loss of income from fees and charges was projected to result in a loss of £161 million. The most significant proportion of these losses related to the anticipated reduction in parking fee income ([Exhibit 10, page 25](#)). All councils projected a loss of income from sports and leisure facilities at July 2020, totalling £75 million. Mobilisation costs and the costs arising from reconfiguring services (recovery costs) made up the remaining Covid-19 costs.

43. Several larger urban councils have ALEOs that were set up to manage commercial activities and provide income back to councils. This includes conference facilities and transportation services. The projected loss of income for councils from these was £39 million. This included Lothian Buses, Edinburgh Trams, Scottish Exhibition and Conference Centre and the Aberdeen Exhibition and Conference Centre.

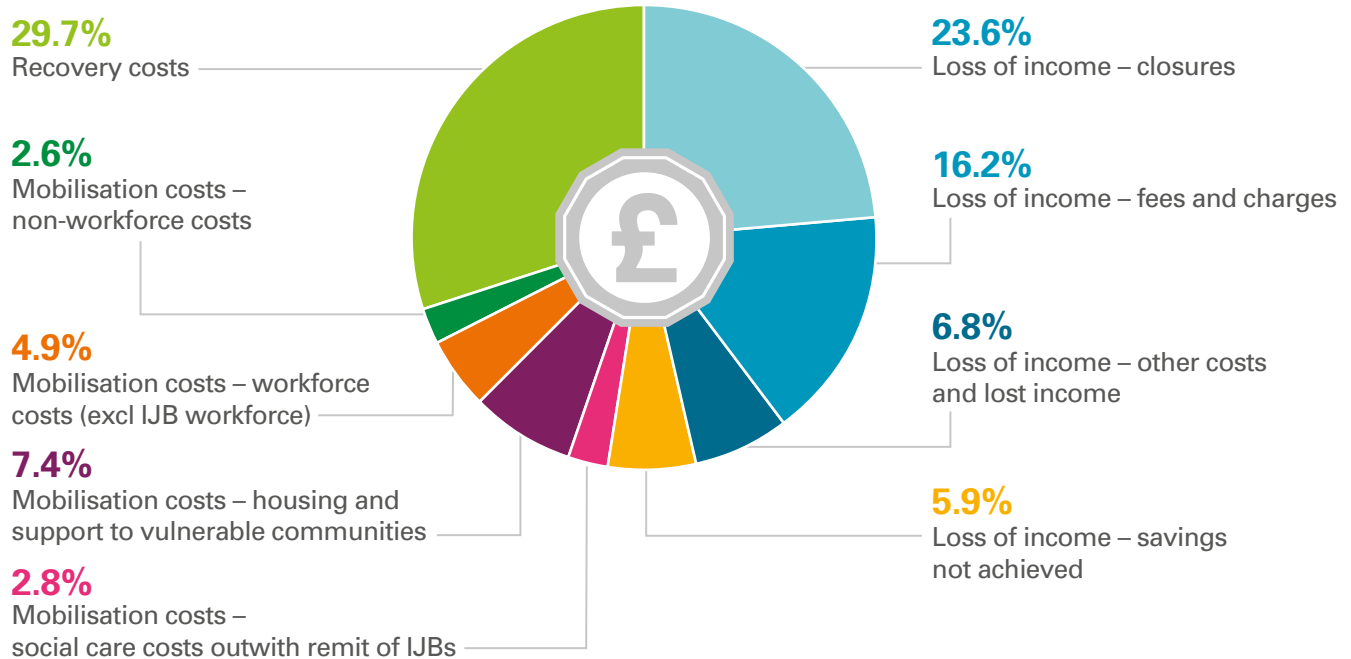
44. Loss of income from harbour and ferry activities is another area that has been projected to be significantly impacted. Four councils projected a loss of income totalling £11 million.

The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million. Over half of this relates to lost income.

Exhibit 10

2020/21 Projected Covid-19 related expenditure/lost income

Loss of income accounts for over half of the forecast additional costs.



Source: COSLA summary (full year returns) (July 2020) and COSLA council returns. Proportions based on returns from 25 councils.

Scottish Government support for Covid-19 pressures

The proportion of NDR and General Revenue Grant funding was adjusted

45. In March 2020, the Scottish Government made a £972 million reduction to the distributable amount of Non-Domestic Rates (NDR) in 2020/21 together with a corresponding increase in the General Revenue Grant (GRG). This reflected measures arising from The Non-Domestic Rates (Coronavirus Reliefs) (Scotland) Regulations 2020 which included 1.6 per cent of Universal Relief, 100 per cent relief for Retail, Hospitality and Leisure and 100 per cent relief for Airports and Baggage Handlers.

46. The change reflected a recognition that NDR income collected by councils would be lower than anticipated due to Covid-19. As the Scottish Government guarantee each council's formula share of GRG plus NDR, the change resulted in no overall impact on council's total revenue funding.

Councils have administered funding of over £1 billion as part of the Covid-19 Business Support Fund Grant Scheme

47. In March 2020, the Scottish Government announced that businesses could apply for grants to help them deal with the impact of Covid-19.⁴ These grants would be administered by councils on behalf of the Scottish Government, with funding made available to councils to finance the costs incurred. Councils received a grant of £950 million in 2020/21 providing an initial advance of the estimated costs projected by the Scottish Government, based on the number of businesses eligible for relief within each council area. The remaining amount will be disbursed as necessary up to a maximum collective limit of £1.2 billion.

48. Councils reported that over 106,000 applications were received for the Small Business Grant Scheme and the Retail, Hospitality and Leisure Business Grant Scheme across Scotland. Of the applications received, over 90,000 were successful with grants of over £1 billion awarded by September 2020.

Further funding of £936 million has been announced by November 2020

49. As at November 2020, £936 million of Scottish Government Covid-19 support for councils had been either allocated or announced ([Exhibit 11, page 27](#)). This is made up of the following:

- £723 million of revenue support, including £90 million (estimated) from the loss of income compensation scheme
- £150 million of NHS funding to be passed on to Health and Social Care Partnerships
- £63 million of capital support for Regeneration Capital Grant Fund, Town Centres Capital Fund, school transport support and digital inclusion funding

We estimate that funding announced by November 2020 meets 60 to 70 per cent of the revenue cost pressures identified by councils, with total costs and funding still uncertain

50. In [paragraph 40](#), we noted estimated council cost pressures of £767 million, split between revenue cost projections of £681 million and capital cost projections of £86 million. Not all the announced additional funding can be matched to these costs. Of the total £936 million announced, £234 million has been provided to benefit third parties or did not form part of the council's original cost submission.

51. The funding for the Scottish Welfare Fund (£45 million), council tax reduction scheme (£50 million) and discretionary housing payments (£5 million) are administered by the councils but will benefit individuals and businesses within the community.

52. The additional educational recovery funding (£134 million) is a consequence of the decision to re-open schools and early years establishments full-time from 11 August 2020. The necessary social distancing and cleaning measures result in additional costs to councils to be met from this funding. These were not envisaged in the councils' initial cost collection exercise, which predated decisions to return to school on a full-time basis.

53. The funding of £150 million to be passed to Health and Social Care Partnerships did not form part of the councils' estimated costs as these form part of the IJB mobilisation costs. These are described at [paragraph 70](#).

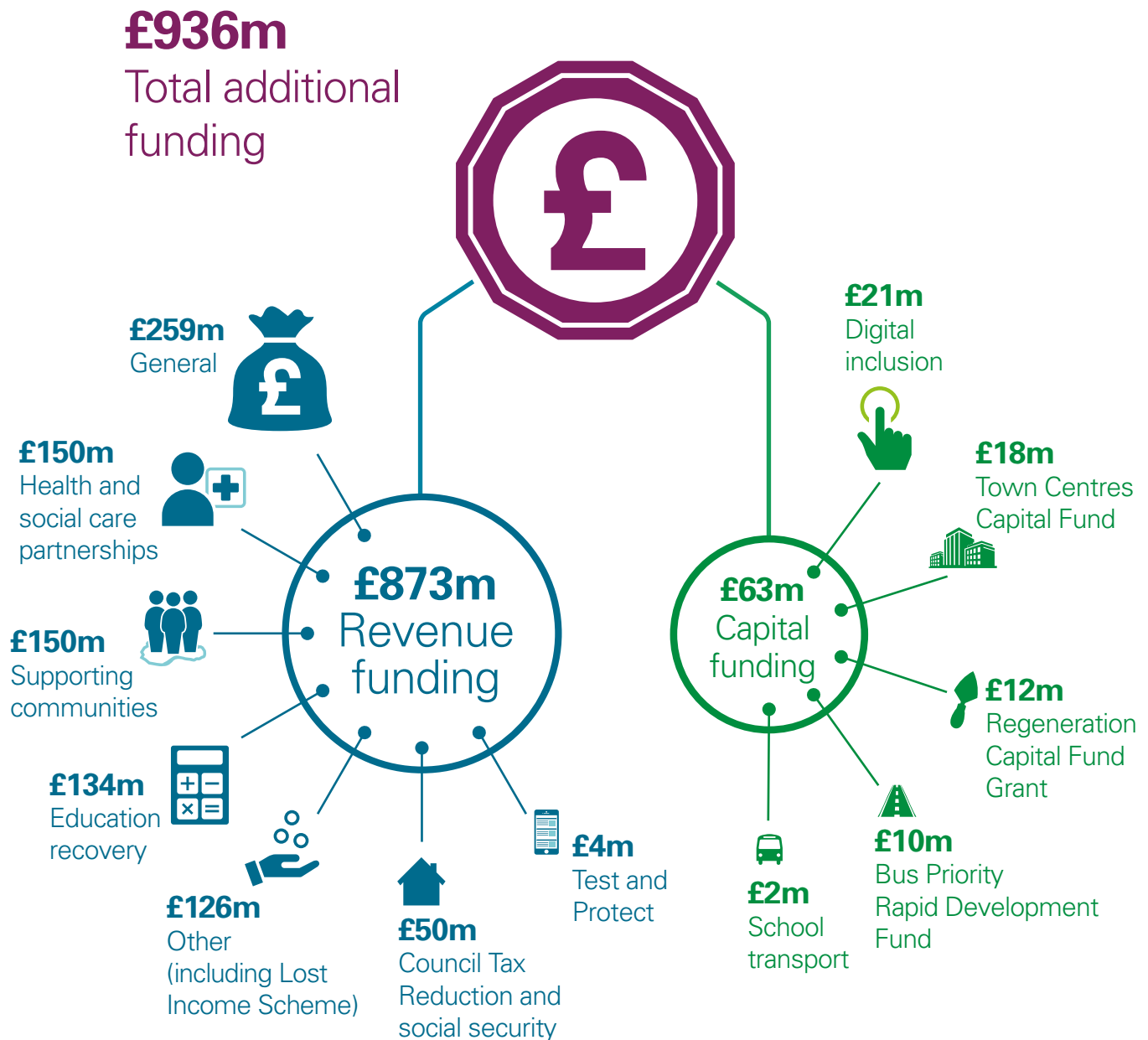
54. After taking into account the above issues, we estimate that the beneficial announcements of revenue funding to councils meet 60 to 70 per cent of the estimated revenue costs at July 2020. However, some of this funding is ringfenced, with £236 million being allocated for specific purposes. For example, £65 million for the food fund and for free school meals. Councils may have cost pressures in other separate areas, which may not be met by this specific funding.

55. The effects of the Covid-19 pandemic continue to develop, as do projections of associated costs and funding.

As at November 2020, £936 million of Scottish Government Covid-19 support for councils had been either allocated or announced.

Exhibit 11**Scottish Government Covid-19 funding in 2020/21**

Councils were allocated £936 million of additional Covid-19 funding in 2020/21 (November 2020).



Source: Scottish Government funding announcements and COSLA report



The Scottish Government has given councils additional financial flexibility to respond to the Covid-19 crisis

56. Councils have been given an additional package of spending powers and financial flexibility that the Scottish Government claims could be worth up to £600 million.⁵ This figure will apply if all councils are able to use all the new flexibilities, however COSLA does not consider this to be a likely scenario. Councils will need to consider the increased costs that may arise in future years and the effects of Covid-19 may impact on some areas, for example expected capital receipts. The new funding levers open to councils apply to Covid-19-related

pressures only and apply to this and the next financial year. Additional spending powers include the following:

- enabling the use of capital receipts to meet one-off revenue funding pressures, including Covid-19 related costs
- extending debt repayment periods over the life of the asset rather than the contract period
- allowing councils to take a repayment holiday in either 2020/21 or 2021/22 to defer internal loan fund repayments.

57. In addition to these measures, the Scottish Government has provided flexibility around the guidance for using the following specific funding:⁶

- Pupil Equity Funding
- Challenge Authority and Schools' Programme funding
- funding for Regional Improvement Collaboratives, allowing resource linked to this initiative to be repurposed to the Covid-19 response, and
- deploy early learning and childcare funding flexibly to deliver critical provision for children and families.

58. The extent of how these individual flexibilities may be used by each council, is yet unclear. Judgements will be required by each council and this may depend on the extent of unavoidable commitments already existing, for example in early learning contract commitments to parents.

Medium and long-term financial planning

The financial changes due to Covid-19 mean that councils need to review and revise their medium-term financial plans

59. Auditors have reported greater uncertainty in current financial planning arrangements at councils due to Covid-19. Medium term financial plans will now require revision at all councils to take into account additional financial pressures and updated funding arrangements, as well as consideration of updated savings requirements and financial assumptions.

Capital funding

Scottish Government capital funding in 2020/21 is decreasing by 30 per cent in real terms

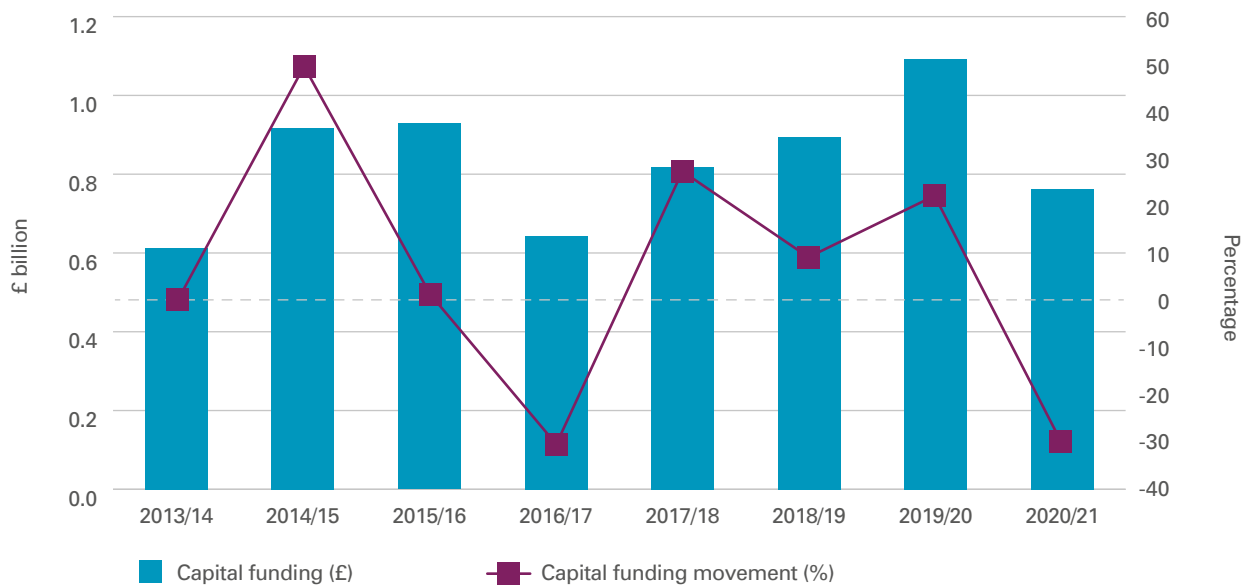
60. The Local Government capital settlement in 2020/21 decreased from £1.1 billion in 2019/20 to £0.8 billion. Capital funding had experienced significant increases in the past three years (33 per cent increase between 2017/18 to 2019/20). Total capital funding has now returned to levels more similar to those in 2017/18, in real terms ([Exhibit 12, page 29](#)). This could have a significant impact on councils' future investment plans.

Scottish Government capital funding in 2020/21 is decreasing by 30 per cent in real terms.

Exhibit 12

Real terms capital funding between 2013/14 and 2020/21 (excluding Covid-19 funding)

Scottish Government capital funding in 2020/21 (excluding Covid-19 funding) is decreasing by 30 per cent.



Source: Finance Circulars 04/2020 and Scottish Government budget documents

Integration Joint Boards

Key messages

- 1** A majority of IJBs (22 of 30) struggled to achieve break-even in 2019/20 or recorded deficits
 - 2** Total mobilisation costs for Health and Social Care Partnerships for 2020/21 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all these costs
 - 3** Revisions will be required to medium-term financial plans to reflect the impact of Covid-19
 - 4** There were changes in chief officer at 12 IJBs in 2019/20
-

Funding and expenditure

In 2019/20 overall funding to IJBs increased by six per cent

61. Overall funding to IJBs, in 2019/20, increased by £0.5 billion (or six per cent) to £9.1 billion. Most of this increase is in health board contributions to the IJB.

Sixteen IJBs recorded deficits

62. Sixteen of the thirty IJBs reported a total deficit of £32 million in 2019/20, compared with only eight IJBs reporting a deficit of £11 million in 2018/19. Of the remaining IJBs, 13 reported a total surplus of £17 million and one reported a breakeven position.

A further six IJBs needed additional funding to achieve surplus or breakeven

63. Six of the IJBs that reported a surplus or breakeven position would not have achieved this without additional funding from partners. A total of thirteen IJBs had extra financial support from partners of £50 million. Without this, 22 IJBs would have reported a total deficit of £77 million (19 IJBs with a deficit of £58 million in 2018/19).


IJBs reported mixed performance against the achievement of savings targets in 2019/20

64. We reported last year that of the £208 million projected budget gap for 2019/20, 59 per cent of this was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Comparing this to actual performance and based on a sample of 22 IJBs, only four delivered 100 per cent of planned savings in 2019/20. Generally, there was significant variation in how IJBs performed against savings targets, with savings achieved ranging from 37 per cent at Aberdeen City IJB to 100 per cent at Inverclyde IJB.

IJB reserves have decreased in 2019/20

65. The IJBs' total reserves decreased by £15 million (9 per cent), to £143 million. This contrasts with a £34 million increase in reserves in 2018/19. Last year we reported that some of the increase in reserves was a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. The Scottish Government has advised health boards and IJBs that it expects these earmarked balances to be used before further funds are drawn down. Part of the decrease in reserves this year relates to the use of these specific funds ([Exhibit 13, page 32](#)).

66. Some of the more significant reductions include:

- Edinburgh IJB used reserves of £7 million to address a budget gap, as outlined in the recent Edinburgh City Council [Best Value Assurance Report](#)  (November 2020).
- Dumfries and Galloway and South Lanarkshire IJBs used up a significant element of specific reserves, including Primary Care Transformation and Mental Health programmes of work.

A majority of IJBs struggled to achieve break-even in 2019/20 or recorded deficits.




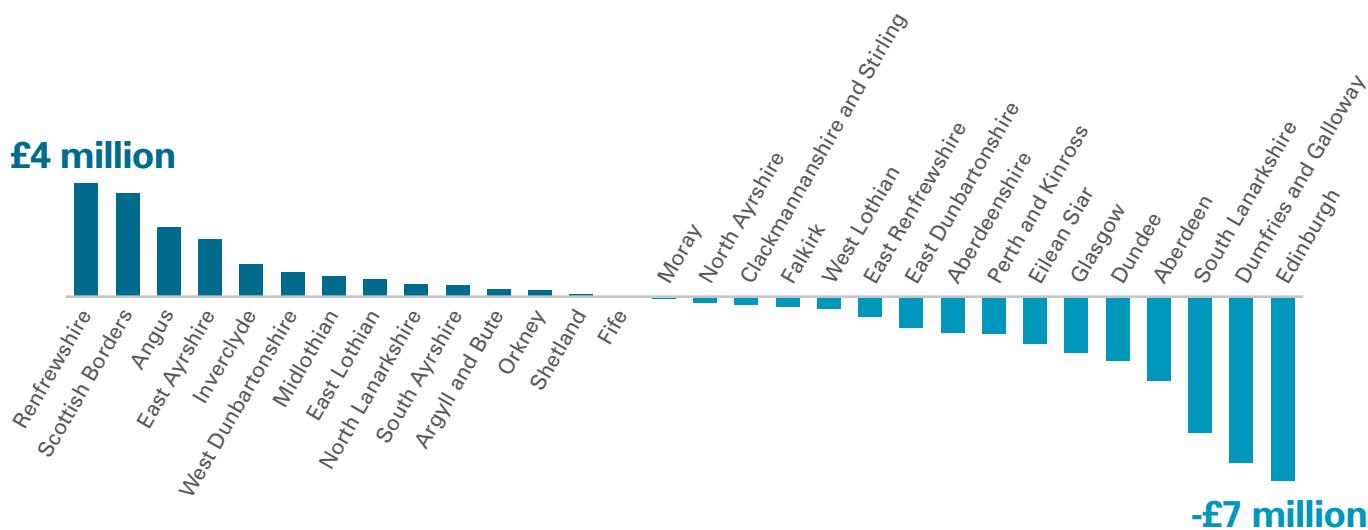
Best Value Assurance
Report: City of Edinburgh
Council
November 2020 

Exhibit 13

Individual movements in general fund reserves between 2018/19 and 2019/20

Sixteen IJBs reported a decrease in the general fund balance.



Source: Unaudited financial statements 2019/20, except where significant audit adjustments identified



Financial planning

More IJBs agreed budgets with partners before the start of the financial year

67. Previously we reported that eleven IJBs failed to agree a budget with their partners at the start of the 2019/20 financial year. This position improved for 2020/21, when only six IJBs had not agreed their budgets by 1 April. Auditors identified the main reasons for this as the impact of Covid-19 and the timing of partner bodies setting their budgets.

Prior to Covid-19 costs, the projected budget gap was £185 million for 2020/21

68. Auditors identified a total estimated budget gap of £185 million for 2020/21, representing 2 per cent of total projected net expenditure. This is an improvement in comparison to 2019/20 (£208 million). The 2020/21 budget gap as a proportion of total projected net expenditure varied between 0.6 and 5.7 per cent.

69. Of the £185 million budget gap, 62 per cent (59 per cent in 2019/20) was anticipated to be met by identified savings and 25 per cent (30 per cent in 2019/20) by unidentified savings plans. Five IJBs planned to cover part of the estimated funding gap from reserves.

Covid-19 related costs

As at October 2020, estimated total Covid-19 mobilisation costs for Health and Social Care Partnerships for 2020/21 were £422 million

70. Financial data, provided to the Scottish Government by NHS Boards, shows estimated total Covid-19 mobilisation costs for Health and Social Care Partnerships of £422 million for 2020/21. This projected total covers the full financial year and is based on returns submitted to NHS Boards by IJBs in the period June to September 2020. The main contributory factors to this are:

- additional costs for externally provided services, including PPE (£113 million)
- additional payments to Family Health Services contractors (£18 million) and prescribing (£15 million)
- additional temporary staff (£27 million)
- additional care home beds (£21 million)
- additional staff overtime and enhancements (£20 million)
- costs associated with Community Hubs (£27 million)
- homeless and criminal justice services (£10 million)
- mental health services (£10 million)
- expected underachievement of savings (£72 million), and
- loss of income (£24 million).

It is not yet clear if the Scottish Government will provide financial support to IJBs for the full impact of the pandemic

71. Several IJBs have included an assumption within budget papers and monitoring reports that the Scottish Government will provide financial support to cover all 'reasonable' expenditure included in cost submissions. However, there remains uncertainty around the extent to which the Scottish Government will fund these costs. Uncertainty of funding in care elements of the IJB has a significant impact on councils too, as the impact of costs and funding has been assumed to be neutral or excluded from council estimates.

72. At September 2020, the Scottish Government confirmed that £2.6 billion received in consequentials will be passed on for health and social care. This amount should be sufficient to cover the projected Covid-19-related revenue costs of £1.62 billion for health (£1.2 billion) and social care (£0.42 billion) for 2020/21.

73. In late September 2020, the Scottish Government announced additional funding of £1.1 billion to support the health and social care sector in dealing with Covid-19 related pressures. The funding will be allocated to NHS Boards and Health and Social Care Partnerships across Scotland to meet the costs of additional staffing or sickness expenditure, enhanced infection prevention and control measures, and the purchase of PPE. However, the basis for allocation to individual partnerships is not yet clear.⁷

As at October 2020, estimated total Covid-19 mobilisation costs for Health and Social Care Partnerships for 2020/21 were £422 million.

Revisions will be required to medium-term financial plans

74. More IJBs developed medium-term financial plans in 2019/20. Auditors reported that 26 had a medium-term financial plan in place. The impacts of Covid-19 could be significant for individual IJBs and medium-term financial plans will need to be revised to reflect this.

Wider governance issues**There were changes in chief officer at 12 IJBs in 2019/20 and instability of leadership continues to be a challenge**

75. Auditors continued to identify significant changes in senior officers of IJBs. In 2019/20 there were changes in the chief officer at 12 of the 30 IJBs. Two-thirds of the chief officers who resigned left for a new role, either at another IJB (three chief officers) or elsewhere (five chief officers). There were also changes in chief finance officer at two of the IJBs. At Western Isles IJB (Curam is Slainte nan Eilean Siar) the absence of a chief officer has contributed to delays in strategic planning and issues with workforce planning.

Some IJBs did not review their integration scheme due to Covid-19

76. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out that IJBs have a statutory duty to review their integration scheme within a five-year period. Auditors reported that six IJBs had not reviewed their integration scheme within the required timeframe. In all cases, Covid-19 was noted as a reason for the delay.

Instability of leadership continues to be a challenge for IJBs.


Endnotes

- 1 COSLA returns (3 month and full year returns) – based on 29 councils. Cost projection ranges were derived for the missing councils. Please note that this also includes the loss of the £6 million dividend from Lothian Buses.
- 2 Debt is total outstanding borrowing and other liabilities, including assets acquired through Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models.
- 3 Excludes additional costs due to the decision to re-open schools and early years establishments full-time from 11 August 2020, as the cost collection exercise was conducted prior to this.
- 4 Scottish Government announcement (<https://www.gov.scot/news/gbp-1-billion-business-support-fund-opens/>)
- 5 Scottish Government announcement (<https://www.gov.scot/news/supporting-local-government-recovery>)
- 6 Scottish Government announcement (<https://www.gov.scot/publications/coronavirus-covid-19-letter-to-local-authorities-regarding-education-and-early-learning-and-childcare-funding-flexibility>)
- 7 The IJB is a separate legal entity, responsible for the strategic planning and commissioning of the wide range of health and social care services across a partnership area. Health and Social Care Partnerships are the partnerships that deliver services based on decisions made by the IJB.

Local government in Scotland

Financial overview



2019/20

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ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****16 MARCH 2021**

ECONOMIC STRATEGY SCRUTINY REVIEW

1. SUMMARY

- 1.1 Economic Strategy was the first scrutiny review carried out as per the 2019/20 scrutiny plan agreed by the Audit and Scrutiny Committee on the 18 June 2019.
- 1.2 The Economic Strategy scrutiny panel comprised of Martin Caldwell (chair), Councillor Findlay and Councillor McGrigor with support provided by internal audit officers.
- 1.3 The Strategy was chosen for inclusion in our scrutiny priorities for 2019/20 as it had only recently been approved, therefore it was deemed to be an appropriate time to consider the process for creating the strategy and its associated action plan. The scrutiny review intended to examine the foundation of the strategy to assess whether the approach adopted was robust and whether the approach or the Strategy could be improved.

2. RECOMMENDATIONS

- 2.1 Committee to agree the Draft Economic Strategy Scrutiny Report
- 2.2 Committee to agree the most appropriate committee or other Council group for the economic strategy scrutiny report to be presented to for consideration.

3. DETAIL.

- 3.1 The agreed objectives of the scrutiny review were to consider whether:
- the Strategy had been informed by a suite of appropriate data and information
 - the process to create the action plan was properly aligned to the Strategy and priorities
 - the Strategy and action plan are achievable.
- 3.2 Throughout this review three panel meetings were held to gather evidence.
- Panel one – Council's Head of Economic Development and the Council's Senior Economic Growth Officer.
 - Panel two – representative from Skills Development Scotland (SDS), Scottish Enterprise (SE), Highlands and Islands Enterprise (HIE) and the Council's Economic Growth Manager.

- Panel three – Council’s Head of Economic Development

- 3.3 We would like to extend our appreciation for the cooperation and assistance received from all witnesses invited to provide evidence over the course of the review.
- 3.4 Based on the information obtained over the course of the review the panel has identified five recommendations specific to this review. These are detailed in the report attached as appendix 1.
- 3.5 The report has been discussed with the relevant Executive Director and the Head of Economic Development to confirm accuracy and it is now for the Committee to decide whether to approve the report and, if so, to agree the most appropriate committee or other Council group for the economic strategy scrutiny report to be presented to for consideration.

4. CONCLUSION

- 4.1 Committee is requested to agree the attached report and agree the most appropriate Committee or other Council group for the report to be presented to for consideration.

5. 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

Martin Caldwell
Chair of the Economic Strategy Scrutiny Panel
16 March 2021

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

Appendices:
Appendix 1 – Draft Economic Strategy Scrutiny Report

Argyll and Bute Council

Scrutiny Report

March 2021

FINAL

Economic Strategy

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Chief Internal Auditor: Laurence Slavin (laurence.slavin@argyll-bute.gov.uk)

www.argyll-bute.gov.uk

1. Executive Summary

Introduction

1. As part of the Argyll and Bute Council's (the Council) 2019/20 scrutiny plan, approved by the Audit & Scrutiny Committee (the Committee) in June 2019, we have undertaken a scrutiny review of the Council's Economic Strategy (the Strategy).
2. Throughout the report reference to 'the Panel' refers to the independent chair of the Committee and two Committee members who conducted this review. They were:
 - Martin Caldwell (Chair)
 - Councillor Findlay
 - Councillor McGrigor
3. The Panel was supported by council officers and relevant external parties who gave willingly of their time to help deliver the review. We would like to extend our appreciation for the cooperation and assistance received from all witnesses invited to provide evidence over the course of the review.

Background

4. The Strategy was chosen for inclusion in our scrutiny priorities for 2019/20 as it had only recently been approved, therefore it was deemed to be an appropriate time to consider the process for creating the strategy and its associated action plan. The scrutiny review intended to examine the foundation of the strategy to assess whether the approach adopted was robust and whether the approach or the Strategy could be improved.
5. On 7 March 2019 the Environment, Development and Infrastructure (EDI) Committee considered a report concerning the development of a new Argyll and Bute Economic Strategy and associated Action Plan. This had been drafted to take account of a rapidly changing economy at global, national and local levels, increasingly influenced by a number of key economic drivers such as the emergence of City and Regional Growth deals including the Argyll and Bute Rural Growth Deal (RGD).
6. The EDI committee recommended approval of the draft Strategy to the Council. The Strategy was subsequently approved by Council on 18 April 2019.
7. The Strategy aims to strengthen the economic infrastructure, create better places and attract people to live, work, visit and invest in Argyll and Bute to support the growth of the local economy. It outlines the need to attract external funding to help make our towns investor-ready and attractive as places to live in and do business. The Strategy relates to economic growth across the local authority area, therefore has a council wide impact.
8. The Strategy is a key council document that aims to help deliver the overarching vision of the Argyll and Bute Outcome Improvement Plan 2013 – 2023 that has been agreed with the Scottish Government: "Argyll and Bute's economic success is based on a growing population."
9. Argyll and Bute's predominately rural economy remains fragile and the pace of economic change continues to accelerate with a number of key economic drivers influencing this and ultimately the performance of national and local economies. These economic drivers include:

- rapid technological advances influencing the way we do business including the work skills people will need in the future
 - population drift from rural to urban areas
 - poor growth of the business base as compared to west of Scotland and Scotland
 - taking account of climate change mitigation and adaptation
 - the UK's withdrawal from the EU and potential changes to trade deals, migration policy and external funding
 - emergence of City and regional growth deals, including the RGD
 - rise of the national living wage
 - need for greater inclusion and community empowerment.
10. The Council previously had a series of economic development action plans (EDAP) which were monitored on a regular basis. They were increasingly becoming out of date due to changing economic circumstances, the information the Council was discovering whilst progressing the RGD and the changing economic priorities of both the Scottish and UK Governments. Some examples being changing legislation such as the Islands Act, the need for greater inclusion and the UK's impending exit from the EU. The Council therefore considered it necessary to develop a new economic strategy which linked to the priorities of Government and the RGD.
11. The Strategy contains strategic themes that inform a number of underlying aims and actions. The three themes are:
- Critical Economic Infrastructure – Connecting - to national and international markets
 - Place and people – Attracting – skills, residents, visitors and businesses
 - Smart Growth – Growing - doing more that works (to support business)
12. The key themes are used to inform an action plan which is included as an appendix to the Strategy.

Key Economic Appraisals

13. The panel identified a range of key economic appraisals reported to the Council between 2015-2019 which informed the panel's research and provided background information to the strategy throughout the scrutiny review.
- [Compelling Argyll and Bute Strategic Overview Report, EKOS 2015](#)
 - [Compelling Argyll and Bute Sub Regional Economic and Skills Profile, EKOS 2015](#)
 - [Compelling Argyll and Bute Primary Research Analysis, EKOS 2015](#)
 - [Compelling Argyll and Bute Stakeholder Research Report, EKOS 2015](#)
 - [Compelling Argyll and Bute Addressing Rural Depopulation, EKOS 2015](#)
 - [Skills Investment Plan for H&I', Skills Development Scotland 2016](#)
 - [Argyll and Bute Skills Assessment, EKOSGEN 2016](#)
 - [Argyll and Bute Transport Connectivity and Economy, EKOSGEN for HIE 2016](#)
 - [Skills Review for Aquaculture Sector, EKOSGEN for HIE, 2018](#)
 - Faslane RN Base Expansion Economic Impact Report, EKOS for Scottish Enterprise Aug 2019
 - [Rural Growth Deal Prospectus, Main Report 2019](#)
 - <https://www.argyll-bute.gov.uk/info/economy>

Scrutiny Initiation Briefing – 23 September 2019

14. In September 2019 scrutiny officers circulated a briefing to the Panel which provided background on the Strategy. Following this, the Panel met to agree the scope and identify invitees to give evidence at a series of meetings.
15. The agreed scope was to consider whether:
- the Strategy had been informed by a suite of appropriate data and information
 - the process to create the action plan was properly aligned to the strategy and priorities
 - the strategy and action plan are achievable.
16. The Panel agreed that they should meet with the under-noted groups, who could aid their appreciation and understanding of the process followed to create the Strategy and Action Plan. (Exhibit 1)

Exhibit 1 – Scrutiny Meetings

Attendees	Key Areas for Discussion
Council Officer(s)	<ul style="list-style-type: none"> • Research and data used to inform Strategy • Process to create the Strategy
Relevant Partner Agencies	<ul style="list-style-type: none"> • Partner input into Strategy creation • Partnership working to deliver Strategy
Council Officer(s)	<ul style="list-style-type: none"> • Prioritisation of Strategy themes/actions plan points • Deliverability of Strategy

2. Scrutiny Meetings

Scrutiny Meeting One – Council Officers – 12 October 2019

17. Scrutiny meeting one consisted of the Council’s Head of Economic Development, who has overall responsibility for the Strategy and the Council’s Senior Economic Growth Officer. The key messages from this meeting are set out in Exhibit 2.

Exhibit 2 – Scrutiny Meeting 1 – Council Officers - Key Messages

Theme	Detail
Research and data gathering	<p>Attendees explained the process followed to ensure that sufficient and appropriate data and information was gathered to inform and create the Strategy. This included taking into consideration the previous work undertaken in relation to the Council’s Single Investment Plan, the EDAPs, the Economic Forum and the development of the RGD, all of which gathered extensive information on the strengths of the economy and barriers to success. There was also a range of studies and feasibility studies either commissioned by the Council or by strategic partners which were utilised in the creation of the Strategy.</p> <p>The Panel were provided with numerous data sets and links to relevant reports used to inform the Strategy. The Panel found it challenging to identify what elements of this information had actually informed the Strategy and are of the view that, for any future iterations, it would be useful for a separate document, or appendix to be created which shows clear references between the data/reports and the Strategy. It was also felt that providing a clear evidence base would further enhance the credibility</p>

	<p>of the Strategy to external partners.</p> <p>That point aside the Panel were of the overall opinion that the Strategy was clearly informed by appropriate data sets and reports. Key economic appraisals, referenced at paragraph 13, commissioned by the Council, Highlands and Islands Enterprise, Scottish Enterprise and Skills Development Scotland from 2015 to 2019 (chiefly undertaken by EKOS) had provided an authoritative picture of the challenges facing the area. However, as indicated above, these appraisals were not referenced in the strategy.</p>
Process to create the strategy	<p>There is no statutory process for the development of an economic strategy. The development of the Strategy was done in parallel with the development of the RGD. The different stages of the process was governed by the RGD process including all of the various communications and meetings held with key stakeholders.</p> <p>An internal Officer Group composing of EDST Service Managers oversaw the development of the Strategy and the different drafts produced for consideration. These drafts were presented to the Leader of the Council as policy lead for economic growth and the appropriate Executive Director. It was then discussed by the service managers following consultation with their teams and a wider group of Council officers. The draft was then sense checked with stakeholders including HIE and Scottish Enterprise. Whilst business stakeholders were not involved at this stage of the process, feedback from the business sector has been incorporated into the drafting process using feedback gathered from the business consultation on the priorities of the RGD, the findings of the Economic Forum and from reports that were published, such as the travel connectivity report led by HIE.</p> <p>The Strategy was then presented to the full Council and Community Planning Partnership for comment before adoption.</p>

Scrutiny Meeting Two – Partner Agency Representatives and Council Officer – 04 March 2020

18. Scrutiny meeting two consisted of a representative from Skills Development Scotland (SDS), Scottish Enterprise (SE), Highlands and Islands Enterprise (HIE) and the Council's Economic Growth Manager.
19. The key messages from this meeting are set out in exhibit 3.

Exhibit 3 – Scrutiny Meeting 2 – Partner Agency Representatives - Key Messages

Theme	Detail
Partner input into Strategy creation and ongoing partnership working to deliver Strategy.	<p>Partner agency representatives agreed that partnership working is promoted through numerous ongoing projects and participation in numerous boards and groups, also a significant amount of the data used to inform the Strategy are shared data sets that all partners utilise, thereby lending further authority to their economic analysis</p> <p>Attendees agreed that their respective agencies had been consulted with in relation to the Strategy, in a general sense, through existing working groups/consultation exercises rather than more focused consultation which</p>

	<p>they felt would have been beneficial.</p> <p>There was clear recognition from attendees that the Strategy cannot be delivered by the Council only, it needs to be delivered through various partners and external bodies.</p> <p>There was agreement from all attendees that the Strategy is relevant and reflects their common priorities.</p> <p>The Panel were of the view that one of the greatest risks to the delivery of the Strategy is the need to ensure strong partnership working, ongoing engagement and promoting buy in from all partners. This could include appointing agency partners to take the lead on delivering specific projects or programmes.</p>
--	--

Scrutiny Meeting Three – Council Officer – 03 December 2020

20. Scrutiny meeting three consisted of the Council’s Head of Economic Development, who has overall responsibility for the Strategy. The key messages from this meeting are set out in exhibit 4.

Exhibit 4 – Scrutiny Meeting 3 – Council Officer - Key Messages

Theme	Detail
Prioritisation of Strategy themes/actions plan points	<p>The delivery of the actions in the action plan is dependent on the resources available to deliver them and the commitment of a range of delivery partners.</p> <p>Given the limitations on resources the panel explored at some length with the Head of Economic Development which elements of the strategy had priority. He advised that the three overall themes in the Strategy are reflective of the current economic climate and the common priorities with external stakeholders. The three themes are reflected in a suite of some 46 actions in the action plan attached to the Strategy.</p> <p>The Panel queried whether the individual actions in the plan should be prioritised. Whilst assurance was provided that all the actions had the same level of priority the Panel remain concerned that the volume of actions, the lack of prioritisation, and the difficulty this might create when trying to align resources to actions, which may have a detrimental impact on the positive outcomes that the Strategy is aiming to deliver.</p> <p>Officers have endeavoured to strike a balance between ensuring the strategy is focused on activity that will have the most economic benefit and ensuring it delivers projects across all the Council administrative areas. Whilst the Panel recognise the Economic Strategy should be of benefit to all areas of Argyll and Bute, it is important to recognise there will be occasions where investment should be focused on assessed need and projected outcomes and should not necessarily be split on a pro-rata basis across localities.</p>

Deliverability of Strategy	<p>The Panel recognises the Council does not have sufficient resources to deliver the Strategy and action plan. The Economic Development team has limited resource and therefore strong and collaborative partnership working is key for future economic recovery and delivering the Strategy.</p> <p>The action plan clearly states what the Council is able to do and where the Council can intervene, lobby, influence or facilitate the delivery and achievement of actions. In 15 action points the Council is able to intervene mainly through the Rural Growth Deal. In some 25 action points the Council seeks to influence or facilitate – which places a heavy reliance on the buy in of external partners to secure delivery of these plans.</p> <p>The Panel revisited the issue discussed at Scrutiny Meeting 2 about the reliance on partnership working to deliver the Strategy but also considered whether the resource dedicated by the Council to support the delivery of the Strategy is properly reflective of the importance of delivery of the Strategy to the economy of Argyll and Bute. This is particularly so as the stated overriding priority of the Council is to increase its population. However, in the view of the panel, population increase is heavily dependent on growing the business base and enhancing local skills and the Council needs to consider in its budget setting the priority it is giving to these measures.</p>
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3. Findings

21. Based on the information obtained over the course of the review the Panel has identified five findings. These are not solely limited to the Economic Strategy, they are learning points for the Council to consider when creating any similar strategies in future.

Exhibit 5 – Findings

No.	Finding	Learning Point
1	<p>Resource to Deliver Strategy and Action Plan</p> <p>Throughout the scrutiny process the Panel have recognised the scale of ambition and the challenges to fully deliver the Strategy and associated action plan within the available resources, both to the Council and the external delivery partners.</p> <p>In particular the Panel were of the view that the Council should consider the benefit of appointing a dedicated resource to the Economic Strategy to provide focus and help accelerate project delivery.</p>	<p>The Council should consider whether the current level of resource they are committing to delivering the Strategy is realistic and aligned to the ambition, challenge to deliver and the positive impact the Strategy could have on the Argyll and Bute economy.</p> <p>In a more general sense, the Council should consider whether action plans are realistic and achievable within the resources available.</p>
2	<p>Evidence Base for the Strategy</p> <p>There was a lack of clarity on the</p>	<p>For future strategies a key suite of reports or appraisals to be used as an evidence base should be agreed by partners in</p>

No.	Finding	Learning Point
	<p>substantive evidence base which underpins the strategy. Officers provided a long list of data sources but did not make clear the key links behind the findings of the recent major economic appraisals which the Council and partner agencies had commissioned. This made it difficult for the panel to know whether various action plans were routed in these appraisals or otherwise. Also the omission of endnotes referring to these sources meant that the opportunity to enhance the authority of the strategy had been missed.</p>	<p>advance of a strategy being commissioned. These reports could follow a SWOT exercise or a 'mapping and gapping' analysis on the main themes of the given strategy.</p> <p>In turn these reports should be referenced (with web links) in the strategy preferably in a well laid out Appendix.</p>
3	<p>Partnership Working</p> <p>Whilst the Council and delivery partners have demonstrated good partnership working the successful delivery of the Strategy continues to rely heavily on ongoing engagement with, and commitment from delivery partners. Engagement to date has tended to be through established working groups.</p> <p>The Council should aim to promote delivery partner buy in to the successful delivery of the Strategy and any similar processes in the future.</p>	<p>The Council should utilise the expertise of, and engage with, delivery partners from the beginning and throughout similar processes in the future.</p> <p>The Council should ensure that there are appropriate mechanisms in place to provide for focused engagement and buy in from relevant stakeholders.</p>
4	<p>Prioritisation of Action Plan</p> <p>There are a large number of actions in the Strategy Action Plan which need to be delivered both by the Council and in partnership with a range of delivery partners.</p> <p>The Panel is concerned that the volume of actions, the lack of prioritisation, and the difficulty this might create when trying to align resources to action may have a detrimental impact on the positive outcomes that the Strategy is aiming to deliver.</p>	<p>The Council should ensure that actions and aims have been prioritised and the rationale behind this is clear to ensure resources are focussed appropriately.</p>
5	<p>Economic Strategy Coverage</p> <p>Whilst the Panel recognise the Economic Strategy should be of benefit to all areas</p>	<p>The Council should ensure that the assessed needs and projected outcomes of themes and action points are the main focus when creating strategies and</p>

No.	Finding	Learning Point
	<p>of Argyll and Bute, it is important to recognise there will be occasions where investment should be focused on assessed need and projected outcomes and should not necessarily be split on a pro-rata basis across localities.</p>	<p>pressure to ensure equality between localities is not an obstacle to achieving the optimum outcomes from the strategy.</p> <p>To enable a clearer understanding of priorities for intervention the four area profiles should contain a common set of statistics drawn from authoritative labour markets, business and education data.</p>

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****16 MARCH 2021**

SCRUTINY FRAMEWORK AND MANUAL UPDATE

1. SUMMARY

- 1.1 This report outlines the proposed changes to the Council's Scrutiny Framework and Manual. Both have been updated to reflect changes in working practices as our approach to scrutiny has evolved and to reflect on the Lessons Learned report considered by the Audit and Scrutiny Committee (the Committee) on 17 March 2020

2. RECOMMENDATIONS

- 2.1 To approve the amended Scrutiny Manual (Appendix 1).
- 2.2 To approve the amended Scrutiny Framework (Appendix 2).

3.0 DETAIL

- 3.1 In March 2018 the Committee approved the Council's Scrutiny Framework which incorporated the scrutiny prioritisation process. In June 2018 the Committee endorsed a Scrutiny Manual which provided more detailed guidance on how to carry out a scrutiny review.
- 3.2 In the three years since those two governance documents were approved we have continued to evolve our approach to scrutiny as we have reflected on what works well, where improvements can be made and alternative ways of performing scrutiny in addition to the current Scrutiny Panel approach.
- 3.3 In March 2020 the Committee considered a 'Scrutiny- Lessons Learned' report both during the Committee meeting but also at a development session held directly before the Committee. The 'Lessons Learned' detailed in that report were those identified from a range of sources, predominantly feedback from:
- Scrutiny Panel members
 - Scrutiny Panel witnesses (both internal and external to the Council)
 - the Chief Internal Auditor (CIA and scrutiny officers)
- 3.4 The Lessons learned report also reflected on ongoing discussions that have been held during Committees about whether there were different ways that the Committee could perform scrutiny that would complement the current Scrutiny Panel approach. For example by inviting council officers to brief the Committees on topics of specific interest. This is an approach that has been adopted. For example the Chief Executive briefed the Committee on the Council's Best Value Review on

22 September 2020 and there will be further briefings on progress against the Best Value Action Plan and Waste Management at this March 2021 Committee.

- 3.5 The Scrutiny Manual (Appendix 1) and Scrutiny Framework (Appendix 2) have been revised to reflect the feedback received and our evolving approach. The paragraphs below provide a summary of the material changes to both documents (very minor changes have not been detailed):

3.6 Scrutiny Manual Changes

Page	Para	Summary of Change	Reason for Change
3	3	Changed from six stages to five stages. Sixth stage was 'Follow up' which was the process to follow up recommendations coming out of Scrutiny work (using same process as used for following up audit recommendations)	<p>The lessons learned report highlighted that <i>'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."</i> 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.'</p> <p>As recommendations are not raised in scrutiny reports, this stage is no longer required.</p>
4	6-8	<p>Paras 6-8 reflect the fact that the process has evolved and the scope and objectives for a review are determined by an initial meeting of the Scrutiny Panel.'</p> <p>The previous manual had a template for scoping a review however this did not prove to be a useful document so it has been removed</p>	<p>The internal panel meeting has proved to be a more effective panel way of determining and agreeing the scope and objectives. Paragraph 8 reflects the lesson learned report which stated</p> <p><i>'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.'</i></p>
5	15	Paragraph added to reflect the need to seek panel member and witness approval of minutes but to set a timescale for response.	<p>Reflects the lessons learned report which stated</p> <p><i>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.</i></p>
6	23	Added 'learning points' bullet point and removed	per reason above regarding decision to move from recommendations to learning points

		<p>previous bullet point which was 'recommendations'</p> <p>Removed a paragraph which provided guidance on how recommendations should be constructed</p>	
6-7	24-26	Updated process for clearing reports to reflect practice that has evolved	Previous manual required draft report to be circulated to all witnesses and to all committee members before being considered by committee formally in draft and then finalised at the next Committee. This process never happened in practice and is considered too onerous. It adds three months to the formal clearance process
App 1 and App 2	8-11	<p>Both appendices were updated to refer to witnesses being sent key themes before a meeting rather than key questions.</p> <p>Appendices also updated to reflect the fact that panel meetings are more likely to be virtual meetings going forward</p>	<p>Lessons Learned report stated</p> <p><i>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.</i></p>

3.7 Scrutiny Framework Changes

Page	Para	Summary of change	Reason for Change
4	10	Removed reference to a service level agreement with the HSCP	<p>As per Lessons Learned report</p> <p><i>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.</i></p>
5	18	Changed from six stages to five stages.	Same explanation as that provided for similar change to Scrutiny Manual
5	20	New paragraph added to reflect an evolving approach to scrutiny	<p>As per Lessons Learned report</p> <p><i>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</i></p>

			<p><i>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.</i></p>
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4.0 CONCLUSION

- 4.1 The CIA has updated the Scrutiny Framework and Scrutiny Manual to reflect lessons learned and the Council's evolving approach to scrutiny.

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
16 March 2021

Appendices

Appendix 1 - Scrutiny Manual
Appendix 2 - Scrutiny Framework

Argyll and Bute Council

Scrutiny Manual

March 2021



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Introduction

1. In March 2021 the Audit and Scrutiny Committee (the Committee) approved Argyll and Bute Council's (the Council) updated Scrutiny Framework (the Framework). This was first approved in March 2018 and it establishes the framework for scrutiny within the Council. It is for the use of anyone involved in the scrutiny process including:
 - members of the Audit and Scrutiny Committee
 - all elected members of the Council
 - staff involved in the scrutiny process and those who may be required to provide evidence as part of a scrutiny review
 - members of the public, partners and external organisations who may be invited to provide evidence as part of a scrutiny review.
2. The Framework sets out the process adopted to identify potential topics for scrutiny and confirms that the Chief Internal Auditor (CIA) will develop and maintain guidance on the performance of scrutiny reviews. This manual, first approved by the Committee in 2018 and updated in March 2021, provides that guidance and is designed to be a reference tool for officers carrying out scrutiny reviews, it is not intended to be prescriptive, but to help ensure the scrutiny review process is a more structured and informed one.

Scrutiny Reviews

3. Scrutiny reviews can be broken down into five stages as illustrated in exhibit 1. The process is cyclical as it can be necessary to revisit earlier steps as the review progresses.

Exhibit 1 – Five Stages of a Scrutiny Review



Stage 1-2 – Scoping and Identifying Required Evidence

4. Initially a topic, when proposed, may be quite loosely defined. For it to be assessed against the prioritisation process defined in the Framework there may already have been a need for it to be clarified. However, if chosen for scrutiny, further clarification may be required to help determine a precise focus. This should be carried out by the appointed scrutiny officer in consultation with the topic proposer and the appropriate council service.
5. Once the topic is clearly defined the scope of the review should be determined. In particular we need to establish the:
 - purpose and objectives
 - specific areas to be covered and any exclusions
 - approach to be adopted
 - evidence required
 - people to be interviewed or invited to give evidence
 - anticipated outputs
 - timescales.
6. Defining the scope of the review will normally happen during an initial panel meeting which is attended by the three Scrutiny Panel members (a subset of the Audit and Scrutiny Committee), the CIA and the appointed scrutiny officer.
7. That initial panel should also agree indicative timescales for panels to allow a provisional plan for the key stages of the review to be created.
8. Once the Scrutiny Panel have agreed the scope and objectives they should be shared with all members of the Audit and Scrutiny Committee. This will be done by e-mail as waiting for the next meeting of the Committee might result in too much time elapsing.

Stage 3 – Evidence Gathering

9. When considering how the evidence is to be gathered it is important to remember there is no definitive process. Every scrutiny review will be different and there are a range of different approaches that should be considered. These include:
 - public meetings
 - surveys
 - workshops / focus groups
 - site visits (internal and external)
 - sourcing data and reports
 - literature research
 - SWOT/PESTLE analysis
 - investigating good practice
 - reviewing performance and financial data including trends and comparisons
 - process mapping
 - investigating potential collaborators and/or alternative suppliers
 - interviewing experts
 - working with officers and elected members to research issues.
10. The evidence can be categorised as either ‘written and secondary evidence’ or ‘oral evidence’.

Written and Secondary Evidence

11. This includes:

- written evidence from internal and external individuals and organisations
- notes taken by the scrutiny officer during interviews or site visits
- existing council plans, policies, strategies, and reports relevant to the subject area
- relevant national guidance, legislation and documentation
- relevant guidance, good practice guides from national and regional bodies
- good practice and innovative reports and plans from other councils.

12. All written evidence considered as part of the review should be kept on file and retained in a manner consistent with the requirements of the Council's records management plan. These files be stored on a Sharepoint site managed by Scrutiny Officers.

Oral Evidence

13. The gathering of written evidence may identify a benefit in inviting internal and external individuals to provide oral evidence either to the scrutiny officer as part of the review, or directly to the Committee at an informal and private meeting. The scrutiny process should be inclusive and ensure that all those who wish to contribute whether as councillors, officers, external experts or members of the public feel valued and are able to speak freely and openly.

14. It is important that, all internal and external individuals invited to give evidence, are:

- treated with courtesy and respect
- given ample notice of the time, date and place of meeting
- informed of the review scope
- provided with questions, or the line of questioning, in advance with an explanation that this will not be a restrictive list
- provided with copies of any relevant reports, papers and background information
- given the opportunity to submit written evidence in advance of the meeting which is circulated to Committee members
- given the opportunity to decline or to submit written evidence instead of appearing in person
- introduced to the Committee chair prior to the meeting commencing.

15. Minutes from any scrutiny panels should be circulated to scrutiny panel members, and any council officer or external individuals that participated in the panel to enable them to comment on the factual accuracy of the minute before they are finalised. When these are issued a timescale for response should be provided with a statement that they will be accepted as correct if no response is received by the stated timescale.

Council Officers/Elected Members Providing Evidence

16. Council officers invited to give evidence would normally be third tier managers or above (although this could extend to other elected members). The officers to be invited must be agreed with the relevant member of the Council's Senior Management Team and/or relevant Head of Service to ensure they have the necessary knowledge of the topic.

17. The evidence giving process must be seen as being supportive of scrutiny and not an opportunity to be critical of any officer giving evidence. Questions asked of officers must be focused on reviewing the policies and performance of the Council in relation to the topic being scrutinised. Scrutiny should

never be used to question the capability of competence of officers, or about matters of a disciplinary nature, and questions should never be asked in a way that may be considered confrontational.

18. 'Guidelines for Officers Attending Scrutiny Committees' are included at Appendix 1. A copy of these guidelines should always be provided to officers prior to them attending meetings.

External Experts Proving Evidence

19. External experts can be an essential part of undertaking a scrutiny review and their evidence can be a valuable source of information. Providing information to a scrutiny review or attending a scrutiny committee may be a new experience to some and it should be remembered that external experts are attending on a voluntary basis. It is incumbent on the scrutiny team and Committee members to ensure their experience is positive and stress-free.
20. External experts can be drawn from a wide range of individuals and organisations, for example:
 - elected Members and officers from other councils
 - other external public sector bodies
 - voluntary sector organisations (local, regional and national)
 - professional associations
 - trade unions
 - private sector
 - user groups (local, regional and national)
 - community groups
 - experts in the subject area (academics, public or private sector managers).
21. 'Guidelines for External Experts Attending Scrutiny Committees' are included at Appendix 2. A copy of these guidelines should always be provided to witnesses prior to them attending meetings.

Stage 4-5 - Conclusions and Reporting

22. At the end of a review a draft report should be produced which provides a full picture of the issues under consideration and contains key findings and learning points. The report must be evidence based and relate directly to the review scope.
23. Learning points should focus on delivering improvements in service delivery, policy or strategic direction. The scoping phase of the review will have identified the purpose and objectives of the review and the final report should be closely aligned to those objectives. A template for the report has evolved as the scrutiny process has developed between 2018 and 2021 however we should remain flexible about how we report on scrutiny work as here could be occasions where a different approach might be beneficial. However, as a minimum, the output should include:
 - executive summary
 - introduction (including the background, scope and approach)
 - findings
 - learning points
 - appendices (where required)
24. The draft report should be agreed with the Scrutiny Panel members before being discussed and cleared with the relevant council officers at a meeting attended by the Chair of the Scrutiny Panel, the CIA and possibly the appointed Scrutiny Officer.

25. Once the Scrutiny Panel are satisfied the report can be finalised and submitted to the next scheduled Committee meeting for endorsement. At this meeting the Committee will also determine which, if any, of the other council committees the report should be submitted to for consideration.
26. All scrutiny 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.

Appendix 1 – Guidelines for Officers Attending Scrutiny Committees

Giving Evidence to the Audit & Scrutiny Committee – A Guide for Council Officers

Introduction

This document provides guidance to Council staff who have been asked to provide written or oral evidence to the Audit and Scrutiny Committee (the Committee). Scrutiny is a key component of good governance which helps the Council improve our decision making, policy development & implementation and service delivery.

What is the Committee?

The Committee is a cross-party committee made up of seven elected members, (four from the opposition and three from the council administration) and an independent chair. This provides an appropriate political spread within its membership however it is not a political committee and should always conduct itself impartially.

What does the Committee do?

The overall remit of the scrutiny element of the Committee is to *'perform a scrutiny role through the provision and delivery of a scrutiny work plan focused on improving the performance of the Council.'*

In summary it considers the performance of the Council, looking at the effectiveness of policies and service delivery and identifies areas for improvement with, wherever possible, a key focus on outcomes for the community rather than inputs. As such scrutiny adopts a 'critical friend' approach to help promote continuous improvement. The committee does not make policy and does not take decisions about the operation of council services, but it may make recommendations to Council on policy matters.

Scrutiny Support

The Committee is supported by the Chief Internal Auditor and staff from the internal audit section who will be responsible for carrying out scrutiny reviews and drafting the scrutiny reports for the Committee.

The Chief Internal Auditor is responsible for ensuring that officers giving evidence are given good advance notice of any invitation to meet committee members, are properly briefed about the arrangements for the meeting and receive adequate notice of the questions to be discussed at the meeting. If you have any queries about scrutiny or your participation in it then please contact the Chief Internal Auditor (laurence.slavin@argyll-bute.gov.uk)

Why have you been invited?

You have been asked to meet the Committee because you have knowledge or expertise that is relevant to the topic being reviewed. The meeting also provides you with the opportunity to express your views on any strengths, weaknesses and possible areas for improvement.

What are the arrangements for meeting members of the Committee?

You will be contacted by phone or e-mail by an officer supporting the committee. The officer will explain:

- why you have been invited
- background information about the committee
- background about the topic being investigated

- arrangements for your attendance.

Approximately two weeks before the meeting, you will be sent key themes which will form the basis of the discussion with the committee. This will allow you to come prepared and seek out any information that you may need in advance.

You should inform your line manager that you have been invited to the meeting. If you have any problems or questions, please contact the Chief Internal Auditor.

Meeting location

Historically these meetings take place in one of the Council's administrative buildings however the impact of the COVID pandemic makes it more likely they will be virtual meetings.

What happens at the meeting?

The meetings are informal and are conducted in an open and friendly manner and usually last no longer than a couple of hours. Officers who support the Committee and any independent external expert will also be present. The Chair or nominated lead will open the meeting by welcoming and introducing those present and outlining the process. The key themes will be discussed and you should be open and honest in your responses and feel free to raise additional issues related to the topic.

Please be aware that your participation in the process is very much seen as being supportive of scrutiny and is appreciated by all the Committee members. The scrutiny process is designed to be inclusive and ensure that all those who wish to contribute whether as councillors, officers, external experts or members of the public feel valued and are able to speak freely and openly. It is not an opportunity for Committee members to be critical of any officer giving evidence or to question the competence of any officer. Questions will be focused on reviewing the policies and performance of the Council in relation to the topic being scrutinised.

Notes will be taken of the discussion at the meeting. The meetings are held in private and notes of the evidence will not become record until you have agreed to them.

What happens after the meeting?

After the meeting, you will be sent a summary note of the discussion. You are entitled to make any additions, deletions or amendments to this note and these should be highlighted and the document returned. The note is confidential until it has been agreed by all witnesses. Once the Committee has heard all the evidence, and drawn its conclusions and recommendations, a briefing or report will be written and submitted to a formal meeting of Committee. At this meeting the Committee will also determine which of the other council committees the report should be submitted to for consideration. This could be to full Council, to the Policy & Resources Committee or to one of the service committees. Scrutiny 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.

Appendix 2 – Guidelines for External Experts Attending Scrutiny Committees

Giving Evidence to the Audit & Scrutiny Committee – A Guide for External Experts

Introduction

This document provides guidance to external witnesses who have been asked to provide written or oral evidence to the Audit and Scrutiny Committee (the Committee). Scrutiny is a key component of good governance which helps the Council improve its decision making, policy development & implementation and service delivery.

What is the Committee?

The Committee is a cross-party committee made up of seven elected members, (four from the opposition and three from the council administration) and an independent chair. This provides an appropriate political spread within its membership however it is not a political committee and should always conduct itself impartially.

What does the Committee do?

The overall remit of the scrutiny element of the Committee is to *'perform a scrutiny role through the provision and delivery of a scrutiny work plan focused on improving the performance of the Council.'*

In summary it considers the performance of the Council, looking at the effectiveness of policies and service delivery and identifies areas for improvement with, wherever possible, a key focus on outcomes for the community rather than inputs. As such scrutiny adopts a 'critical friend' approach to help promote continuous improvement.

The Committee does not make policy and does not take decisions about the operation of council services, but it may make recommendations to Council on policy matters.

How does the Committee work?

The Committee collects evidence from a wide variety of sources including:

- written evidence from a range of internal and external individuals and organisations
- notes taken by the scrutiny team during interviews or site visits
- existing council plans, policies, strategies, and reports relevant to the subject area
- relevant national guidance, legislation and documentation
- relevant guidance, good practice guides from national and regional bodies
- good practice and innovative reports and plans from other councils.
- questioning witnesses, experts and relevant community groups
- surveys and questionnaires.

Scrutiny Support

The Committee is supported by the Chief Internal Auditor and staff from the internal audit section who will be responsible for supporting scrutiny reviews and drafting the scrutiny reports for the Committee.

The Chief Internal Auditor is responsible for ensuring that external experts giving evidence are given good advance notice of any invitation to meet committee members, are properly briefed about the arrangements for the meeting and receive adequate notice of the themes to be discussed at the meeting. If you have any queries about scrutiny or your participation in it then please contact the Chief Internal Auditor (laurence.slavin@argyll-bute.gov.uk)

Why have you been invited?

You have been asked to meet the Committee because you have knowledge or expertise that is relevant to the topic being reviewed. The meeting also provides you with the opportunity to express your views on any strengths, weaknesses and possible areas for improvement.

What are the arrangements for meeting members of the Committee?

You will be contacted by phone or e-mail by an officer supporting the committee. The officer will explain:

- why you have been invited
- background information about the committee
- background about the topic being investigated
- arrangements for your attendance.

Approximately two weeks before the meeting, you will be sent key themes which will form the basis of the discussion with the committee however the Committee may not restrict itself to these themes. This will allow you to come prepared and seek out any information that you may need in advance. You are welcome to send an initial written response to these themes before the meeting takes place however this is entirely optional.

Meeting location

Historically these meetings take place in one of the Council's administrative buildings however the impact of the COVID pandemic makes it more likely they will be virtual meetings.

What happens at the meeting?

The meetings are informal and are conducted in an open and friendly manner and usually last no longer than a couple of hours. Officers who support the Committee and any internal or external experts may also be present. The Chair or nominated lead will open the meeting by welcoming and introducing those present and outlining the process. The key questions will be discussed, with supplementary questions being asked where appropriate. The scrutiny process is designed to be inclusive and ensure that all those who wish to contribute whether as councillors, officers, external experts or members of the public feel valued and are able to speak freely and openly.

Notes will be taken of the discussion at the meeting. The meetings are held in private and notes of the evidence will not become record until you have agreed to them.

What happens after the meeting?

After the meeting, you will be sent a summary note of the discussion. You are entitled to make any additions, deletions or amendments to this note and these should be highlighted and the document returned. The note is confidential until it has been agreed by all witnesses. Once the Committee has heard all the evidence, and drawn its conclusions and recommendations, a briefing or report will be written and submitted to a formal meeting of Committee. At this meeting the Committee will also determine which of the other council committees the report should be submitted to for consideration. This could be to full Council, to the Policy & Resources Committee or to one of the service committees.

Scrutiny 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.

Am I obliged to attend?

Whilst your participation in the process will be very much appreciated by all the Committee members you are, of course, under no obligation to attend. If you do not wish to be involved in the process or would prefer to just submit written evidence rather than attending to give oral evidence then you are perfectly entitled to make that choice.

Expenses

As you have been invited to attend a meeting the Council would reimburse you for any reasonable travelling expenses.

Argyll and Bute Council Scrutiny Framework March 2021



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Introduction

1. The purpose of this document is to explain the framework for scrutiny at Argyll and Bute Council (the Council). It is for the use of anyone who has any involvement in the scrutiny process including:
 - members of the Audit and Scrutiny Committee
 - all elected members of the Council
 - staff involved in the scrutiny process and those who may be required to provide evidence as part of a scrutiny review
 - members of the public, partners and external organisations who may be invited to provide evidence as part of a scrutiny review.
2. In 2017 a decision was taken that the responsibility for the remit of scrutiny would move to a newly established Audit and Scrutiny Committee. The Committee approved a new Scrutiny Framework in March 2018 and this updated version was approved by the Committee in March 2021.

What is Scrutiny?

3. Overview and scrutiny committees were established in England and Wales under the Local Government Act 2000 to provide the opportunity for members of the Council to examine services provided, ask questions on how decisions have been made and consider whether service improvements can be delivered.
4. In Scotland there is no requirement for scrutiny established by statute and consequently scrutiny committees in Scotland have no prescribed powers. This contrasts with the position in England and Wales where scrutiny committees have formal powers to require council officers and elected members to give evidence, require information from the council and require a response to any recommendation put to the council's management team.
5. Whilst there is useful guidance available there is no definitive view on what the role and objectives of scrutiny are in Scotland. Consequently this provides the Council with the opportunity to frame the delivery of governance in the way it feels is most beneficial. The Council's approach to scrutiny focuses on:
 - reviewing the council's effectiveness in achieving policy objectives
 - assessing the impact of council policies
 - making suggestions for improvement.
6. As the primary focus of scrutiny is on council policy it is appropriate to provide a definition of policy.

'Policy – A policy is a formal, concise, accessible statement on how the council intends to conduct business and deliver services. Generally it will be a statement of intent with rules that influence and enable decision making. A policy statement will lessen the risk of conflict and remove the opportunity for unfair selective application of rules'.

Audit and Scrutiny Committee

7. The Council is made up of 36 elected members representing the 11 wards of Argyll and Bute. Elected members play a key role in the Council through their involvement in full council meetings and their representation on the Council's strategic and area committees. A degree of scrutiny is carried out at these committees through performance reporting, ongoing monitoring of service delivery and the consideration of the conclusions from the Council's Performance Improvement Framework (PIF) which sets out the Council's approach to continuous improvement and the agreed mechanism for achieving best value across all services. It is therefore important that the Audit and Scrutiny Committee do not replicate any of the existing scrutiny arrangements and focus its resources in an efficient manner which complements those arrangements.
8. In particular, when assessing potential topics for scrutiny, the Committee should ensure the topic is not already being considered by an existing committee (area or strategic). The Audit and Scrutiny Committee should not generally be seen as the first committee to contact in relation to a topic meriting potential review nor should it be seen as a committee to deal with complaints.
9. The Audit and Scrutiny Committee is a cross-party committee made up of seven elected members, (four from the opposition and three from the council administration) and an independent chair. This provides an appropriate political spread within its membership however it should be stressed that it is not a political committee and should always conduct itself impartially.
10. The terms of reference for the scrutiny element of the Audit and Scrutiny Committee are included in Appendix 3 to this framework however its overall remit is to 'perform a scrutiny role through the provision and delivery of a scrutiny work plan focused on improving the performance of the Council.' The remit of the Audit and Scrutiny Committee would extend to those organisations with whom the Council have entered into any form of formal agreement with for the delivery of statutory services, this would include the Health & Social Care Partnership and Live Argyll. The Audit and Scrutiny Committee is required to meet at least four times every year.

Principles of Good Scrutiny

11. To ensure scrutiny is effective the Centre for Public Scrutiny has put forward four key principles. They being that scrutiny should:
 - provide a 'critical friend' challenge to the council, council officers and agencies
 - reflect the voices and concerns of residents and communities
 - drive improvement in the delivery of public services
 - be delivered by independent minded members.
12. These principles underpin the work of the Council's Audit and Scrutiny Committee.

Scrutiny Support

13. The Audit and Scrutiny Committee is supported by the Chief Internal Auditor and staff from the internal audit section who will be responsible for carrying out scrutiny reviews and drafting the

scrutiny reports for the Committee. This ensures impartiality and access to appropriate skills and experience to effectively investigate any aspect of council activity.

Developing the Scrutiny Work Programme

14. The Audit and Scrutiny Committee, on an annual basis, will seek ideas for scrutiny by inviting all members and senior officers for potential topics. As there is only a finite amount of resource available to perform scrutiny it is important that there is a clear and transparent method adopted for assessing these potential topics to determine those most likely to have a positive impact on council performance. In order to assist with this the Council has developed a three stage prioritisation process.
15. Stage 1 asks five filtering questions to determine whether the topic passes to stage 2 or is rejected at stage 1. Stage 2 is used to determine whether the topic should be considered as a high or medium priority topic. Appendix 2 illustrates the two stage process.
16. Stage 3 of the prioritisation process scores applies a weighted scoring system to those topics that successfully progressed from stages 1 and 2. The topic is assessed against eight criteria with weighted scores allocated to each criteria. An overall score is then reached for the topic and this allows the topics with the highest overall score to be prioritised. The score allocated to each criteria will require an appropriate balance of subjective and objective analysis. Appendix 3 illustrates stage 3 of the prioritisation process. There may be circumstances where there is an emerging issue which cannot be fully assessed using the prioritisation process due to there being a lack of supporting evidence. In this circumstance the prioritisation process will still be completed with the selected answers based on a realistic expectation rather than historic evidence. This provides scope for the Audit and Scrutiny Committee to determine a topic should be scrutinised despite not being fully subject to the agreed process however this will need the approval of the Audit and Scrutiny Committee.
17. The annual scrutiny work programme will be agreed and approved by the Audit and Scrutiny Committee.

Scrutiny Reviews

18. Scrutiny reviews are carried out by the scrutiny officer who reports to the Chief Internal Auditor. A review follows a five stage process as set out below:
 - Stage 1 – Scoping
 - Stage 2 – Identifying evidence required and key stakeholders
 - Stage 3 – Evidence gathering
 - Stage 4 – Conclusions and recommendations
 - Stage 5 – Submission of final report
19. Guidance on each of these stages will be developed and maintained by the Chief Internal Auditor.
20. Between 2018 and 2021 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 require a full panel approach. Consequently the scrutiny process has evolved to consider

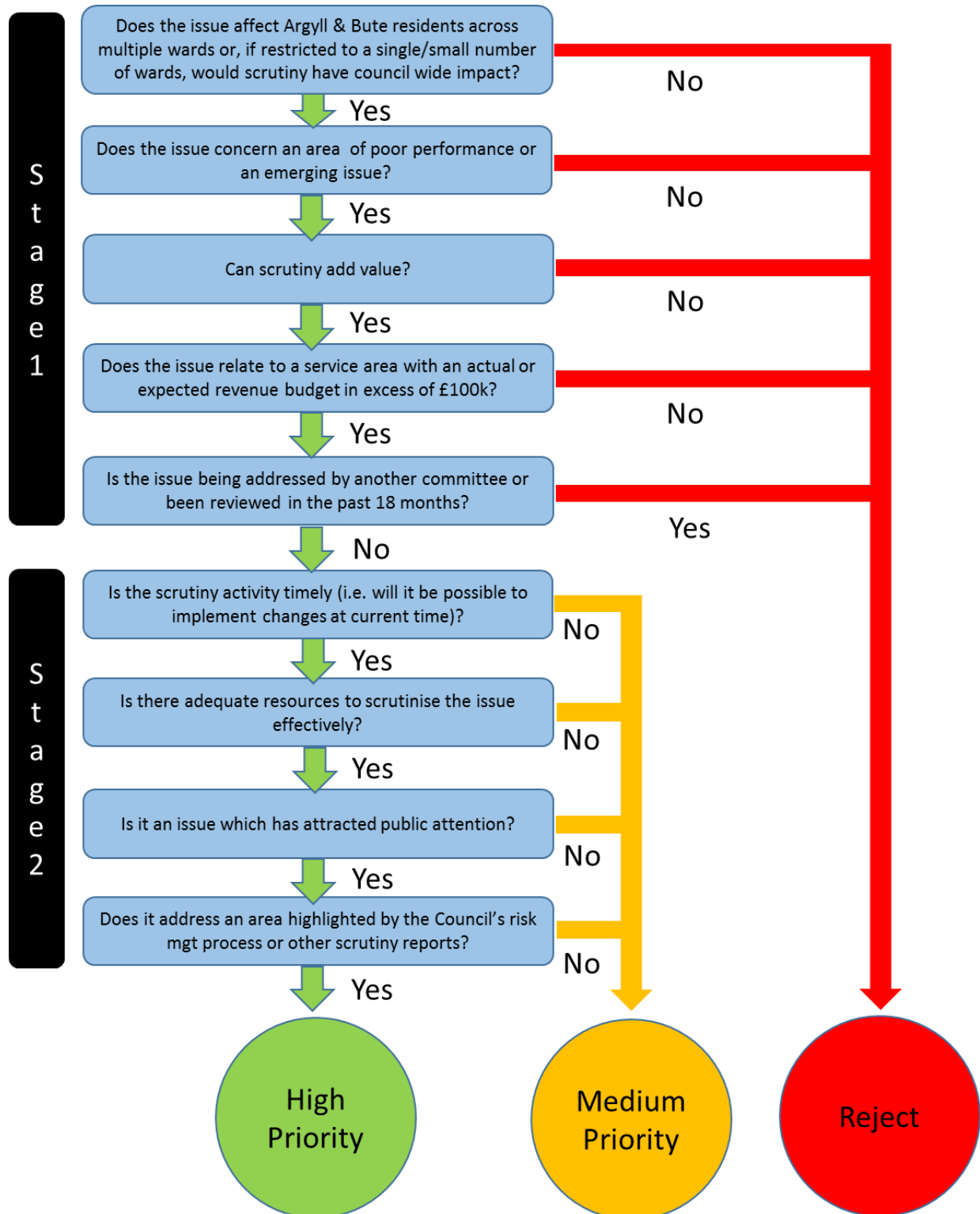
alternative ways to perform scrutiny which complement the full panel approach. For example the Committee may wish to invite officers to prepare a formal report or a presentation on a particular topic for Committee to consider or invite them to attend a development session for a more informal discussion.

Appendix 1 – Audit and Scrutiny Committee Terms of Reference (Scrutiny element only)

- To oversee and co-ordinate the scrutiny function including approval of the scrutiny framework and associated policies or procedures.
- To scrutinise the performance of the Council in relation to the achievement of policy objectives and performance targets in relation to all functions of the Council.
- To develop and approve the scrutiny workplan in relation to the performance of the Council and funded third party organisations.
- To consider and make recommendations in respect of scrutiny reports brought to the Committee for consideration.
- To monitor the implementation of scrutiny recommendations accepted by the Council.
- To provide an annual report to the Council on the work of the scrutiny function.
- To periodically review the scrutiny function to ensure it is operating effectively.
- To receive the Council performance report.

Note that the responsibility for scrutiny at service committee level will be incorporated into the service committee terms of reference.

Appendix 2 – Scrutiny Prioritisation Process Stages 1 and 2



Appendix 3 – Scrutiny Prioritisation Process Stage 3

TOPIC TITLE:	Increasing recycling rates						
SUBMITTED BY:	AN Other						
DATE OF SUBMISSION:	08 November 2017						
STAGE 2 ASSESSMENT OUTCOME:	Medium Priority						
	QUESTION	OPTIONS	SELECTION	SCORE	WEIGHTING	TOTAL SCORE	JUSTIFICATION FOR SELECTION
1	What is the current performance based on the council's performance scorecard?	> 10% under target < 10% under target < 10% over target > 10% over target Not applicable	< 10% over target	2	3	6	Business outcome BO24 - Waste is disposed of sustainably has two performance measures. Reduction in waste to landfill of 21,500 and % of waste recycled, composted and recovered of 40%. Current performance is 9,932 and 49.3%. This means we are under target by 54% for target reduction but 23% over for % recycled. As the focus of the topic is increasing recycling the Committee decided to focus on the missed target for reduction.
2	To what extent does the issue contribute to a business outcome aligned to the Council's corporate plan?	Major contribution Significant contribution Medium contribution Slight contribution No contribution	Medium contribution	2	3	6	Whilst recycling is not specifically referenced in the corporate plan, business outcome BO24 ' features in the Roads & Amenity Services service plan. The plan references one of the challenges to the service as being 'Delivery of a revised waste strategy that is affordable and compliant'
3	To what extent is this issue being highlighted as a public concern?	Widespread Significant Medium Slight Not applicable	Slight	1	2	2	There has been a degree of interest and campaigning by local environmental groups however this is not considered to be Council wide and has been mainly isolated to two ward areas.
4	What is the revenue budget commitment to this area of service?	>1m 500k-1m 250k-500k 100k-250k	>1m	4	3	12	Business outcome BO24 has an allocated revenue budget of £11.7m
5	In the past three years what is the pattern of budget performance for this area?	Major under/over spend Significant over/under spend Medium over/under spend Slight over/under spend Largely on budget	Slight over/under spend	1	2	2	Outurns in the previous three financial years have been consistently over budget however in none of these occasions has the budget been exceeded by more than 1.5%.
6	What is the status of national legislation on the issue?	Failure to implement = penalties Current legislation Definite future legislation Possible future legislation Not applicable	Definite future legislation	2	2	4	The service plan established that there is future legislation which will impact upon the service however the full detail of that legislation is not currently clear. Discussion with the Head of Service confirmed that it is likely to involve financial penalties if recycling rates are missed.
7	How widespread is the impact of the issue?	Council wide Multiple wards Single ward Small no of residents No impact	Council wide	4	1	4	For the council to meet future recycling targets our reduction in land fill will need to be improved across all wards. Simply focusing on one or two areas will not deliver the required improvement in performance.
8	Does the issue feature in the Council's risk management registers?	Yes - red risk Yes - amber risk Yes - green risk No	Yes - amber risk	3	3	9	The ORR for D&I includes the following which are relevant to recycling. (RA06-01) Demand Risk - Failure to reduce environmental impact through minimisation of waste to landfill and increasing recycling rates – risk score 8 (RA06-02) Demand Risk – Recycling targets increase – risk score 8
					WEIGHTED TOTAL	45	
					HIGH / MEDIUM FACTOR	1	
					TOTAL SCORE	45	

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ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CHIEF EXECUTIVE

16 MARCH 2021

BEST VALUE IMPROVEMENT ACTION PLAN UPDATE

1.0 EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to provide members an update on the Best Value Improvement Action Plan which emerged from the Accounts Commission findings on the Controller of Audits Statutory Report on the Council.
- 1.2. The action plan was agreed by the Council in June 2020. Like the rest of the UK, the Council and partners remain in 'response' mode to the COVID 19 pandemic. The Council has made good progress against all the themes but in some cases actions have been adapted in the short term to reflect the current situation and some actions have been delayed.
- 1.3. Given the changing nature of the public sector environment resulting from COVID 19 key dates will be reviewed further and a revised action plan submitted to the committee once the response phase has concluded.
- 1.4. Members are also asked to consider and note the full update as set out within appendix 1.

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CHIEF EXECUTIVE

16 MARCH 2021

BEST VALUE IMPROVEMENT ACTION PLAN UPDATE

2.0 INTRODUCTION

2.1 The purpose of this report is to provide members an update on the Best Value Improvement Action Plan which emerged from the Accounts Commission findings on the Controller of Audits Statutory Report on the Council.

3.0 RECOMMENDATIONS

3.1 The Audit and Scrutiny Committee consider and note the update against the themes of the Best Value Improvement Action Plan.

3.2 Member are also asked to consider and note the full update as set out within appendix 1.

4.0 DETAIL

4.1 In September 2020, the Audit and Scrutiny Committee considered the findings report and recommendations from the Accounts Commission Findings on the Controller of Audit Scotland's Statutory Report on the Council. The Committee also noted the action plan that was agreed by the Council in June 2020 and this report provides an update on those actions.

4.2 As with the rest of the UK, the Council and partners remain in 'response' mode to the COVID 19 pandemic, nonetheless, the Council has made good progress against all the themes as described below.

- 4.3 Theme 1; Develop the transformation agenda, supported by an affordable and achievable medium to longer term financial strategy. The original intention was for this work to focus on a three year service redesign programme, however the need to direct resource to focus on the COVID-19 response meant this was not possible in 2020 and greater focus was put on savings that could be delivered in 2021/22. The longer term view will be revisited once the required resource commitment to respond to COVID-19 has eased and there is greater capacity to think longer term.
- 4.4 As agreed at the Council's Business Continuity Committee Meeting 13 August 2020, the approach was revised to bringing forward proposals to balance the budget in 2021/22 split into the following three areas;
- i. Review of non-controllable budgets.
 - ii. More detailed reviews on a themed basis for budgets that are classified as controllable (see Theme 3).
 - iii. Identification of 2% efficiencies across all service areas.
- 4.5 A revised medium to longer term financial strategy has been reviewed by the Council's Strategic Management Team and will be presented to members at the Policy and Resources Committee meeting in May 2021 alongside the emerging Capital Investment Strategy.
- 4.6 Theme 2; Improve performance management reporting to provide a balanced picture of long term trends in performance against targets. The Council's Strategic Management Team agreed the Project Initiation Document in September 2020 and a project team was established with support from an external expert. Introductory workshops have been held with Chief Officers and Senior Officers and Members and the project entered a new phase of engagement with employees in February to commence the development of performance indicators. The development of new systems and performance reporting will commence at a later stage in the project.
- 4.7 Theme 3; Increase the pace of transformational change to deliver the business outcomes. Much of this activity has been put on hold due to the pandemic with exception to thematic areas of activity. As agreed at the Business Continuity Committee in August, the following themes were agreed with scrutiny provided by a cross party Budget Working Group;
- i. Amenity Services Review
 - ii. Digital by Default
 - iii. Fleet Review
 - iv. HROD Prioritisation Review
 - v. Property Review

- vi. School and Public Transport
- vii. Economic Development Prioritisation Review

- 4.8 Regarding the implementation programme of modernising education services, proposals were discussed with senior leadership June 2020 and an update on the programme was submitted to SMT in December 2020. Reports on the workstreams will be completed from March 2021 onwards. A Members Seminar was held 02 February 2021 on online learning.
- 4.9 Roads and Infrastructure Services are progressing number of initiatives including route optimisation and artificial intelligence with more of an E-Systems approach for asset management of the road network.
- 4.10 The council moved rapidly to enable staff to work entirely online from the first lockdown in March 2020. All systems and telephony were up and running seamlessly and the agile working approach embedded over the years was an enormously important factor in this. The council moved rapidly from several hundred remote users to over 1200. The council was also material to supporting Scottish Government in the Connecting Scotland programme to deploy devices to households. The Customer Service Centre was rapidly adapted and reconfigured to accommodate the Caring for People helpline, putting training in place for partners in the community sector to enable them to support the process. The website and service centre were also reconfigured to enable business and personal grant requests, processing and payments to ensure that Scottish Government funding reached those people who needed it most. The business of the council continued to be transacted through the use of Skype for Business for all Council meetings, which supported full democratic engagement, including the participation of press and public. MS Teams Live Events is now being tested for future use and the potential broadcast of meetings. The Council also moved forward with its Digital by Default budget theme, first phase, to reduce travel, subsistence, printing and postage by operating the majority of its business online.
- 4.11 Theme 4; Assess the extent to which regeneration and economic development initiatives are delivering the vision and corporate outcomes. Resources have been identified across various teams (Programme and Project Management Services, Economic Development, Strategic Finance and the Procurement and Commissioning Team) to take this forward and this work is delayed due to the focus on the response to the pandemic. Officers have adopted HM Treasury 'Green Book' Guidance and templates as the standard process for options appraisal and benefits monitoring framework for major projects including the Rural Growth Deal.

- 4.12 Theme 5; Work with communities and community groups to improve engagement. The Covid pandemic has highlighted the commitment shown by the council to engage with and support communities with a wide range of support, focussed through the existing Customer Service Centre and working very closely with community planning colleagues and community groups and representatives. The Council is building on this experience to improve engagement overall and build skills. The budget consultation this year, for example, comprised a number of different engagement processes with communities and the public, enabling more targeted and service specific feedback on budget proposals than in the previous year.
- 4.13 The Asset Transfer Group assessed the options for making changes to and simplifying the process for communities whilst acknowledging our legal responsibilities. The Group have identified the potential to offer a non-statutory process allowing communities to progress their proposals directly with council officers, while retaining the option, and gaining and understanding of how to use the statutory process.
- 4.14 The Group are looking at ways to further promote this simpler and more streamlined method of progressing community interests in transfers, leases and licences of council assets. Once fully developed proposals will be reported to elected members and monitored through the Asset Transfer Group. The annual overview of asset transfer requests was reported to Policy and Resources Committee 15.10.20
- 4.15 Theme 6; Work with elected members to improve the uptake of training provided. A training and development framework has been developed for issue to members. The programme for Members seminars has been adapted to incorporate webinars. Remote sessions has seen an increase in attendance levels to 64% (up from 53%).
- 4.16 Theme 7; Improve engagement to ensure staff are bought into the Council's vision. The Council has put in place measures to increase the amount of information available to employees to support them and inform them throughout Covid. More information is available through the website rather than on the Hub only. More support and guidance is available to managers on the importance of carrying out regular engagement with their teams to improve team engagement and build strong relations. Support and engagement on wellbeing has been a focus of attention to demonstrate the Council's 'Caring' values and has been an essential part of the Covid response. Employee engagement activity will be further developed in 2021.

5.0 CONCLUSION

- 5.1 Despite the Council remaining in 'response mode' to the COVID 19 pandemic as is the wider public sector, progress has been made across all the themes. When the Council is formally in 'recovery' mode and business has reached a sense of normality, key dates will be reviewed and a revised action plan submitted for the consideration of this committee.

6.0 IMPLICATIONS

- 6.1 Policy; none.
- 6.2 Financial; none.
- 6.3 Legal; the Council requires to comply with the statutory requirements.
- 6.4 HR; none
- 6.5 Fairer Scotland Duty: none
- 6.5.1 Equalities - protected characteristics; none
- 6.5.2 Socio-economic Duty; none
- 6.5.3 Islands; none
- 6.6 Risk; failure to comply with the requirements could result in action by the Accounts Commission.
- 6.7 Customer Service; none.

Pippa Milne

Chief Executive

19 February 2021

APPENDICES

Appendix 1; Best Value Improvement Action Plan

Best Value 3 Action Plan v2.0
February 2021

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV1.1	Develop the transformation agenda, supported by an affordable and achievable medium to longer term financial strategy	Revenue Develop a programme of transformational service redesigns that can be reflected in a 3 year rolling budget setting process.	Redesign process developed and launched	August 2020	Head of FS	Thematic approach taken to budget setting to achieve transformational change. Approach to the Budget for 2021/22 impacted by COVID, with less time and resources available to identify longer term options. Thematic reviews continuing for 22/23 budget process with longer term view. Approach agreed at Business Continuity Committee 13.08.20. Work is in progress across all work streams with leads reporting on progress to the SMT and the budget working group. Furthermore good progress has been made on the desktop reviews of non-controllable budget areas.
BV1.2		Capital Complete capital strategy and launch revised capital process.	Capital Strategy and process is launched	May 2021	Head of CS	New Capital Investment Strategy will be submitted to the Policy and Resources Committee in May 2021.
BV1.3		Financial Planning Review and update the medium to longer term to longer term financial strategy	Reviewed Medium to long term Financial Plan is approved	Approved as part of budget process for 2021/22 in February 2021	Head of FS	The Council's draft Financial Strategy was reviewed by the Strategic Management Team 25.01.21 The final draft strategy will be submitted to the Policy and Resources Committee in May 2021.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV2.1	Improve performance management reporting to provide a balanced picture of long-term trends in performance against targets.	Review the approach to performance management reflecting: - Clear links to strategic priorities	Performance reporting presentation clearly reflects links	Oct 2021	Head of CSS	Interim governance measures adopted during covid allowed for the trialing of different performance reporting style. Further action is incorporated into the Performance Excellence project. The project is on track to deliver updated reporting presentation by Oct 2021.
BV2.2		- Meaningful indicators, taking account of trend data and benchmarking - The need for a simple and effective system for recording and presenting data	New performance indicators developed	Oct 2021	Head of CSS	This action is incorporated into the Performance Excellence project. Workshops held in January 2021 introduced senior officers to the project and further workshops in February with a range of colleagues will commence the process for developing performance indicators.
BV2.3			New system procured or developed in-house	Dec 2021	Head of CSS	This element of the Performance Excellence Project will commence spring 2021.
BV2.4		Introduce improved reporting of performance information to members that support effective scrutiny	Programme of member seminars/webinars on performance and scrutiny delivered	During development stages of new approach	Head of CSS/ Head of LRS	Virtual workshop held at member's seminar 25 January. Online survey with members launched 21 January closing 07 February. A second member's development workshop scheduled for 22 March 2021.
BV2.5		Improve public performance reporting.	Review of public performance reporting complete	March 2022	Head of CSS	This action is incorporated into the Performance Excellence project and will commence spring 2021.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV3.1	Increase the pace of transformational change to deliver the business outcomes	Develop and agree refreshed approach to Transformational Activity	Themed Transformation Programme, including regular reporting to members, is developed and implemented	Oct 2021	SMT	<p>Thematic approach taken to budget setting to achieve with a view to achieving transformational change. Approach to the Budget for 2021/22 impacted by COVID, with less time and resources available to identify longer term options. Thematic reviews continuing for 22/23 budget process with longer term view. Approach agreed at BCC on 13 August 2020.</p> <p>Work is in progress across all work streams with leads reporting on progress to the SMT and the budget working group. Furthermore good progress has been made on the desktop reviews of non-controllable budget areas.</p>
BV3.2		Identify thematic areas of activity and explore opportunities to shift investment towards prevention and more effective and efficient interventions	Scoping of thematic areas for transformational change	Oct 2020	SMT	<p>Thematic reviews as follows;</p> <ul style="list-style-type: none"> • Amenity Services Review • Digital by Default • Fleet Review • HROD Prioritisation Review • Property Review • School and Public Transport • Economic Development Prioritisation Review • <p>Care and housing</p> <p>These majority of these reviews were discussed at the Members Budget Working Group;</p> <ul style="list-style-type: none"> • 30/09/2020 • 02/11/2020

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						<ul style="list-style-type: none"> • 24/11/2020 • 18/12/2020 • 03/02/2021 <p>Initial savings proposals were considered by the Policy and Resources Committee 15.10.20</p>
BV3.3		Develop data analytics/business intelligence as a tool to inform Transformation and Improvement	Options appraisal on data analytics approach complete	March 2021	Head of CSS	Delayed due to Covid and rescheduled for June 2021
BV3.4		Implement programme of modernising education services.	Reports on progress to elected members at appropriate stages of programme	On going	Exec Dir	Proposals discussed with senior leadership June 2020. Update on programme went to SMT 14 December 2020. Reports on various works streams will be completed from March 2021 onwards. 02.02.21 - Members Seminar online learning.
BV3.5			Modernisation programme is complete	On going	Exec Dir	There are ten workstreams and all have made good progress.
BV3.6		Make full use of improved technology to transform service delivery and reduce	Include transformation and Digital First as key elements	Dec 2020	Head of CSS	<p>ICT and Digital Strategy 2021-2024 agreed by Policy and Resources Committee 10.12.20</p> <p>It sets out how ICT and Digital services will be designed, sourced and delivered, and how digital technologies and processes can</p>

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
		burden on front line services	of 2020 ICT and Digital Strategy			support our people and our customers to work better together, get things done, and contribute to a better organised and more efficient council. Complete
BV3.7			Include ICT and Digital as an enabling principle in the Transformational change	As 3.1	Head of CSS	The Digital by Default theme was included in the budget proposals. The initial savings by moving to greater remote and online working are incorporated in the 21/22 budget. The second phase will accelerate digital delivery and transform services. This will be carried out throughout 21/22.
BV3.8			Simplify administrative processes by reducing the number of ICT applications in use by 10%	March 2023	Head of CSS	On track. Strategic context set by the approved ICT and Digital Strategy, Digital by Default budget theme will investigate and consolidate processes where possible; implementation of MS365 will contribute to reduction of standalone applications.
BV4.1	Assess the extent to which regeneration and economic development initiatives are delivering the vision and corporate outcomes	Review options appraisal processes and benefits monitoring framework to ensure systems are robust and evaluate the benefits and costs of projects.	Complete overall review and implementation of actions outlined below	April 2022	Major Project Programme Manager (MPPM)	Adoption of Her Majesty's Treasury Green Book Guidance and Templates as the standard process for options appraisal and benefits monitoring framework for major projects including the Rural Growth Deal (RGD). Evaluation of major projects will be undertaken on a more consistent basis using standardised baseline data and assessment methodology. The 5 CHORD Towns will be evaluated upon completion of the last component CHORD project and a framework of other evaluations will be procured for this activity to be applied to other projects such as those included in RGD and other major investment.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV4.2		Create inter-departmental Project Review Team and scope review of project process to align to BV3 Objective	Project Review Plan to be approved by Capital Investment Board	December 2020	Major Project Programme Manager (MPPM)	Key resources identified within Programme & Project Management Service Economic Development, Strategic Finance and Procurement. However Council's response to COVID pandemic has taken priority for the immediate term. Work plan and programme to be revised once there is greater certainty over returning to 'business as normal', which is unlikely to be before Q1 FY21/22
BV4.3		Implement updated Project Process for Options & Evaluation.	Launch at Capital Investment Board	April 2021	MPPM	As BV4.2 above
BV4.4		Training / Mentoring for Project Practitioners in updated Project Process for Options & Evaluation	Delivery of training recorded	April – September 2021	Project Review Team	To be implemented once processes outlined at BV4.2 and 4.3 above have been agreed.
BV5.1	Work with communities and community groups to improve engagement	Engage with communities to understand and improve levels of satisfaction with council services in order to understand and address their concerns	Develop co-ordinated approach to measuring satisfaction with communities.	Dec 2021	Head of CSS	Work on this action is scheduled to start in April 2021, building on the improved engagement with communities during Covid19

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV5.2			Trends are measured as well as individual survey outcomes	Dec 2021	Head of CSS	Work scheduled to start in April 2021
BV5.3		Improve the quality of engagement with our communities and reflect this in service improvements	Gather information from communities on what we are doing well	June 2021	Head of CSS	Not yet started
BV5.4			Identify priorities for better future engagement	Sept 2021	Head of CSS	Not scheduled to commence until June 2021
BV5.5		Implement a programme to improve engagement skills across the organisation.	Training materials developed and programme rolled out	March 2022	Head of CSS/ CPP Manager	Not scheduled to commence until Sept 2021
BV5.6		Review and simplify the community asset transfer process.	Process reviewed and launched	Feb 2021	Head of CS	<ul style="list-style-type: none"> The Statutory process re formal asset transfers can be difficult for community groups to navigate so the Asset Transfer Group has put in place a non-statutory process (called Expressions of Interest – EOI) allowing communities to progress their proposals directly with council officers, while retaining the option, to use the statutory process. The Group are looking at ways to further promote community interest in taking on council buildings through the Asset Transfer Group.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						<ul style="list-style-type: none"> A programme for training community groups and that includes toolkit / practical experience for working with the Council and submitting both Expressions of Interest and formal Asset Transfer requests has been programmed by the Social Enterprise Officer for 2021/22. Annual overview of asset transfer requests reported to Policy and Resources Committee 15.10.20
BV5.7		Proactively market community asset transfer opportunities	Programme of asset marketing developed and implemented	FQ3 2021/22	Head of CS	<p>As reported to Policy and Resources Committee 15.10.20</p> <p>The Council's Social Enterprise Officer promotes the asset transfer request process to community groups and supports this activity. The process is promoted on the council's website.</p> <p>The Social Enterprise Officer has developed an outreach training programme for 2021/22 aimed at community groups and includes toolkit / practical experience for working with the Council and submitting both Expressions of Interest and formal Asset Transfer requests.</p> <p>The Asset Transfer Group are also undertaking a pilot to actively market and promote certain assets that may have community group interest. This is focussing on around 10 Public Conveniences across the area at present in partnership with Roads & Infrastructure. Findings from this pilot will be evaluated and consideration given to expanding the dedicated web page and engagement undertaken so far.</p>

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV6.1	Work with elected members to improve the uptake of training provided.	Develop and implement an Elected Members' Training and Development Framework 2020 – 2022 that includes:	Training and Development Framework completed	September 2020.	Head of L&RS	Training and Development Framework developed for issue to all members. Consultation undertaken with political leadership groups and approved in December for roll-out.
BV6.2		- participation in Local Government Improvement Service Members CPD Framework. - Annual PDP session offered to each elected member with a senior member of the Governance Team	Information on Local Government Improvement Service Members CPD Framework provided and process of recording participation by members in place	Dec 2020	Head of L&RS	CPD Framework and facility for recording participation incorporated into revised development framework.
BV6.3		- Offer all members the opportunity of a development profiling exercise; self-reflection or '360'	36 PDP sessions offered	Dec 2020	Head of L&RS	Offer to be extended to all Members - rescheduled to post budget period: 1st March 2021 to maximise take up.
BV6.4		- 1-1 Coaching for Senior Elected Members.	Invitation issued to all members	Dec 2020	Head of L&RS	Incorporated into Framework and offer to be extended to all Members - rescheduled to post budget period: 1st March 2021 to maximise take up.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV6.5		Elected Member Seminar Programme developed to incorporate series of focused skype development sessions which facilitate remote attendance	Skype seminars programme developed	October 2020	Head of L&RS	Seminar programme has been adapted to incorporate webinars and diary dates are scheduled in advance for the full programme of sessions. Remote attendance has had positive effect on participation levels with average attendance at 64% compared to previous 53% for seminar attendance.
BV 6.6		Enhance provision of on-line learning and development activities to increase resources and support for members to address development needs on a remote basis	On line learning facility available	March 2021	Head of L&RS	Under development – on schedule.
BV6.7		Encourage attendance at masterclasses run by the Local Government Improvement Service and the Digital Office for Scottish Local Government.	Information on masterclasses provided and process of recording attendance by members in place	Dec 2020	Head of L&RS	Elected Members issued invites to webinars by Improvement Services and process for recording attendance will be incorporated in development plan. Link to recorded webinars and presentations on HUB in Members section.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Objective	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV7.1	Improve engagement to ensure staff are bought into the council's vision.	Review and refresh remote delivery of training resources and support	All suitable mandatory training has remote delivery option	Dec 2021	Head of CSS	On track – A Digital Learning Strategy has been developed and is currently going through consultation and approval routes. This reviews the current approach to digital learning and contains an action plan to deliver on targets. The strategy will be presented to SMT in March 2021
BV7.2		Develop and implement employee engagement programme that involves them in the ongoing transformation of the organisation	Plan developed and implemented	Dec 2020	Head of CSS	Employee communication has been adapted in response to covid with regular communication from the Chief Executive, the introduction of podcasts and Wellbeing Wednesday resources. Further development of the employee engagement programme is planned in 2021 that will involve them in future transformation activity.

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ARGYLL AND BUTE COUNCIL
CUSTOMER SUPPORT SERVICES

AUDIT AND SCRUTINY COMMITTEE
16 MARCH 2021

PERFORMANCE MANAGEMENT REVIEW UPDATE

1.0 EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to provide background information on the Performance Management Review including an update on the current status of this project.
- 1.2. Members are asked to consider and note the update on the Performance Management Review.

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CUSTOMER SUPPORT SERVICES

16 MARCH 2021

PERFORMANCE MANAGEMENT REVIEW UPDATE

2.0 INTRODUCTION

- 2.1 The purpose of this report is to provide background information on the Performance Management Review including an update on the current status of this project.

3.0 RECOMMENDATIONS

- 3.1 The Audit and Scrutiny Committee are asked to consider and note the update on the Performance Management Review.

4.0 DETAIL

- 4.1 In September 2020, the Audit and Scrutiny Committee considered the findings report and recommendations from the Accounts Commission on the Controller of Audit Scotland's Statutory Report on the Council. The report concluded that the Council's public performance reports do not provide a clear picture of how well the council is performing against its corporate outcomes and consequently one of the recommendations is to improve performance management reporting to provide a balanced picture of long term trends in performance against its targets.

- 4.2 The Committee will also recall that the accompanying Best Value Action Plan presented by the CEO (and agreed by the Council in June 2020) sets out in the second objective (BV2) a series of activity in direct response to the recommendation. Jane Fowler was appointed Senior Responsible Officer (SRO) to appoint a project lead and oversee the development of the project; the CEO remains the Project Sponsor. A full update on the Best Value Action Plan can be found elsewhere on the agenda.
- 4.3 A Project Initiation Document was approved by the Strategic Management Team in September 2020 and agreed the key objectives as follows;
- a) Move to a culture of managing performance and driving improvement that informs decision making at all levels.
 - b) At the highest level, create a system that reports progress and long term trends against our corporate outcomes as set out in the Corporate Plan and the Argyll and Bute Outcome Improvement Plan (ABOIP).
 - c) Use benchmarking to drive continuous improvement.
 - d) Demonstrate the link to corporate outcomes and budget decisions
 - e) Improve reporting of performance information to members that supports effective scrutiny.
 - f) At an operational level create a system that provides key information to allow decision makers to take action to achieve the required performance, rectify issues and drive continuous improvement, where possible in real time.
 - g) Provide timely and meaningful public performance reporting and scrutiny.
 - h) Create a system that supports empowerment and accountability.
- 4.4 The Strategic Management Team also agreed on the need to bring in an external expert to guide the project team and provide expert facilitation of a series of workshops that are core to developing the project.
- 4.5 The project is set out in three key phases as follows;
- 1) Understanding, Information and Motivational Effects
 - a. Review of current practices and identification of main areas for improvement.
 - b. COSO/Members virtual workshop – increase awareness and engagement

- c. Stakeholder Virtual Workshops – identify priorities, stakeholder’s needs and review measurement practices.

2) Strategy Map (see para 4.6 below for description).

- a. Data and Gap Analysis
- b. Workshops with selected group to draft strategy map.

3) Designing the Performance Management System

- a. Finalise review of performance indicators and dashboard
- b. Define proposed performance indicators and modification of existing ones
- c. Selection of key performance indicators
- d. Formal agreement on new system
- e. Development of material for stakeholders
- f. Production of final report

4.6 In relation to the second phase, strategy maps are an organisational tool designed to help translate and implement strategy into operational terms and to communicate to employees how their jobs relate to the organization’s overall objectives. The strategy map is created via collaborative processes to enhance buy-in and commitment toward the strategy. Through strategy maps, it is possible to visualize how different parts of the organisation contribute—directly or indirectly—to the organisation’s overall performance. Moreover, strategy maps can be used to help identify appropriate performance indicators associated with the objectives.

4.7 The project is currently on track and activity completed during phase 1 includes;

- Online survey with Chief Officers and Senior Officers
- Online survey with Elected Members
- Workshops with Chief Officers and Senior Officers (x4)
- Members Seminar 25.01.21
- Commenced survey to gather data on how performance is used.
- Stakeholder Workshops (commenced 22 February 2021)

4.8 Phase 2 will commence mid-March 2021 and will include a second Members’ Seminar 23 March 2021. The key components of phase 3 as described

above will be completed by end of summer 2021 with a report including recommendations on a revised approach to performance management by the autumn of this year.

- 4.9 With regards to a future ICT system (i.e. Pyramid replacement), this is being developed in parallel to the phases described above and will commence in March 2021 once phase 1 is complete.

5.0 CONCLUSION

- 5.1 In direct response to a recommendation from the Accounts Commission to improve performance management reporting to provide a balanced picture of long term trends in performance against targets, the CEO put in place resources and a mandate to deliver activity set out within the Best Value Action Plan (BV2) as presented elsewhere on the agenda to deliver this.
- 5.2 This report provides an overview on the approach, activity to date and future planned on activity. This project is currently on track.

6.0 IMPLICATIONS

- 6.1 Policy; none.
- 6.2 Financial; none.
- 6.3 Legal; none.
- 6.4 HR; none
- 6.5 Fairer Scotland Duty: none
- 6.5.1 Equalities - protected characteristics; none
- 6.5.2 Socio-economic Duty; none
- 6.5.3 Islands; none
- 6.6 Risk; failure to implement a key recommendation from Accounts Commission Best Value Audit findings.
- 6.7 Customer Service; none.

Jane Fowler

Head of Customer Support Services

19 February 2021

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ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****ROADS AND INFRASTRUCTURE
SERVICES****16 MARCH 2021**

WASTE MANAGEMENT

1.0 INTRODUCTION

- 1.1 The assurance map has identified Waste Management as an area where there may be a mismatch between the level of risk identified and the assurance provided to Committee. This is predominantly due to the Council being in the process of implementing a new waste strategy and the uncertainty being created by the Scottish Government's ban on landfilling Biodegradable Municipal Waste (BMW) from 2025. This was identified as a mismatch when the assurance mapping exercise was carried out and reported to the Committee in September 2019 however at that stage the BMW ban was to be implemented by 1 January 2021 which made it a more imminent concern. It was agreed then that Waste Management should be an area for audit or scrutiny focus at an appropriate time and the CIA's recommendation was that it be considered as a future scrutiny item. This remains the CIA's recommendation however the delay in ban implementation until 2025 reduces the urgency.
- 1.2 At the EDI Committee in December 2020, two reports were considered, the first being an update on waste management with specific reference to the BMW ban moving from 2021 to 2025 and the second report seeking approval for the Council to sign up to the Household Waste Charter. Both reports are appended to this covering report and provide a detailed update in terms of the Council's position in relation to waste management.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Scrutiny Committee consider this report.

3.0 DETAIL

Landfill Ban

- 3.1 The Landfill ban is a measure introduced under the Waste Regulations

(Scotland) 2012. The ban was planned to come into force across all of Scotland from January 2021. However, in November of 2019 the deadline for compliance with the ban was changed and a new date set by the Scottish Government of 2025.

- 3.2 Compliance with the Landfill ban represents a significant and enduring cost challenge to the council. This cost challenges are set out in detail in Appendix 1 of this report.
- 3.3 The Scottish Government has acknowledged the unique challenges faced by the council in complying with the ban. Scottish Government officials have given a commitment to work with Council Officers to assist in the development of a compliant solution in the form of a transition from landfill to recovery via energy from waste.

Household Waste Charter

- 3.4 The Household Recycling Charter and associated Code of Practice (CoP) was developed and agreed by the Scottish Government-COSLA Zero Waste Taskforce in November 2015. The Charter and CoP aims to bring more consistency to recycling services across Scotland in an effort to increase recycling rates in support of Circular Economy Objectives.
- 3.5 The Charter and its CoP have been endorsed by COSLA and 30 Authorities. Argyll and Bute Council, through the EDI Committee in December 2020, has now signed up to the charter which can be found at Appendix 2 of this report.
- 3.6 The Charter and its CoP are currently voluntary. However, this report informs on the work of the Scottish Government and details the stance taken by the Scottish Government to ensure that the Local Authority Charter compliance is made mandatory. In addition, by removing the voluntary status of the Charter the Scottish Government has also committed to reviewing the CoP in light of other regulatory changes such as the Scottish Deposit Return Scheme and the Landfill Ban.

4.0 CONCLUSION

- 4.1 This is a covering report for the Audit and Scrutiny Committee, the report provides an introduction to two reports recently considered by the EDI Committee in relation to waste management.

5.0 IMPLICATIONS

- 5.1 Policy – This work stream is predicated on the Waste Strategy, which details the council's policy regarding Waste.

- 5.2 Financial – Compliance with the 2025 Landfill ban represents a significant financial risk to the Council that will require practical and financial support from the Scottish Government to provide a long term financially sustainable solution.
- 5.3 Legal - The council is required to comply with the national ban on Biodegradable Municipal Waste.
- 5.4 HR – When the PPP contract comes to an end this potentially may result in the TUPE of staff operating the current Renewi sites to the council.
- 5.5 Fairer Scotland Duty:
 - 5.5.1 Equalities - protected characteristics - None
 - 5.5.2 Socio-economic Duty – None
 - 5.5.3 Islands – Islands impact assessment of the impact of the Landfill ban by the Scottish Government has been requested.
- 5.6 Risk- Significant risk of increased costs as a result of compliance with the Landfill ban
- 5.7 Customer Service - None

Executive Director of Development and Infrastructure Services- Kirsty Flanagan
Head of Roads and Infrastructure Jim Smith
Policy Lead- Cllr Robin Currie
Cllr Gary Mulvaney
Cllr Rory Colville

February 2021

For further information contact:
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APPENDICES

Appendix 1 – EDI Report – Waste Strategy – Landfill Ban
Appendix 2 – EDI Report – Waste Strategy – Household Waste Charter

ARGYLL AND BUTE COUNCIL

**ENVIRONMENT DEVELOPMENT AND
INFRASTRUCTURE COMMITTEE**

**ROADS AND INFRASTRUCTURE
SERVICES**

3 DECEMBER 2020

WASTE STRATEGY- LANDFILL BAN

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide members with:

- An options appraisal with related options open to the council, this includes the potential costs associated with the Landfill ban.
- An update on recent officer engagement with Scottish Government officials seeking support to enable Landfill ban compliance.

1.2 The Landfill ban is a measure introduced under the Waste Regulations (Scotland) 2012. The ban was planned to come into force across all of Scotland from January 2021. However, in November of 2019 the deadline for compliance with the ban was changed and a new date set by the Scottish Government of 2025.

1.3 Compliance with the Landfill ban represents a significant and enduring cost challenge to the council:

- Capital costs ranging between £2m and £4m;
- Increased revenue costs of between £800k and £3.5m;
- Potential one off costs of £5.1m if early withdrawal from the Waste PPP contract is required.

1.4 The Scottish Government has acknowledged the unique challenges faced by the council in complying with the ban. Scottish Government officials have given a commitment to work with Council Officers to assist in the development of a compliant solution in the form of a transition from landfill to recovery via energy from waste.

1.5 It is recommended that members:

- Note the significant revenue and capital cost challenges posed by compliance with the Landfill ban.
- Review the options appraisal information (section 4) and approve the continued further development of Option 4 by officers (the total transfer of residual waste to be recovered as energy from waste) as a viable option open to the council for Landfill ban compliance.
- Note the results of recent discussions held between officers and Scottish Government officials establishing agreements in principle to support the development of a compliant Landfill ban solution.

ARGYLL AND BUTE COUNCIL

ENVIRONMENT DEVELOPMENT AND
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ROADS AND INFRASTRUCTURE
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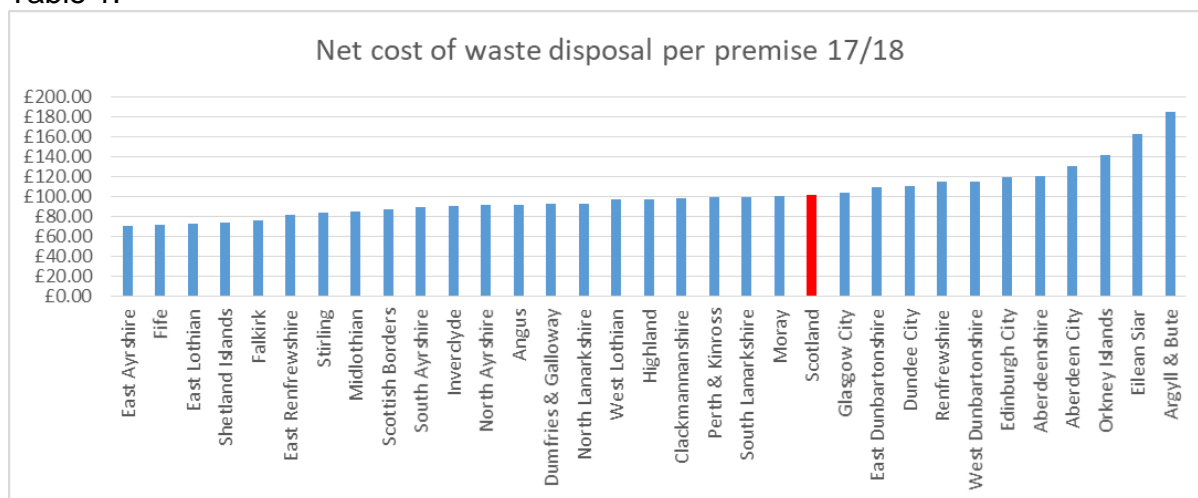
3 DECEMBER 2020

WASTE STRATEGY - LANDFILL BAN

2.0 INTRODUCTION

- 2.1 The ban on the disposal of Biodegradable Municipal Waste to Landfill is a measure brought in under the Waste Regulations (Scotland) 2012. The ban will end landfill as the primary means of Waste disposal. The alternative to Landfill is a transition from waste disposal to waste recovery via energy from waste.
- 2.2 The ban was planned to come into force across all of Scotland from January 2021. However, the deadline for compliance with the ban has now been put back to January 2025. Non-compliance with the Landfill ban is not an option. Ministers expect local authorities and private sector suppliers to be working towards a solution at pace and that non-compliance may be subject to sanctions. Non-compliance with landfill licence requirements may become a criminal matter.
- 2.3 Officers have been working to develop options for the transition to a Landfill ban compliant system of waste recovery. Changing the council waste disposal methodology is extremely challenging for every local authority. However, Argyll and Bute faces a unique set of circumstances that disproportionately increase this cost challenge of landfill ban compliance due to the Waste PPP contract with Renewi which is in place until 2026 and the island and rural geography including distance from energy from waste recovery plants.
- 2.4 Argyll and Bute Council currently has the highest cost per household for waste disposal at a rate of £128.85 per household compared to a national average of £101.36 per household based on 2017/18. Table 1 below compares Argyll and Bute with the other local authorities. This high cost is due to the rural and island nature of Argyll and Bute and also due to the PPP contract in place which the Scottish Government encouraged the council to enter into in 2001. Whilst this contractual arrangement allowed for capital investment to enable a reduction in landfill tonnage, the contractual arrangement is expensive and lacks flexibility. Any contractual variations are challenging, time consuming and require significant resource both in terms of staff time and also technical and legal advice.

Table 1.



2.5 This report provides details drawn from an options appraisal and cost modeling exercise which form the basis of the councils ongoing Landfill ban funding and support negotiations with the Scottish Government. The capital costs of compliance are understood by Officers to be between £2m and £4m. The ongoing revenue cost implications of compliance are variable depending on the solution chosen but range from around £800k to £3.5m per year. Further details on the costs of each option are detailed in section 4 of the report.

2.6 This report also delivers an update to members on the result of recent Landfill Ban support negotiations with Scottish Government officials. The critical ask made to the officials during negotiations; will the Scottish Government commit to providing additional financial support to the council that would enable timeous compliance with the Landfill ban - including potential withdrawal or renegotiation/variance of the PPP contract.

3.0 RECOMMENDATIONS

3.1 It is recommended that Members:

- Note the sizeable revenue and capital cost challenges posed by compliance with the Landfill ban.
- Review the options appraisal information (section 4) and approve the continued further development of Option 4 by officers (the Total transfer of residual waste to be recovered as energy from waste) as a viable option open to the council for Landfill ban compliance.
- Note the results of recent discussions held between officers and Scottish Government officials establishing agreements in principle to support the development of a compliant Landfill ban solution.

4.0 LANDFILL BAN OPTIONS APPRAISAL

4.1 In previous reports, officers have provided details of potential technical solutions to the Landfill Ban. The options presented within this report also include the associated cost impacts of each solution considered which have been developed from enhanced data allowing for a higher level of accuracy in measuring and presenting the potential cost implications of Landfill ban compliance.

4.2 The options for compliant solutions that were evaluated as part of the options appraisal process are as follows:

1. **Non-Compliance - continue with Landfill**
2. **Argyll and Bute based Energy from Waste Plant**
3. **Pre-Treatment of Waste/Transfer to Energy from Waste (in the Waste PPP area)**
 - A. **Pre-Treatment of Waste/Transfer to Energy from Waste inside PPP contract**
 - B. **Pre-Treatment of Waste/Transfer to Energy from Waste outside the contract**
4. **Total Transfer of Waste to Energy from Waste (All Argyll and Bute solution)**
 - A. **Total Transfer inside PPP contract**
 - B. **Total Transfer outside PPP contract**
5. **Transition position- Temporary Derogation followed by Energy from Waste.**

The costs of all options including a comparison are included in Appendix 1.

Option 1 Non-Compliance

4.3 Option 1 has been ruled out as **not viable**. Non-Compliance is not an option due to the potential risk to the council of criminal prosecution and withdrawal of site licences resulting from a breach of the Waste (Scotland) Regulations 2012.

Option 2 Argyll and Bute based Energy from Waste Plant

4.4 Option 2 has been ruled out as **not viable** for the following reasons:

- The council lacks the minimum tonnage (100,000 tonnes needed) of waste feedstock to make an energy from waste plant commercially viable.
- Energy from waste plants are large extremely complex operations that are

very costly to build with the average cost to build sitting at around £100m.

- The planning/ permitting and construction phases of developing an energy from waste plant are lengthy taking between five to ten years before a plant becomes operational.

Option 3 a/b. Pre-Treatment of Waste/Transfer to Energy from Waste (in the Waste PPP area)

a) Pre-Treatment of Waste/Transfer to Energy from Waste inside the PPP

b) Pre-Treatment of Waste/Transfer to Energy from Waste outside the PPP

- 4.5 Officers have considered the variables for both options 3a and 3b as part of the cost modelling for the options appraisal. The purpose of this study was to examine and test the opportunity cost of remaining within the PPP or delivering of the changed service by the council.
- 4.6 The technical aspects of the proposal would involve the conversion of the existing pre-treatment facilities at Renewi sites to a system of in-vessel composting. This new pre-treatment method would, according to Renewi, be able to render 40% of the material inert enough to be used as a commercial (PAS100) compost product. The remaining 60% of the material would be transferred to the central belt for recovery via energy from waste. This is an entirely new and so far untested approach to treat and recover residual waste material. The testing to prove the processes efficacy could cost up to £170k with no guarantee of success or SEPA approval.
- 4.7 The regulator (SEPA) have expressed concerns to officers about the proposed in-vessel composting process and the feasibility of successfully achieving the required standard of inert product. Process failure i.e. not achieving the required composting standard poses a serious risk of increased costs including the potential for enforcement action and associated sanctions. The increased costs that may occur as a result of process failure would exceed any potential saving made by avoiding energy from waste gate fees. Due to the risks associated with this approach it should be viewed as feasible but **not recommend**.
- 4.8 The estimated capital costs of option 3a are around £4m. The estimated increase in revenue cost is around £1.7m per annum until the end of the waste PPP contract reducing to around £800k per annum after the end of the contract in 2026.

Table 2

Option 3a: Pre-Treatment (inside PPP)	Capital Cost	Revenue Cost Increase/year till 2026	Revenue Cost Increase/post 2026
	£4,000k	£1,700k	£797k

4.9 Officers also evaluated the potential cost and practical impact of option 3b with the development and operation of pre-treatment IVC system outside the Waste PPP having withdrawn from the contract early. It was concluded that the capital cost is identical to Option 3a at a cost of around £4m but that the additional revenue cost burden would be less at around £800k per annum.

Table 3

Option 3b: Pre-Treatment (Outside PPP)	Capital Cost	Revenue Cost Increase	Withdrawal Cost
	£4,000k	£797k	£5,100k

4.10 There is a reduced revenue cost increase with option 3b compared to option 3a. However, as option 3b would require early withdrawal from the Waste PPP this would come at a cost of around £5.1m. The cost would be made up of a mixture of legal fees, lost level playing field funding and the Renewi profit element. A detailed breakdown of the withdrawal cost can be found in Table 4 below:

Table 4

	2024-25	2025-26	2026-2027
	£000		
Level Playing Field Support	343	1,371	1,028
Buyout Cost (Renewi Profit Element)	456	447	-37
Legal Costs	1,500		
Annual Total Loss/Cost	2,299	1,818	991
Total Cumulative Cost/Lost	5,108		

4.11 In addition to the withdrawal costs officers found that operating option 3 outside the PPP contract presented increased risk of process failure and further increases for disposal costs due to lack of internal council expertise to operate the system. The council would have the option to tender out the operation of the sites to a 3rd party or contract in or train its own internal teams. The increased risks of failure taken along with the high one off costs of withdrawal from the PPP made option 3b outside the PPP **non-viable**.

Option 4 a/b. Total Transfer of Waste to Energy from Waste (All Argyll and Bute solution)

- a. Total Transfer inside PPP contract
- b. Total Transfer outside PPP contract

4.12 The appraisal of options 4a and 4b takes the same approach as the appraisal of options 3a and 3b. The difference between options being:

- Under option 4a the total transfer solution would be delivered whilst remaining within the Waste PPP contract
- Under option 4b the total transfer solution would be delivered having withdrawn from the Waste PPP contract.

4.13 If the council were to remain within the PPP for the duration of the contract, the council would be prevented from exploring residual waste partnerships with adjacent local authorities preventing economies of scale through increased feedstock tonnages and efficiencies from the sharing of facilities.

4.14 The ongoing Revenue costs of option 4a/b can be broken down into two different conclusions that are dependent on choosing either option:

- 4a- Remain in the waste PPP and deliver the solution, conclude PPP at contract end date September 2026, or
- 4b- Withdraw early from the waste PPP (in financial year 24/25).

4.15 Option 4a/b should be considered as **viable** but with different revenue cost impact, benefit, and non-benefits.

4.16 Option 4a- The costs for operating the total transfer solution whilst remaining within the Waste PPP would increase as the council would continue to pay Renewi the previously scheduled Unitary charge in addition to the energy from waste and haulage gate fees. Revenue Costs would be higher during the PPP but would decrease after the PPP ends in 2026. The capital costs that would be incurred as a result of required improvement at Renewi sites is estimated to be around £2m. The ongoing increase in revenue cost is understood to be around £3.5m per year until the PPP ends and thereafter are expected to be around £1.5m per year.

Table 4

Option 4a: Total Transfer (Inside PPP)	Capital Cost	Revenue Cost Increase/year till 2026	Revenue Cost Increase/post 2026
	£2,000k	£3,500k	£1,500k

- 4.17 In addition to the increased costs of compliance remaining within the PPP, this could restrict the council to a Renewi chosen energy from waste offtaker. Therefore, potentially tying the council to a 10 year+ energy from waste gate fee rate well after the PPP contract has ended.
- 4.18 In order for the waste PPP to be able to accommodate the changes required to put in place for a Landfill ban compliant solution, the contract would have to be varied. Contract variations in the past have proven to be costly (£250k) and time consuming to achieve (two years).
- 4.19 Option 4b would see the council withdraw from the waste PPP ahead of the contract end date with an optimal date for withdrawal set as financial year 24/25. The 24/25 date ties in with end of the senior debt in the waste PPP and links to potential partners procurement strategies.
- 4.20 As noted above the main benefit to withdrawing early from the PPP is that it allows the council to choose its own offtaker and fully develop the option of partnering up with adjacent local authorities creating economies of scale and having better access to the energy from waste market and the potential sharing of facilities. Option 4b allows the council to be more flexible in response to changes in the policy environment as there is no waste PPP contract to consider.
- 4.21 The capital cost of option 4b is identical to option 4a at £2m to cover the costs of the redevelopment of existing landfill sites into waste transfer facilities. The ongoing increased revenue costs are estimated to be around £1.5m per year.

Table 5

Option 4b: Pre-Treatment (Outside PPP)	Capital Cost	Revenue Cost Increase	Withdrawal Cost
	£2,000k	£1,500k	£5,100k

- 4.22 It is important to note that withdrawal from the Waste PPP is likely to come with a significant impact in both costs and lost level playing field support. This is estimated to be around £5.1m, table 3 provides a breakdown of the costs.

Option 5. Transition Period (Derogation for Waste PPP area)

- 4.23 Option 5, was included in the appraisal to demonstrate the reduced cost impact of compliance if the waste PPP (including withdrawal from it) was no longer an issue due to extended derogation from the ban for the PPP area. This option would require the approval of the Scottish Government and is not in line with the council's emergent De-Carbonisation Plan. The

Scottish Government has confirmed that whilst this option has the lowest overall cost there is no political appetite to extend the derogation any further. As there is no likelihood for approval this option has also been ruled out as a **not viable**.

Other considerations

- 4.24 It should be noted that the transfer of residual waste from our islands to be recovered as energy from waste on the mainland is the only feasible option for ban compliance for waste generated in those areas.

5.0 SCOTTISH GOVERNMENT LANDFILL BAN ENGAGEMENT

- 5.1 As noted in the September Waste Strategy ED&I report a meeting with Scottish Government officials to seek support to enable timeous compliance with the ban was arranged for the 26th September.
- 5.2 At the meeting officers covered the following topics with officials:
- The disproportionate impact of the Landfill ban on waste disposal in Argyll and Bute as a result of our rural/Island geography and poor access to the energy from waste market.
 - Argyll and Bute Council is the only authority with a waste PPP agreement. Moving to compliance with the ban while the PPP agreement is still in place (2026) will add significant legal costs for contract variation and will prevent the council exploring opportunities to take part in larger strategic waste partnerships with adjacent authorities.
 - The need for clarity from the Scottish Government on their intentions regarding the review of the rural food waste derogation. Removal of the derogation would result in a costly variation of the PPP and would have a significant impact on the BMW ban solutions we are considering due to changes in composition and volume of the waste we would process
 - As per the agreement in principle reached in September 2019, the Minister and her team are willing to work with Officers in concert with other local authority partners to develop joint solutions that provide significant economies of scale.
 - Officers sought agreement on the framework for future engagement between the council and the Scottish Government and its agencies to support swift progress to develop a compliant solution.
- 5.3 Officers presented the Scottish Government officials with the details from the solutions options appraisal, including the financial impact assessments as laid out in section 4 of this report.

- 5.4 Officers framed the discussion with officials around the critical ask of the Scottish Government committing them to providing additional financial support to the council thereby enabling timeous compliance with the Landfill ban- including potential withdrawal or renegotiation/variance of the PPP contract.
- 5.5 The Scottish Government officials acknowledged that the council was faced with a unique set of challenges in the form of rurality and the waste PPP. Furthermore, they reiterated their commitment to work with the council to support progress to a lasting Landfill ban solution.
- 5.6 The officials noted that a Landfill Ban Programme Board has been set up that will have an oversight of local authority progress towards compliance. In addition, they confirmed that Argyll and Bute Council would have representation on this board but would also continue to engage separately on matters relating to the waste PPP and its future.
- 5.7 The Officials noted that the Scottish Governments offer of support collaborative procurement intervention workshops before the pandemic were put on hold due to Covid-19, but they are keen to re-engage and progress these workstreams. These workshops will assist local authorities to outline thoughts, challenges, opportunities and technical capacity at a regional level. The Joint Steering Group between Scottish Government and local government representatives endorsed the plan to re-implement workshops.
- 5.8 Officers presented the cost information for all of the options by paying particular reference to option 4a and 4b. Officers highlighted that there is a cost benefit discussion to be had with the Scottish Government about funding to either remain in the PPP contract or funding to withdraw to enable council participation in partnership with other authorities. Officials made it clear that they are keen to explore all of the options for support. However, they also stressed that any support must be linked to the delivery of a solution that is compliant and offers overall value.
- 5.9 It was agreed that further discussions between officials and local authority partners would be arranged in order to produce a roadmap to developing a compliant solution through partnership and that the implications of the PPP contract would form a key part of that discussion. An outline work plan was agreed between all parties at the meeting Appendix 2.
- 5.10 Officials have confirmed that the Rural Food Waste Derogation and Household Charter Review will not take place until later in 2021 after the Holyrood election. Appendix 3 features an updated high level timeline of key actions required to ensure compliance with the ban

6.0 CONCLUSION

- 6.1 In conclusion, compliance with the Landfill ban represents a significant and

enduring cost challenge to the council. Engagement with the Scottish Government has created an agreement in principle between both parties to work together to support transition to compliant solution.

- 6.2 Following on from the successful re-engagement with the Scottish Government agreed programme of future engagements has been put in place that aligns with the Waste Strategy Action Plan that was endorsed at ED&I in September.

7.0 IMPLICATIONS

- 7.1 Policy – This work stream is predicated on the Waste Strategy, which details the council’s policy in regarding Waste.
- 7.2 Financial – Compliance with the 2025 the Landfill ban represents a significant financial risk to the Council that will require practical and financial support from the Scottish Government to provide a long term financially sustainable solution.
- 7.3 Legal - The council is required to comply with the national ban on Biodegradable Municipal Waste.
- 7.4 HR – When the PPP contract comes to an end this potentially may result in the TUPE of staff operating the current Renewi sites to the council.
- 7.5 Fairer Scotland Duty:
- 7.5.1 Equalities - protected characteristics - None
- 7.5.2 Socio-economic Duty – None
- 7.5.3 Islands – Islands impact assessment of the impact of the Landfill ban by the Scottish Government has been requested.
- 7.6 Risk- Significant risk of increased costs as a result of compliance with the Landfill ban
- 7.7 Customer Service - None

Executive Director of Development and Infrastructure Services- Kirsty Flanagan
Head of Roads and Infrastructure Jim Smith
Policy Lead- Cllr Robin Currie
Cllr Gary Mulvaney
Cllr Rory Colville

October 2020

For further information contact:

Peter Leckie- Waste Strategy Project Manger

Jim Smith- Head of Roads and Infrastructure Services

APPENDICES

Appendix 1

Solutions Cost Summary table:

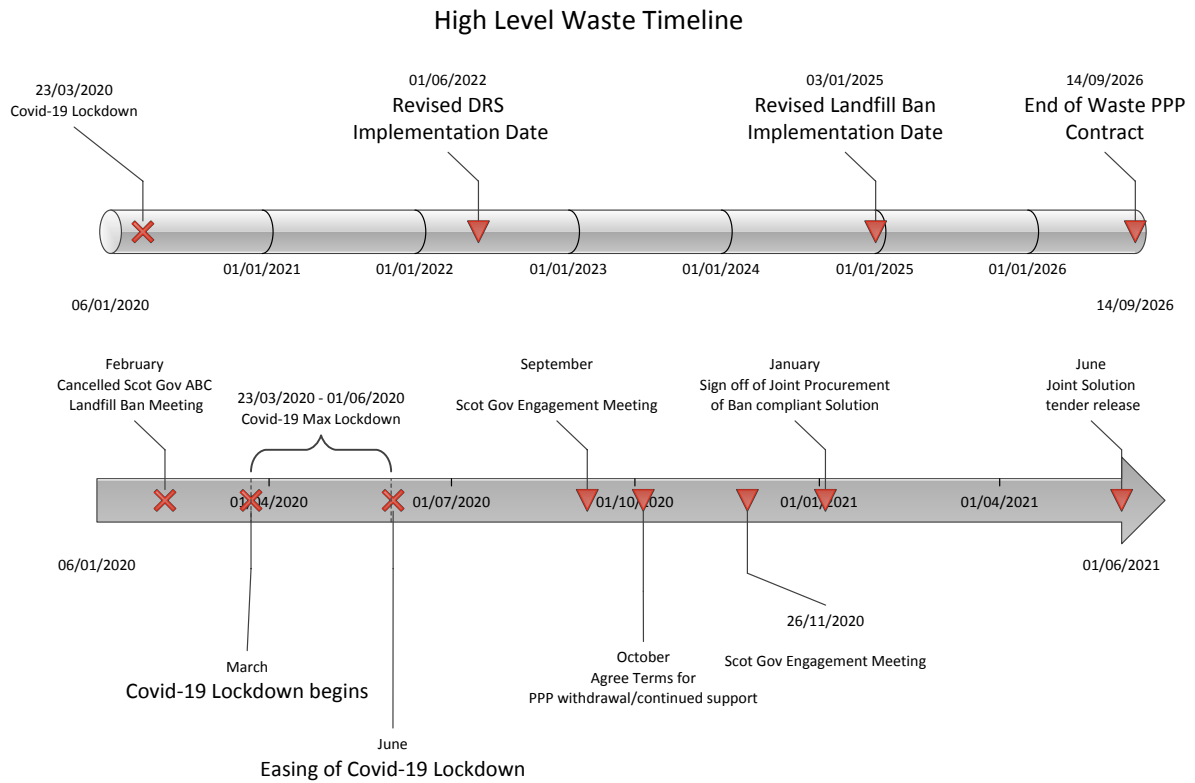
Options	Viability RAG	Capital	Revenue 2024-25	Revenue 2025-26	Revenue 2026-27	One-off Buy Out	Total	Ongoing Per Annum	Total Revenue 1 Jan 25 to end of PPP	Additional Cost due to being stuck in PPP
		£,000								
Option 3a		4,000	425	1,700	708		6,833	797	2,833	1,505
Option 3b		4,000	199	797	332	5,108	10,436	797	1,328	N/A
Option 4a		2,000	875	3,500	1,458		7,833	1,500	5,833	3,333
Option 4b		2,000	375	1,500	625	5,108	9,608	1,500	2,500	N/A
Option 5 - Pre-Treatment		4,000	0	0	0		4,000	797	N/A	N/A
Option 5 - Total Transfer		2,000	0	0	0		2,000	1,500	N/A	N/A

Appendix 2

Outline Work plan

Argyll and Bute Scottish Government Landfill Ban Engagement		
Action/Event	Notes/Output	Target Date
Initial SG/ABC meeting	Meeting took place, minutes due to be produced	29/09/2020
ABC: Meeting with Zero Waste Scotland	Meeting to discuss the Scope of the £70m recycling fund and the household recycling Charter	23/10/2020
ABC: Follow up meeting with 5 Authorities	Meeting to discuss joint Residual Waste EfW procurement with SG support	06/11/2020
ABC: Meeting with West Dun	Meeting to discuss agree joint approach to access funding for Joint Transfer Facilities	06/11/2020
ABC: Follow up meeting with Highlands and Western Isles	Meeting to discuss joint Residual Waste EfW procurement with SG support	3 rd Week November
Meeting with SG, ZWS	Agree roadmap to Joint Procurement Solutions future of the Waste PPP	3 rd Week November
ABC: Report to EDI (Council Service Committee)	Household Charter Results of SG Engagement	03/12/2020
ABC/West Dun: Draft Business Case & Minute of Agreement	Business case for supporting the development of joint transfer facilities with West Dun	Jan-21
ABC: Report to EDI/P&R (Council Service/Finance Committee)	Landfill Ban Solution Report	04/03/2021

Appendix 3: High Level Waste Timeline



ARGYLL AND BUTE COUNCIL

**ENVIRONMENT DEVELOPMENT AND
INFRASTRUCTURE COMMITTEE**

**ROADS AND INFRASTRUCTURE
SERVICES**

3 DECEMBER 2020

WASTE STRATEGY – HOUSEHOLD WASTE CHARTER

1.0 EXECUTIVE SUMMARY

- 1.4 The purpose of this report is to provide Members with an outline of the Household Recycling Charter and its Code of Practice (CoP), advising of the renewed importance of the Charter and the potential future challenges it poses.
- 1.5 The report also seeks Members approval for Argyll and Bute Council to endorse the Household Recycling Charter and its CoP.
- 1.6 The Household Recycling Charter and associated Code of Practice (CoP) was developed and agreed by the Scottish Government-COSLA Zero Waste Taskforce in November 2015. The Charter and CoP aims to bring more consistency to recycling services across Scotland in an effort to increase recycling rates in support of Circular Economy Objectives.
- 1.7 The Charter and its CoP have been endorsed by COSLA and 30 Authorities. Argyll and Bute Council is one of two Authorities that have not endorsed the Charter and the CoP.
- 1.8 The Charter and its CoP are currently voluntary. However, this report informs on the work of the Scottish Government and details the stance taken by the Scottish Government to ensure that the Local Authority Charter compliance is made mandatory. In addition, by removing the voluntary status of the Charter the Scottish Government has also committed to reviewing the CoP in light of other regulatory changes such as the Scottish Deposit Return Scheme and the Landfill Ban.
- 1.9 The Scottish Government has also made it clear that future financial and practical support from themselves and Zero Waste Scotland is likely to be contingent on compliance with the CoP.
- 1.10 Endorsing the Charter commits Argyll and Bute Council to bring services into compliance with the CoP which will have an impact on services and

costs. Furthermore, these potential obligations may increase if the CoP review suggests including new requirements for Food Waste and other materials.

1.11 It is recommended that Members:

- Review the information contained within the report regarding the Household Recycling Charter and its associated Code of Practice.
- Agree to approve Argyll and Bute Council endorsement of the Household Recycling Charter in order to enable the council to apply for additional funding and resources to support ongoing investment in Recycling and Waste Recovery.

ARGYLL AND BUTE COUNCIL

ENVIRONMENT DEVELOPMENT AND
INFRASTRUCTURE COMMITTEE

ROADS AND INFRASTRUCTURE
SERVICES

3 DECEMBER 2020

WASTE STRATEGY – HOUSEHOLD WASTE CHARTER

2.0 INTRODUCTION

- 2.1 Following development by Zero Waste Scotland, the Waste Managers' Network and consultation with stakeholders in the public and private sector, the Charter for Household Recycling was agreed by COSLA leaders at its meeting on 28th August 2015. The Charter for Household Recycling and its Code of Practice (CoP) is attached to this report as Appendix 1.
- 2.2 The Charter for Household Recycling and its accompanying CoP seek to design services that:
- Achieve high quantities of recycling and minimise non-recyclable waste
 - Maximise the recycling of high quality materials
 - Deliver cost effective services for local government
 - Encourage participation from citizens
 - Keep citizens, staff and contractors safe
 - Support employment.
- 2.3 Argyll and Bute Councils waste management services is already closely aligned with the principles of the Charter for Household Recycling and CoP. Our services have been designed to comply with pre-existing regulations; in the form of Environmental Protection Act (1990) amended by the Waste (Scotland) Regulations 2012.
- 2.4 Endorsement of the Charter and its CoP is currently voluntary, the Scottish Government have indicated that it may become a mandatory requirement in the future.
- 2.5 The Charter has received wide support from COSLA, the Scottish Government (and it's Agencies). 30 out of 32 Local Authorities have endorsed the Charter and have committed to the 21 principle obligations of the charter.

- 2.6 Argyll and Bute is one of 2 Authorities that have not endorsed the Charter and the CoP. The other local authority not to endorse the Charter is the City of Edinburgh Council.
- 2.7 Officers have previously presented to Elected Members the likely impacts of re-aligning services in compliance with the Charter CoP. Key to the opportunity cost calculation of Charter compliance is the particular cost of transitioning from Co-Mingled Recyclate Collections to separate collections for Paper/Card and Plastic/Cans. This transition would require investment in:
- Materials storage sheds at all Council and Waste PPP sites
 - Both bins and the Refuse Collection Fleet
 - Possible increased staff compliment to deliver new services
 - Increased haulage/ferry costs.
- 2.8 Since 2015, out of the 30 Authorities that had endorsed the charter, around 50% are compliant with the CoP. The remaining Authorities have transition plans in place to bring their service in to compliance with the CoP. Individual Authorities progress towards compliance is not uniform with some signatories having made little progress towards compliance. Authorities are concerned that the funding allocated to them by Zero Waste Scotland to facilitate (only Capital funding is available) does not support the ongoing Revenue cost of delivering a CoP compliant service.
- 2.9 One reason for reluctance to reform service may be linked to other issues brought about by regulatory changes such as the introduction of the Scottish Deposit Return Scheme (DRS) for single use beverage containers and the 2025 Landfill Ban. In the 2019 “Programme for Government” announcement the Scottish Government has stated that a review of the Charter and its CoP will take place after the 2021 Holyrood election.
- 2.10 The full scope of the review is currently unknown. However, Zero Waste Scotland and the Scottish Government have indicated that several key issues will feature as part of the review. These include:
- Changing voluntary compliance with the Charter and its CoP to a mandatory requirement for all Local Authorities;
 - Inclusion of Food Waste Collections as a requirement pending review of the Rural Food Waste Derogation;
 - Review of the level of Recyclate Materials segregation required post introduction of the DRS;
 - Inclusion of Green (Garden) Waste collections;
 - Changes to the Minimum Residual Waste volume that authorities provide Householders.
- 2.11 The Scottish Government has also intimated that future financial and practical support for Waste services are likely to be contingent on signing up to the charter. From a political perspective, the council is one of two authorities in COSLA to have not endorsed the Charter it highlights the

council as being problematic. The reputation for non-compliance poses a significant risk to the council which therefore undermines our position when seeking support from both COSLA and other Authorities.

- 2.12 If the Charter is not adopted, the council risks not being able to play a role in helping to shape and develop the outcome of the CoP review. The result of this review will provide the Government mandated operational framework for all future Local Authority Waste Recycling and Recovery Services. If the council is not involved we would risk the unique challenges of our geography and current models going unconsidered during the development of the CoP review that could significantly disadvantage the council.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members:

- Review the information contained within the report regarding the Household Recycling Charter and its associated Code of Practice.
- Agree to approve Argyll and Bute Council endorsement of the Household Recycling Charter in order to enable the council to apply for additional funding and resources to support ongoing investment in Recycling and Waste Recovery.

4.0 CURRENT CHARTER CODE OF PRACTICE (CoP)

- 4.1 The Scottish Government's Circular Economy Strategy 'Making Things Last' provides for a number of waste prevention and waste management policies. Local authorities have engaged with this strategy principally in the form of the Household Recycling Charter, a joint Scottish and local Government initiative to transform council's waste management services and make them ready for new government targets.
- 4.2 The Household Recycling Charter is a commitment to transform councils' waste services, to achieve a more uniform waste collection service across the country, to improve collection rates, to create large-scale consistent streams of high-quality recyclate material that can act as a feedstock for the circular economy, and to maximise economic benefit (job creation, sale of recyclate material). Both the Charter and the associated CoP were subject to scrutiny from COSLA's Executive Group prior to approval by COSLA Leaders.
- 4.3 In total 30 local authorities have politically committed to the Charter. Four authorities have commenced service transformation with Zero Waste funding. Zero Waste Scotland has provided c£2m in 2017/18 to East Ayrshire Council, and further funding of around £4.2m was agreed for councils in 2019/20, including Shetland Islands, Dundee, Perth & Kinross and Fife. The Scottish Government has committed that funding will

continue to be available in future years to help Charter signatories make the transition to new Charter compliant waste collections services. All of the Charter compliant funding provided to Authorities to date is Capital funding not Revenue support.

4.4 COSLA continue to support the Charters and Scottish local authorities progress to comply with the CoP. COSLA wish to ensure that Zero Waste funding meets the challenges that local authorities face, and that any service transformation is sustainable.

4.5 The Charter CoP (see APPENDIX 1) is broken down in to different aspects such as:

- Collection Methodology
- Materials in Scope
- Waste collection policies
- Volume of bins and frequency of collection
- Training and Health and Safety
- Communication on Waste

4.6 The CoP seeks to deliver three outcomes:

- To improve our household waste and recycling services to maximise the capture of, and improve the quality of, resources from the waste stream, recognising the variations in household types and geography to endeavor that our services meet the needs of all our citizens.
- To encourage our citizens to participate in our recycling and reuse services to ensure that they are fully utilised.
- To operate our services so that our staff are safe, competent and treated fairly with the skills required to deliver effective and efficient resource management on behalf of our communities.

4.7 This CoP sets out the basis for a consistent approach to the provision of recycling services by local authorities in Scotland. There are then 'Essential' and 'Desirable' requirements, which shall be interpreted in the following manner:

ESSENTIAL

- These requirements are vital in the effort to achieve consistency across waste and recycling services in Scotland. The adoption of these requirements are considered to be the minimum expectation placed on Councils signing up to the Household Recycling Charter.

DESIRABLE

- These requirements are important in the effort to achieve consistency across waste and recycling services in Scotland. The adoption of these requirements is something that Councils shall consider after they have

met the essential requirements.

- 4.8 Under the current regulatory framework that all Local Authorities have to operate within; the council is already compliant with the around 90% of the Essential Requirements of the CoP. The councils current waste service operation is also broadly compliant with many of the Desirable Requirements.
- 4.9 The primary difference between the current council Waste service offerings is around the level of recyclate segregation at the kerbside. Since 2015 the council has offered a kerbside recyclate collection across all of Argyll and Bute. Across the majority of Argyll and Bute the main method for collection of the recyclate material has been via a fortnightly Co-mingled recyclate collection. The materials in scope for the Co-mingled recyclate collection include:
- Paper (Clean paper, Newsprint/Magazines)
 - Cardboard
 - Cans (Aluminium and Steel)
 - Plastic Bottles, Tubs and Trays
- 4.10 The council's 2018 total recycling, composting and recovery rate was 48.9%. Around 7,100 tonnes of target recyclate materials were collected and recycled by the council (or on behalf of the council).
- 4.11 In Kintyre, kerbside recycling services are operated by a third sector partner (Kintyre Recycling Ltd.). The service operated by Kintyre recycling Limited includes, collection and the sorting/onward sale of the materials. In order to support efficient local sorting and maximise the value of material when sold both organisations operate a service with segregation of materials at the kerbside. The level of service provided by Kintyre Recycling Limited is CoP compliant.
- 4.12 Many of the Local Authorities that have signed up to the Charter have made little progress towards total compliance. The level of non-compliance is likely linked to the febrile Waste and Resource management policy environment. The Scottish Government and it's agencies recognise that authorities are not likely to invest further in measures bringing their services closer into compliance until they receive greater clarity on key policy changes such as; the Scottish Deposit Return Scheme, the Landfill ban and the results of the review of the Charter CoP.

5.0 CoP REVIEW- RECYCLATE

- 5.1 In the 2019 "Programme for Government" the Scottish Government announced that they are aiming to carry out a review of the Household Recycling Charter and the CoP. As part of the review the Scottish Government will also be considering proposals to make endorsement of

the charter and compliance with the CoP a statutory requirement for all Local Authorities.

- 5.2 Moving the charter from a “opt in/out” position to a mandatory requirement for all authorities will directly impact upon Argyll and Bute Council, as it has not endorsed the charter. However, depending on the results of the review into the CoP the impact of endorsing to the Charter and the CoP could either be low or significantly challenging depending on the approach adopted by the Scottish Government.
- 5.3 The review of the CoP will look at both the collection methodologies and the scope of the waste streams currently covered by the CoP. Critically the review will be informed by the Scottish Governments climate change commitments and other Circular Economy policies such as the DRS.
- 5.4 The DRS will enable consumers to take single-use containers back and redeem a 20p deposit from any retailer selling drinks covered by the scheme. The scheme will include plastic bottles made from polyethylene terephthalate (“PET plastic”, which is the most common type of bottle for products such as fizzy drinks and bottled water), aluminium and steel cans and glass bottles. Introduction of the DRS will impact on the types, quantity and quality of waste material the council collects at the kerbside and Civic Amenity sites/ Bring sites. Waste material will be captured from both Kerbside Residual and Recyclate waste streams.
- 5.5 Currently the DRS is due to be rolled out across Scotland from June 1st 2022. The Scheme will be available throughout Scotland. It is estimated the scheme will have around 17,000 return points, it is hoped that this will make it as easy to return a drink as it is to buy one. Containers of at least 50ml and no more than 3 litres are included. Customers will return their empty containers either over the counter, by using a reverse vending machine, or to an online retailer. The Scheme Administrator appointed to operate the scheme is bound by the regulations to capture 70% of containers for recycling, in the first year of operation, rising to 90% of containers by the third year.
- 5.6 DRS is predicted to capture the majority of the high value plastic and metal materials from kerbside collections. However, it is not clear if taking into consideration the roll out of the DRS, that the separation of materials at the kerbside would be required as the scheme is likely to capture the majority of this material. Therefore, the most efficient mode of collection and processing operation offering the largest economy of scale for Authorities is likely to be a Co-mingled recyclate service.
- 5.7 Given that a large number of Authorities (Highland, GCC, WDC, Inverclyde and others) currently operate a Co-mingled service and have not taken substantive steps to move to source segregation it possible that the Scottish Government will reflect on the requirement for kerbside recyclate segregation in the future CoP. Authorities that have signed up to the charter that operate kerbside Co-Mingled services are likely to push the

Scottish Government to downgrade the need for kerbside sorting from an Essential to a Desirable requirement.

5.8 If Argyll and Bute were to move to enhanced kerbside recycle segregation, this would require significant investment in:

- Bins
- Provision of storage sheds at Council and Renewi operated sites
- Increased Haulage
- Vehicles
- Staffing costs.

6.0 CoP REVIEW- RURAL FOOD WASTE DEROGATION

6.1 In the 2019 “Programme for Government” announcement the Scottish Government declared their intention to review the existing Rural Food Waste Derogation. The announcement to review the derogation sits apart from the review of the Charter CoP. Both issues are however linked as Food Waste is one of the Waste Streams under consideration for inclusion in the CoP.

6.2 The current Rural Food Waste Derogation is based on a settlement population numbers with all settlements with population of less than 10,000 being exempt from requiring a Food Waste service. The only area in Argyll and Bute that meets this requirement is the Helensburgh and Lomond administrative area.

6.3 The terms of the review are as yet unknown, the Scottish Government has made it clear that they view extending the provision of a Food Waste Service is a priority.

6.4 If the derogation is abolished and it is taken alongside the review of the CoP Waste Streams, authorities could be put into the position of Food Waste Collections being made an essential requirement in the CoP. The council would have a new requirement to operate a Food Waste service across the whole council area and this would have a significant capital and revenue cost implication. The cost impact of introducing an increased Food Waste service would be in addition to substantial pre-existing cost pressure of the transition to Landfill ban compliance.

6.5 In addition to increased revenue costs of operating the new service there would also be additional costs resulting from the required variation to the pre-existing Waste PPP agreement with Renewi. This cost is likely to be substantial but is not quantifiable, previous variations have cost around £250K.

- 6.6 Introducing a Food Waste service could also have the effect of rendering the pre-existing Mechanical Biological Treatment process at Renewi sites obsolete. The equipment could however be repurposed to Compost the Food Waste Material within Argyll and Bute potentially generating a commercial product. However, the value of this compost material is extremely low and it may be more beneficial to source recovery via Anaerobic Digestion as it has a higher environmental/circular benefit.
- 6.7 The introduction of a requirement for a Food Waste service would also affect planning for Landfill Ban compliance and the technical solution is taken forward to replace Landfill. Therefore, it is of critical importance that the Scottish Government make their intentions in this regard unequivocally clear to all stakeholders.
- 6.8 As the mandatory introduction of Food Waste is a new requirement across most of Argyll and Bute additional funding support should be sought from the Scottish Government to offset the increase in costs.

7.0 CHARTER BENEFITS

- 7.1 Council endorsement of the Household Charter would bring Argyll and Bute Council's Policy and Operational Framework in line with 30 out of 31 other Local Authorities in Scotland.
- 7.2 Being aligned to the Charter would allow Argyll and Bute Council to take part in the CoP review process. This participation would allow the council the opportunity to shape and develop the CoP with the Scottish government and other stakeholders to produce a revised document that recognises the unique challenges of our geography and other commitments (Waste PPP Contract).
- 7.3 The Scottish Government in its 2020 Programme for Government announcement gave a commitment to setup a £70m fund to be used to support local authorities to develop their Waste and Recycling infrastructure in support of national progress towards the Scottish Governments Circular Economy goals. This £70m funding pot is over a five year period with £50m in the first three years. The fund is to be managed on behalf of the Scottish Government by Zero Waste Scotland. It is planned that the fund will be open to applications from the start of the next financial year. The scope of the fund is to provide Capital support to Local Authorities working to improve their Waste and Recycling infrastructure. One of the favorable criteria for accessing this funding is commitment to the Household Charter, this means that without endorsement of the Charter the Council may struggle to access this funding pot and potential future funding streams. A future report will be brought to Committee detailing opportunities where funding through this source may be sought.

8.0 CONCLUSION

- 8.1 On balance it is within the interests of the Council to endorse the Household Recycling Charter and the associated CoP. Not endorsing the Charter would prevent Argyll and Bute Council from fully participating in national Waste and Recycling policy development and risks precluding the council from future funding streams.

9.0 IMPLICATIONS

9.1 Policy:

The council is currently compliant with all of the provisions of the existing regulatory framework. In the event of compliance with the Charter and its CoP becoming a mandatory requirement it is council policy to seek funding from the Scottish Government to cover new obligations.

9.2 Financial:

Unknown at this stage but not signing up to Charter may limit access to funding. There may also be additional costs to become fully compliant.

9.3 Legal:

None

9.4 HR:

None

9.5 Equalities/Fairer Scotland Duty:

None

9.6 Risk:

It is important to mitigate the risk of any additional costs resulting from service reform such as introducing a mandatory Food Waste Service by playing an active role in discussions with the Scottish Government on the likely, costly impact of this change.

9.7 Customer Service:

None

Executive Director of Development and Infrastructure Services- Kirsty Flanagan
Head of Roads and Infrastructure Services Jim Smith
Policy Lead- Cllr Rory Colville
October 2020

For further information contact:

Peter Leckie- Waste Strategy Project Manger
Jim Smith- Head of Roads and Infrastructure Services

APPENDICES

Appendix 1 - Charter for Household Recycling and Code of Practice (CoP)

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ARGYLL AND BUTE COUNCIL

Audit and Scrutiny Committee

Legal and Regulatory Support

16 March 2021

Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA)

Annual report

1.0 HEADLINES

1.1 The Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA) places a requirement on public authorities to authorise certain types of covert surveillance during planned investigations.

1.2 The Scottish Government Code of Practice on Covert Surveillance and Property Interference requires an annual report on the use of RIPSA to be reported to Members ('the code of practice')

2.0 RECOMMENDATIONS

2.1 The Audit and Scrutiny Committee consider and note the terms of the report.

3.0 DETAIL

3.1 Regulation of Investigatory Powers (Scotland) Act 2000 places a requirement on public authorities to authorise certain types of covert surveillance during planned investigations.

3.2 The Council has a policy and procedure in place that allows for appropriate authorisation of requests for covert surveillance to be considered/approved/refused and monitored through to completion.

3.2 Between 1 January 2019 and 31 December 2019 the Council undertook two covert surveillance operations in relation to Test Purchasing of tobacco (under-age sales). One in the Oban, Lorn and the Islands Area and the other in Mid-Argyll, Kintyre and the Islands.

3.3 Between 1 January 2020 and 31 December 2020 the Council undertook no covert surveillance operations.

4.0 CONCLUSION

4.1 The Council has met the requirements of the code of practice by providing this report to Committee.

5.0 IMPLICATIONS

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

Douglas Hendry - Executive Director with responsibility for Legal and Regulatory Support

27 January 2021

For further information contact: Iain Jackson, Governance, Risk and Safety Manager 01546 604188

APPENDICES

None

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****16 MARCH 2021**

UNAUDITED ANNUAL ACCOUNTS 2020-21

1. EXECUTIVE SUMMARY

- 1.1 This report advises the Audit and Scrutiny Committee of the plans in place for financial year end 31 March 2021 and the preparation of the Council's Unaudited Annual Accounts for 2020-21.
- 1.2 The appendices to the report outline the timetables for the closure of the Council's 2020-21 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 2021.

UNAUDITED ANNUAL ACCOUNTS 2020-21

2. INTRODUCTION

- 2.1 This report advises the Audit and Scrutiny Committee of the plans in place for financial year end 31 March 2021 and the preparation of the Council's Unaudited Annual Accounts for 2020-21.
- 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 2020-21.

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 2021.

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 and treasury management revenue accounts completed by 16 April 2021.
 - Revenue expenditure, creditors, debtors, accruals and prepayments completed by 27 April 2021.
 - Review and adjustments to ledger and central department cost allocations completed by 14 May 2021.
 - Council Tax and NDR entries completed by 13 May 2021.
 - Agreement of inter-group balances with Live Argyll and associated journals processed by 13 May 2021.

- Preparation of Unaudited Annual Accounts including report by Section 95 Officer by 3 June 2021.
- Unaudited Annual Accounts considered by a meeting of the Audit and Scrutiny Committee on 15 June 2021.
- Unaudited Annual Accounts considered by a meeting of the Full Council on 24 June 2021.
- Submission of Unaudited Annual Accounts to Accounts Commission by the statutory deadline of 30 June 2021.

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 2021 and with supporting documentation of a standard to enable completion of the audit by 30 September 2021.

4.5 Whilst there are no major changes in accounting practice for 2020-21, amendments to IFRS 16 Leases will take effect from 01 April 2021, 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	Fairer Duty Scotland -	None at present
6.5.1	Equalities -	None at present
6.5.2	Socio-Economic Duty -	None at present
6.5.3	Islands Duty -	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 including General Ledger Closedown and Accounts Preparation Plan

Appendix 2 – Schedule for Payroll, Overtime and Travel accruals

Appendix 3 – Health and Social Care Partnership Closedown Timetable



Year End Instructions & General Ledger Closedown Timetable

Financial Year

2020-2021

**YEAR-END INSTRUCTIONS – GENERAL LEDGER CLOSEDOWN
2020/2021 FINANCIAL YEAR**

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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 **14 May 2021**. **It is vital that any slippage from these deadlines is identified as soon as possible and brought to the attention of Sharon Macalister 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 23 April 2021**.
- 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. 30 April, or 09 April if they contain VAT.
- 2.3** As internal recharges are not processed for Live Argyll, the debtors deadline of 24 March needs to be adhered to for transactions of this nature otherwise they will require to be accrued.
- 2.4** Diane McMillan will collate all invoices and email to creditors eliminating the need for headers. In doing so, no invoices relating to 2021/2022 will be sent to creditors prior to w/c 12 April 2021, therefore everything received prior to this date will be automatically allocated to 2020/2021.

3 REVENUE PAYMENTS AND ACCRUALS

3.1 Creditor Invoices (Manual Batches)

Invoices relating to the 2020/2021 financial year should be E-mailed to **creditors@argyll-bute.gov.uk** no later than 5pm on Tuesday 6 April for processing through the payables ledger by 09 April. All old year invoices must be batched separately and be clearly marked as **"2020/2021"**.

All invoices sent to Creditors between Monday 15th March and Tuesday 6th April 2021 should have a cover sheet clearly showing which financial year the invoices should be processed to. These cover sheets will be issued by Creditors and **must** be used. In addition, as almost all invoices are now being submitted electronically it would be helpful if both the top of the batch header and the subject field of the email could clearly show either the financial year 2020/2021 or 2021/2022.

Invoices for 2021/22 should not be sent to Creditors until after Tuesday 6th April 2021, except in circumstances where an Urgent payment is required. Batches of Invoices that are received up to 5pm on Tuesday 6th April 2021 without a cover sheet or other visible identification will be processed to 2020/21 and thereafter to 2021/22.

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 E-mailed to the creditors@argyll-bute.gov.uk by 5pm on 25 March.

3.2 Accruals

All old year invoices received by departments which have failed to make the 5pm Tuesday 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 23 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 2021.
- Delivery note dated on or before 31 March 2021.
- Other documentation which provides evidence that the goods or services were provided on or before 31 March 2021.

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 27 April. If Departments receive invoices of a material value after their accrual deadline of 23 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 2020/2021 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 25th March. Creditors will ensure all PECOS invoices are keyed to PECOS by 5pm on Friday 26th March.

All PECOS users must ensure unpaid invoices (mismatches or receipt required) are cleared by 5pm on Monday 29th March 2021 to allow Creditors to pay all invoices on Wednesday 31st March 2021.

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 Tuesday 30th March 2021.

No access to PECOS will be available on Wednesday 31st March 2021. Any **goods/services/works received/completed** on Wednesday 31st March will need to be added to accrual report manually.

A PECOS report will be run by the Procurement Team on Thursday 1st April. This will be issued to the Finance Support Team 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 Tuesday 6th April 2021.

- 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 23 April 2021.
- 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 Tuesday 30 March 2021 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 Thursday 1st April 2021 and all invoices processed will be paid out of the new financial year; 2021/2022.

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 2020/21, by 24 March. If you have local input of debtor accounts, all accounts for financial year 2020/21 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 2021/2022 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 2020/2021 financial ledger. All income received from Thursday 1 April onwards, will be processed in the 2021/2022 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 2020/2021 is taken to the Area Office by 4pm on Wednesday 31 March.

For offices/facilities that use the bank, again, all money relating to financial year 2020/2021 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 Tuesday 6 April.

Separate E-Income journals should be completed for income received from 1 April onwards – this will be processed in financial year 2021/2022. 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 5 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 16 April.**

5 CAPITAL

5.1 Capital Expenditure and Capital Journals

All capital invoices relating to 2020/21 should be sent to the Campbeltown Creditors section or E-mailed to creditors@argyll-bute.gov.uk as soon as possible, **but no later than 5pm on Friday 26 March.**

All old year capital invoices received by departments but which have failed to make the 26 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 E-mailed to gilly.allenby@argyll-bute.gov.uk by 5pm on Tuesday 6 April. All capital accruals must have supporting documentation which proves that the expenditure was incurred prior to 1 April.

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 CFRC expenditure incurred during 2020/21.

The template should be E-mailed to gilly.allenby@argyll-bute.gov.uk by 5pm on Thursday 1 April.

6 JOURNALS

- 6.1 Departments will be allowed to process their own journals up to 30 April. 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 Friday 09 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 2020/2021 should **not be processed at all by any staff after 09 April** without consulting Sandra Coles (Financial Services). Sandra will be preparing the VAT return for March once the payables ledger is closed on 09 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 26 March.

7 INTERNAL RECHARGES

7.1 Old Year Internal Recharges

Over £1,000

Internal recharges will be processed by the Finance Support Team.

On 1 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 19 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 2020/2021 is Friday 26 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 Thursday 1 April. These will be processed and coded into March on Tuesday 6 April.

Any remaining accounts still outstanding will be cleared from the system on 6 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 1 April and will be uploaded into the ledger on Tuesday 6 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 1 April and will be uploaded into the ledger on Tuesday 6 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 9 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 and Fuel), 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 09 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 15 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 30 April. The "Carry Forward of Control Account Balance" form should be sent to the Finance Support Team (Kilmory) by Tuesday 27 April.

The Revenue and Benefits Finance Manager has until Thursday 13 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 23 April.

Entries from the monthly Pay07 payroll run which hit the payroll suspense should be cleared by 13 April and cleared by 20 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.

Payrun	Week/Month No	Proportion Accrued		
		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 19 February 2021 & authorised by 26 February 2021.
- PAY 07 Mth 1 - must be submitted by 19 March 2021 & authorised by 26 March 2021.
- PAY 10 Mth 1 - must be submitted by 1 April 2021 & authorised by 09 April 2021.

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 2021 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 2020/2021 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 2020/2021 that have to be disabled for the year 2021/2021 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 be E-mailed to astrid.ronald@argyll-bute.gov.uk and will be held until the changes are made. The period that this affects is 31 March 2021 – 31 May 2021.

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
1. Capital Expenditure Processing	1	Final preparation of year end capital payments	Morag Cupples	Departments	15/03/21 to 26/03/21
	2	Deadline for capital payments to Creditors Section	Morag Cupples	Departments	26/03/2021
	3	Processing of final external capital payments	Morag Cupples	Creditors Section	26/03/21 to 31/03/21
	4	Final payment run processed capital	Morag Cupples	Creditors Section	31/03/2021
	5	Year end journals of transfers to/from revenue accounts	Morag Cupples	Morag Cupples	15/03/21 to 31/03/21
	6	Property Fee Charges Processed	Moiria Miller	Morag Cupples	15/03/21 to 31/03/21
	7	Ledger checked daily for capital expenditure	Morag Cupples	Gilly Allenby	01/04/21 to 30/04/21
	8	Departments complete capital accruals template/CFCR template/journals and send to Finance Support Team.	Morag Cupples	Departments	01/04/21 to 06/04/21
	9	Deadline for capital accruals template/CFCR template/journals to Financial Services (Whitegates)	Morag Cupples	Departments	06/04/2021
	10	Processing of final external capital payments/accruals/CFCR (Uploading by Finance Support Team)	Morag Cupples	Astrid Ronald	08/04/2021
		11	Capital expenditure processing complete	Morag Cupples	Gilly Allenby
2. Fixed Assets	12	Obtain supporting evidence for assets classified for sale	Morag Cupples	Gilly Allenby	19/04/2021
<i>Non-Current Assets Available for Sale</i>	13	Re-classify assets newly meeting/no longer meeting Assets Held for Sale criteria	Morag Cupples	Gilly Allenby	19/04/2021
<i>Fixed Asset Processing</i>	14	Capital expenditure final download from ledger	Morag Cupples	Gilly Allenby	09/04/2021
	15	Allocate Capital Grant	Morag Cupples	Gilly Allenby	09/04/2021
	16	Allocation of balance sheet codes to mass allocation journal	Morag Cupples	Gilly Allenby	14/04/21 to 29/04/21
	17	Mass allocation processed	Morag Cupples	Astrid Ronald	29/04/2021
	18	Capital expenditure complete	Morag Cupples	Gilly Allenby	29/04/2021
<i>Depreciation/Property Plant and Equipment Processing</i>	19	Revaluation of Properties by Estates	Morag Cupples	Estates	20/04/2021
	20	Update asset register for additions/disposals/transfers	Morag Cupples	Morag Cupples	29/04/21 to 07/05/21
	21	Run depreciation/impairment charges	Morag Cupples	Gilly Allenby	07/05/2021
	22	Update Asset Register for Revaluations	Morag Cupples	Gilly Allenby	07/05/21 to 10/05/21
	23	Process balance sheet depreciation/revaluation journals	Morag Cupples	Gilly Allenby	10/05/21 to 12/05/21
	24	Reconcile asset register to ledger	Morag Cupples	Gilly Allenby	13/05/21 to 14/05/21

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
	25	Capital Accounting Entries Complete	Morag Cupples	Gilly Allenby	14/05/2021
3. Loan Charges	26	Complete interest on revenue balances	Moira Miller	Sandra Coles	26/03/2021
	27	Complete PSTM Reconciliations	Moira Miller	Sandra Coles	06/04/21 to 13/04/21
	28	Accrual of Borrowing Interest and Expenses	Moira Miller	Sandra Coles	08/04/21 to 13/04/21
	29	Accrual of Investment Interest and Expenses	Moira Miller	Sandra Coles	08/04/21 to 13/04/21
	30	Financial Services expense allocation	Moira Miller	Sandra Coles	13/04/2021
	31	Agree loans fund advances b/f	Moira Miller	Sandra Coles	01/03/2021
	32	Provision of capital repayment figures for house loans	Moira Miller	Duncan MacBrayne	29/03/21 to 12/04/21
	33	Calculate weighted capital expenditure in year	Moira Miller	Moira Miller	13/04/21 to 15/04/21
	34	Input annuity rate loan charges model and calculate loan charges	Moira Miller	Moira Miller	16/04/2021
	35	Process loans charges/SMGFB (Statement of Movement in General fund) journals	Moira Miller	Sandra Coles	16/04/2021
	36	Loans fund revenue account (ensure nil)	Moira Miller	Sandra Coles	16/04/2021
	37	Management review of loans fund calculations after all journals processed through ledger	Kirsty Flanagan	Anne Macdougall	17/05/2021 - 19/05/2021
	38	Loans Charges Complete	Moira Miller	Moira Miller	19/05/2021
4. IFRS Pensions Accounting - Year End Accounting Entries	39	IFRS Pensions Report Received from Actuaries (Hymans Robertson)	Moira Miller	Moira Miller	29/04/2021
	40	Check reasonability of data in report	Moira Miller	Moira Miller	29/04/2021
	41	Calculate pensions entries in ledger	Moira Miller	Moira Miller	29/04/2021
	42	Process pensions entries in ledger	Moira Miller	Moira Miller	30/04/2021
	43	Check no bottom line impact on general fund	Moira Miller	Moira Miller	30/04/2021
	44	IFRS Pension Entries Complete	Moira Miller	Moira Miller	30/04/2021
5. Creditor Payments	45	Deadline for Health and Social Care Partnership Invoices to Creditors	David Forshaw / Malcolm Bannatyne	Departments	25/03/2021
	46	Departments processing old year invoices	Departments	Departments	06/04/2021
	47	Deadline for passing invoices to Finance (Campbeltown)	Malcolm Bannatyne	Departments	06/04/2021
	48	Processing of final revenue payments 2020-21	Malcolm Bannatyne	Creditors Section	09/04/2021
	49	Final payment run processed	Malcolm Bannatyne	Creditors Section	09/04/2021
	50	Production and processing of final feeders to road costing	Malcolm Bannatyne	Creditors Section	14/04/2021
	51	Closure of March 2021 Period (5pm)	Mary McCallum	Astrid Ronald	14/04/2021
	52	Reconciliation of Core Payables Liability	Mary McCallum	Duncan MacBrayne	14/04/2021
	53	VAT return completed	Moira Miller	Sandra Coles	16/04/21 to 21/04/21
	54	Creditor Payments and VAT completed	Mary McCallum	Astrid Ronald	21/04/2021
6. Health and Social Care Integration	55	Agree final outturn position with Chief Financial Officer of Integrated Joint Board	David Forshaw	David Forshaw	23/04/2021

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
7. Revenue Accruals/Prepaid Expenditure	56	Accrued/Prepaid expenditure templates issued to departments	Mary McCallum	Astrid Ronald	01/03/2021
	57	Departments complete accrued/prepaid expenditure templates - this to be collated and checked by Departmental Financial Services Teams	Principal Accountants	Departments / Departmental Support Teams	01/04/21 to 24/04/21
	58	Deadline for return of accrued/prepaid expenditure templates to Finance Support Team	Principal Accountants	Departmental Support Teams	23/04/2021
	59	Finance Support team process accrued/prepaid expenditure	Mary McCallum	Astrid Ronald	23/04/21 to 27/04/21
	60	Deadline for Upload of Accrual Templates to General Ledger.	Mary McCallum	Astrid Ronald	27/04/2021
PECOS Accruals	61	All PECOS invoices to be with Creditors for keying by 5pm.	Departments	Departments	25/03/2021
	62	Final keying of PECOS invoices by Creditors.	Malcolm Bannatyne	Creditors Section	26/03/2021
	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. <i>(Interface runs at 18:30 each night, the Monday interface will be the last before the pay all on Tuesday)</i>	Mary McCallum	Departments / Emma Graham	29/03/2021
	64	All PECOS users to ensure all <u>goods/services/works received/completed</u> within the old financial year are receipted on the system by 5pm.	Departments	Departments	29/03/2021
	65	Final PECOS interface with payables ledger for 2020-21. <i>(Interface runs at 18:30)</i>	Mary McCallum	Creditors Section	29/03/2021
	66	Final PECOS Pay-All of 2020-21.	Malcolm Bannatyne	Creditors Section	31/03/2021
	67	Orders received on Wednesday 31st March, will be required to be manually entered on to accrual spreadsheets. No access to PECOS will be available on Wednesday 31 March.	Departments	Departments	31/03/2021
	68	PECOS Accrual Report run.	Mary McCallum	Emma Graham	01/04/2021
	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	Emma Graham / Astrid Ronald	01/04/21 to 06/04/21

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
	70	Circulation of year end reports to each Department.	Mary McCallum	Emma Graham	06/04/2021
	71	PECOS interfaces to Payables to continue processing into New Year.	Mary McCallum	Procurement/Creditors	01/04/2021
	72	Departments to include unpaid receipted orders on main accrual template. (Orders received on Wednesday 31st March 2021 won't appear on the PECOS accruals report)	Principal Accountants	Departments / Departmental Support Teams	06/04/21 to 21/04/21
<i>Holiday Pay Accrual - Teachers</i>	73	Collection of teacher data	Mary McCallum	Mary McCallum	29/03/21 to 08/04/21
	74	Calculation of teachers holiday pay accrual	Mary McCallum	Mary McCallum	01/04/21 to 08/04/21
	75	Process journal and SMR reversing entry	Mary McCallum	Mary McCallum	09/04/2021
<i>Holiday Pay Accrual - Other Staff</i>	76	Completion of holiday pay accrual template based on previous years sample and methodology	Mary McCallum	Mary McCallum	01/04/21 to 08/04/21
	77	Process journal and SMR reversing entry	Mary McCallum	Mary McCallum	09/04/2021
<i>Payroll - Pay 07 MONTHLY (Month 1)</i>	78	Deadline for Travel/Expense Claims to Creditors - Pay 07 Month 1	Lorraine Brodie	Departments	19/03/2021
	79	Deadline for Timesheets to Payroll - Pay 07 Month 1	Lorraine Brodie	Departments	01/04/2021
	80	Processing Pay 07 Month 1	Lorraine Brodie	Payroll Section	07/04/2021
	81	Clearance of Pay 07 Month 1 suspense items	Lorraine Brodie	Payroll Section	13/04/2021
	82	Accrual Pay 07 Month 1	Mary McCallum	Ailsa Laing / Duncan MacBrayne	14/04/21 to 16/04/21
<i>Payroll - Pay 10 TEACHERS (Month 1)</i>	83	Deadline for Travel/Expense Claims to Creditors - Pay 10 Teachers Month 1	Lorraine Brodie	Departments	14/04/2021
	84	Deadline for Timesheets to payroll Pay 10 Teachers Month 1	Lorraine Brodie	Departments	20/04/2021
	85	Processing Pay 10 Teachers Month 1	Lorraine Brodie	Payroll Section	22/04/2021
	86	Clearance of Pay 10 Month 1 suspense items	Lorraine Brodie	Payroll Section	26/04/2021
	87	Accrual Pay 10 Teachers Month 1	Mary McCallum	Ailsa Laing / Duncan MacBrayne	27/04/21 to 30/04/21
<i>Payroll - Pay 10 TEACHERS (Month 2)</i>	88	Deadline for Travel/Expenses Claims - Pay 10 Teachers Month 2	Lorraine Brodie	Departments	07/05/2021
	89	Deadline for Timesheets to Payroll Pay 10 Teachers Month 2	Lorraine Brodie	Departments	18/05/2021
	90	Processing Pay 10 Teachers Month 2	Lorraine Brodie	Payroll Section	20/05/2021
8. Cash and Income - Accrued/Deferred Income - Sundry Debtor Accounts	91	Deadline for sending debtor accounts to Debtors Section	Fergus Walker	Departments	23/03/2021

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
	92	Input of old year debtor accounts (Central and Local)	Fergus Walker	Jennifer Gorman	24/03/21 to 30/03/21
	93	Year end reports produced	Fergus Walker	Jennifer Gorman	31/03/2021
	94	Sundry Debtor account reconciliations	Fergus Walker	Jennifer Gorman	01/04/21 to 09/04/21
	95	Calculation of Bad Debt Provision	Fergus Walker	Jennifer Gorman	12/04/21 to 15/04/21
	96	Process journal adjusting ledger for change in BDP	Fergus Walker	Jennifer Gorman	16/04/2021
	97	Sundry Debtor accounts complete	Fergus Walker	Jennifer Gorman	16/04/2021
<i>Housing Benefit Overpayments</i>	98	Calculation of Housing Benefit Overpayment Debtor	Fergus Walker	Fergus Walker	29/03/21 to 06/04/21
	99	Calculate associated bad debt provision	Fergus Walker	Fergus Walker	06/04/21 to 09/04/21
	100	Process journals for housing benefit overpayments	Fergus Walker	Fergus Walker	12/04/2021
	101	Housing Benefit Overpayments Complete	Fergus Walker	Fergus Walker	12/04/2021
<i>Banking</i>	102	All monies/cheques should be banked	Departments	Departments	31/03/2021
	103	Monies/cheques received after final banking relating to 2020-21 to be added to accruals template	Principal Accountants	Departments	01/04/21 to 06/04/21
<i>E-Income Journals</i>	104	Deadline for E- Income Journals to Cash Section. Kintyre House, Campbeltown.	Margo Turner/Nancy Hope	Departments	31/03/2021
	105	Cash Section to process year-end E-income journals	Margo Turner/Nancy Hope	Cash Section	01/04/21 to 06/04/21
	106	Bank reconciliation on expenditure account	Malcolm Bannatyne	Creditors Section	07/04/21 to 23/04/21
	107	Bank reconciliation on Council Tax and NDR account	Fergus Walker	Alison McGeachy	07/04/21 to 23/04/21
	108	Bank reconciliation on Income Account	Fergus Walker	Alison McGeachy	07/04/21 to 23/04/21
	109	Bank reconciliation on Housing Benefit Account	Fergus Walker	Sharon Leitch	07/04/21 to 23/04/21
	110	Bank reconciliation on Land Contamination Bank Account	Moira Miller	Sandra Coles	07/04/21 to 23/04/21
<i>Imprests</i>	111	Imprest certificates/returns issued to imprest holders	Malcolm Bannatyne	Graham Munro	01/03/2021
	112	Establishments complete certificates/returns	Departments	Departments	01/04/21 to 15/04/21
	113	Deadline for return of Certificates to Creditors Section	Departments	Departments	16/04/2021
	114	Reconciliation of all Imprest balances (including schools)	Malcolm Bannatyne	Graham Munro	19/04/21 to 22/04/21
	115	Process final imprest adjustments in ledger	Malcolm Bannatyne	Graham Munro	23/04/2021
	116	Income Accrual/Deferred Income Templates issued to departments	Mary McCallum	Astrid Ronald	01/03/2021

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
<i>Other Income Accruals / Deferred Income</i>	117	Departments complete other income accrual/deferred income templates	Principal Accountants	Departments	01/04/21 to 22/04/21
	118	Deadline for return of accrued/deferred income templates to Finance Support Team.	Principal Accountants	Departmental Support Teams	23/04/2021
	119	Consolidated team process income accruals/deferred income	Mary McCallum	Astrid Ronald	23/04/21 to 27/04/21
9. Internal Recharges	120	Final date for producing 2020-21 Internal recharges	Departments	Departments	31/03/2021
	121	Deadline for coded recharges to be sent to Finance Support Team	Departments	Departments	06/04/2021
	122	Internal Recharges uploaded into the ledger	Mary McCallum	Elaine Maxwell	06/04/2021
	123	Outstanding Accounts cleared from Internal Recharge system	Mary McCallum	Elaine Maxwell	06/04/2021
10. Stores and Work in Progress - Stores	124	Departments to clear 29901 accounts	Departments	Departments	07/04/21 to 09/04/21
	125	Accounting and Budgeting Teams issue instructions to Stores	Morag Cupples / David Forshaw	Departments	01/03/2021
	126	Departments prepare for stock count	Morag Cupples / David Forshaw	Departments	02/03/21 to 30/03/21
	127	Stock count	Morag Cupples / David Forshaw	Departments	31/03/2021
	128	Stock certificates to be completed and sent to Principal Accountants, Development and Infrastructure Services and Social Work	Morag Cupples / David Forshaw	Departments	01/04/21 to 09/04/21
	129	Principal Accountants to review certificates and process final journal	Morag Cupples / David Forshaw	Departments	12/04/21 to 16/04/21
<i>Work in Progress</i>	130	Department prepares a valued list of Works in Progress	Morag Cupples	Departments	01/04/21 to 04/05/21
	131	Pass to Principal Accountant for Review and Journal Processing	Morag Cupples	Morag Cupples	04/05/21 to 05/05/21
	132	Consolidation Adjustments (if any)	Morag Cupples	Morag Cupples	07/05/2021
	133	Finalise Lead Schedule and Working Papers	Morag Cupples	Morag Cupples	07/05/2021
11. Control and Suspense Accounts - Control Accounts	134	Report issued to Control Account Holder	Mary McCallum	Astrid Ronald	01/04/2021
	135	Clear balance or complete Carry Forward of Control Account Balance form	Mary McCallum	Control Account Budget Holders	06/04/21 to 04/05/21
	136	Transfer of control account balances to Balance Sheet	Mary McCallum	Astrid Ronald	05/05/21 to 07/05/21
<i>Suspense Accounts</i>	137	Report issued to Suspense Account Holder	Mary McCallum	Astrid Ronald	01/04/2021

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21
12. Journals and Feeders	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	06/04/21 to 23/04/21
	139	Opening of April and Adjust Periods	Mary McCallum	Astrid Ronald	31/03/2021
	140	Departments prepare and input journals	Principal Accountants	Departments	01/04/21 to 30/04/21
	141	Dept's cut off date for journals	Mary McCallum	Departments	30/04/2021
	142	Processing of Central Finance journals	Mary McCallum	Astrid Ronald	30/04/2021
	143	Final feeders from roads costing to general ledger	Morag Cupples	Joyce Cowan	01/04/21 to 04/05/21
	144	Preparation and input of any final journals identified	Principal Accountants	Departmental Support Teams	04/05/21 to 07/05/21
	145	Central support/departmental admin recharging	Mary McCallum	Mary McCallum	10/05/21 to 13/05/21
	146	Input of Live Argyll Journals and agreement of final Balance Sheet Position	Moira Miller	Beth Walkosz	31/03/21 to 13/05/21
	147	Input of Council Tax & NDR Journals/Clearance of Raw Cash Accounts	Fergus Walker	Fergus Walker	31/03/21 to 13/05/21
	148	Closure of 2020-21 ledger	Mary McCallum	Astrid Ronald	14/05/2021

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
1. Year end monitoring and analytical review	1	Completion and return of earmarking requests	Principal Accountants	Finance Contacts	16/04/21 to 07/05/21	
	2	Preparation of year-end monitoring reports and analytical review	Mary McCallum	Mary McCallum	10/05/21 to 13/05/21	
	3	Perform year-end monitoring and analytical review procedures	Principal Accountants	Finance Contacts	14/05/21 to 21/05/21	
	4	Deadline for return of completed monitoring and analytical review templates	Principal Accountants	Principal Accountants	21/05/2021	
	5	Preparation of Year-end Revenue Budget Monitoring Corporate Overview and Committee Report, Reserves Report	Mary McCallum	Mary McCallum	24/05/21 to 26/05/21	
		6	Deadline for Reports to SMT	Mary McCallum	Mary McCallum	26/05/2021
2. Comprehensive Income and Expenditure Statement	7	Run Retained Earnings Proof	Sharon Macalister	Sharon Macalister	17/05/21 to 19/05/21	
	8	Run Comprehensive Income & Expenditure download (cost centres, cost centres and account codes)	Sharon Macalister	Sharon Macalister	17/05/21 to 19/05/21	
	9	Final Outturn CI&E based on management structure	Sharon Macalister	Sharon Macalister	17/05/21 to 19/05/21	
	10	Complete Comprehensive Income & Expenditure Statement	Sharon Macalister	Sharon Macalister	20/05/2021	
		11	Comprehensive Income & Expenditure Statement completed	Sharon Macalister	Sharon Macalister	20/05/2021
3. Expenditure and Funding Analysis	12	Calculate adjustments between funding and accounting basis on management structure	Sharon Macalister	Sharon Macalister	27/05/2021	
	13	Complete Note 31 - Note to the Expenditure and Funding Analysis	Sharon Macalister	Sharon Macalister	27/05/2021	
		14	Complete main Expenditure and Funding Analysis Statement	Sharon Macalister	Sharon Macalister	27/05/2021
4. Comprehensive Income and Expenditure Statement Notes	15	Complete General Fund Earmarking Note (Note 5)	Mary McCallum	Mary McCallum	17/05/2021	

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	16	Complete Segmental Reporting Note for Accounts (Note 6) - Analysis of Expenditure and Income by Nature (Note 6.1) and Revenue from contracts with service recipients (Note 6.2)	Sharon Macalister	Sharon Macalister	27/05/2021	
	17	Complete Other Operating Income and Expenditure Note (Note 7)	Sharon Macalister	Sharon Macalister	28/05/2021	
	18	Complete Agency Income Note (Note 8)	Moira Miller	Moira Miller	25/05/2021	
	19	Community Care and Health (Scotland) Act 2002 (Note 9)	David Forshaw	Abbie MacIver/David Forshaw	17/05/21 to 21/05/21	
	20	Complete Waste Management PPP note (Note 11)	Morag Cupples	Morag Cupples	19/05/21 to 21/05/21	
	21	Complete Fees Payable to External Auditors note (Note 10)	Mary McCallum	Astrid Ronald	30/04/2021	
	22	Complete Grant Income note (Note 12)	Mary McCallum	Gilly Allenby/Mary McCallum	19/05/21 to 21/05/21	
<i>Related Parties (Note 13)</i>	23	Arrange for related party letters to be sent to members and senior officers	Moira Miller	Liza McNaughton	01/03/2021	
	24	Scottish Government (Note 13.1) - check narrative.	Moira Miller	Moira Miller	14/05/2021	
	25	Complete Members related party transactions exceeding £10k table (Note 13.2)	Moira Miller	Moira Miller	19/05/21 to 21/05/21	
	26	Complete other related bodies note, identifying those that exceed £10k (Note 13.3)	Moira Miller	Moira Miller	19/05/21 to 21/05/21	
	27	Comprehensive Income & Expenditure Statement Notes completed	Sharon Macalister	Sharon Macalister	28/05/2021	
<i>5. Balance Sheet - PPE (Note 14)</i>	28	Complete Movement in Property Plant and Equipment note (Note 14.1)	Morag Cupples	Gilly Allenby	17/05/21 to 19/05/21	
	29	Complete Valuation of Property, Plant and Equipment note (Note 14.2)	Morag Cupples	Gilly Allenby	17/05/21 to 19/05/21	
	30	Depreciation (Note 14.3)	Morag Cupples	Gilly Allenby	17/05/21 to 19/05/21	
	31	Summary of Capital Expenditure and Financing (Note 14.4)	Morag Cupples	Gilly Allenby	17/05/21 to 26/05/21	

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	32	Commitments under Capital Contracts (14.5)	Morag Cupples	Gilly Allenby	25/05/21 to 26/05/21	
<i>Heritage Assets (Note 15)</i>	33	Provide Reconciliation of Carrying Values	Morag Cupples	Gilly Allenby	27/05/2021	
	34	Complete Heritage Asset Disclosures (Note 15)	Morag Cupples	Gilly Allenby	27/05/2021	
<i>Intangible Fixed Assets Note (Note 16)</i>	35	Complete Movement in Intangible Fixed Assets note (Note 16)	Morag Cupples	Gilly Allenby	27/05/2021	
<i>Investment Property (Note 17)</i>	36	Investment Property (Note 17) - check narrative.	Morag Cupples	Gilly Allenby	27/05/2021	
	37	Complete Movement in Investment Property note (Note 17.1)	Morag Cupples	Gilly Allenby	27/05/2021	
	38	Calculate Investment Property Income and Expenditure and complete note (Note 17.2), ensure reconciles to analysis of investment income on face of CI&E	Morag Cupples	Gilly Allenby	27/05/2021	
<i>Schools Non Profit Distributing Organisation (Note 18)</i>	39	Complete Assets Held under Schools NPDO /Hub Schools contract note (Note 18 / 18.1)	Morag Cupples	Gilly Allenby	17/05/2021	
	40	Complete Schools NPDO /Hub Schools Finance Lease Liability note (Note 18.2)	Moira Miller	Moira Miller	30/04/2021	
	41	Complete Payments due to Operator Under Schools NPDO Contract note (Note 18.3)	Moira Miller	Moira Miller	30/04/2021	
	42	Complete Payments due to Operator under Hub Schools (Note 18.4)	Moira Miller	Moira Miller	30/04/2021	
<i>Operating Leases (Note 19)</i>	43	Request information from departments re operating leases	Moira Miller	Sandra Coles	19/03/2021	
	44	Departments complete operating lease template	Moira Miller	Departments	22/03/21 to 23/04/21	
	45	Complete Operating Leases - Amounts Paid to Lessors note (Note 19.1)	Moira Miller	Sandra Coles	26/04/21 to 28/04/21	
	46	Complete Assets Held Under Operating Leases note (Note 19.2)	Moira Miller	Sandra Coles	26/04/21 to 28/04/21	
<i>Finance Leases (Note 20)</i>	47	Request information from departments re finance leases	Moira Miller	Moira Miller	19/03/2021	
	48	Complete Finance Leases - Amounts Paid to Lessors note (Note 20.1)	Moira Miller	Moira Miller	26/04/21 to 28/04/21	

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	49	Complete Assets Held Under Finance Leases note (Note 20.2)	Moira Miller	Sandra Coles	26/04/21 to 28/04/21	
	50	Complete Finance Lease Liability note (Note 20.3)	Moira Miller	Sandra Coles	26/04/21 to 28/04/21	
<i>Long Term Debtors/Investments (Note 21)</i>	51	House Loans (Working Papers Completed)	Mary McCallum	Duncan MacBrayne	13/04/2021	
	52	Waste PPP Land Contamination Fund	Moira Miller	Sandra Coles	20/04/2021	
	53	Calculation of Charging Orders - Care Home Fees LT Debtor and completion of associated working papers	David Forshaw	David Forshaw/Lorna Semple	15/04/2021	
	54	SHF - Loans to Registered Social Landlords	Moira Miller	Moira Miller	16/04/2021	
	55	Calculation and working papers for Other Long Term Debtors (if any)	Moira Miller	Moira Miller	16/04/2021?	
	56	Finalise Lead Schedule and Working Papers	Moira Miller	Moira Miller	16/04/2021?	
	57	Completion of LT Debtor Note (21)	Morag Cupples	Morag Cupples	16/04/2021	
<i>Short Term Debtors (Note 22)</i>	58	Local Tax Collection Debtors - Production of working papers	Fergus Walker	Fergus Walker	17/05/21 to 21/05/21	
	59	Sundry Debtor Accounts - Production of Working Papers	Fergus Walker	Jennifer Gorman	19/04/21 to 23/04/21	
	60	Housing Benefit Overpayments - Production of Working Papers	Fergus Walker	Fergus Walker	08/04/21 to 16/04/21	
	61	VAT Debtor - Production of Working Papers	Moira Miller	Sandra Coles	30/04/2021	
	62	Net Debtor/Creditor to Scottish Government for NDR - Finalise Working Papers	Moira Miller	Moira Miller	17/05/2021	
	63	Other Debtors - Provision of working papers from various departments	Moira Miller	Departments	17/05/21 to 20/05/21	
	64	Finalise Lead Schedule and Working Papers	Moira Miller	Moira Miller	21/05/2021	
	65	Debtors Note (22)	Moira Miller	Moira Miller	21/05/2021	
<i>Assets Held for Sale (Note 23)</i>	66	Complete Assets Held for Sale Note (23)	Morag Cupples	Gilly Allenby	28/05/2021	
	67	Finalise Lead Schedule and Working Papers	Morag Cupples	Gilly Allenby	28/05/2021	
<i>Cash and Cash Equivalents (Note 24)</i>	68	Cash Held by the Authority (Imprests) - provide working papers	Moira Miller	Graham Munro	23/04/21 to 30/04/21	

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
<i>CC&E - Short Term Deposits</i>	69	Cash in Transit - Working Papers	Moira Miller	Alison McGeachy	12/05/21 to 14/05/21	
	70	Goldman Sachs/Standard Chartered - working papers	Moira Miller	Sandra Coles	21/04/2021	
	71	BoS Corporate Deposit - working papers	Moira Miller	Sandra Coles	21/04/2021	
	72	CB Instant Access Account - working papers	Moira Miller	Sandra Coles	21/04/2021	
	73	Money Market Funds	Moira Miller	Sandra Coles	21/04/2021	
<i>CC&E - Bank Overdraft Working Papers</i>	74	Income Bank Account - working papers	Moira Miller	Alison McGeachy	30/04/2021	
	75	Expenditure Bank Account - working papers	Moira Miller	Creditors	30/04/2021	
	76	Housing Benefits Bank Account - working papers	Moira Miller	Sharon Leitch	30/04/2021	
	77	Council Tax / NDR Bank Account - working papers	Moira Miller	Alison McGeachy	30/04/2021	
	78	Finalise Lead Schedule and Working Papers	Moira Miller	Sandra Coles	14/05/2021	
	79	Complete Cash and Cash Equivalents Note (24)	Moira Miller	Sandra Coles	14/05/2021	
<i>Creditors (Note 25)</i>	80	Accrued Payrolls - Pull overall figure together for Accrued Payrolls	Mary McCallum	Ailsa Laing / Duncan MacBrayne	30/04/2021	
<i>Superannuation</i>	81	Teachers - Identification of year end balance on teachers superannuation control account as at 31 March 2020	Mary McCallum	Astrid Ronald	05/05/2021	
	82	Non-teachers - Identification of year end balance on non-teachers superannuation control account as at 31 March 2020	Mary McCallum	Astrid Ronald	05/05/2021	
<i>Short Term Accumulating Absences</i>	83	Teachers - Provision of working papers for creditors	Mary McCallum	Mary McCallum	14/04/2021	
	84	Non Teachers - Provision of working papers for creditors	Mary McCallum	Mary McCallum	14/04/2021	
	85	Creditors System Liability (Core Payables) - Working papers/discoverer report	Mary McCallum	Duncan MacBrayne	14/04/2021	
	86	Accrued Expenditure/deferred income - Pull summary sheet together with links to templates to help auditors choose sample	Mary McCallum	Linda Bain	30/04/2021	
	87	Other Creditors - various Departmental Support (coordination of working papers)	Mary McCallum	Mary McCallum	04/05/21 to 06/05/21	
	88	Finalise Lead Schedule and working Papers	Mary McCallum	Mary McCallum	07/05/2021	
	89	Complete Creditors Note (25)	Mary McCallum	Mary McCallum	07/05/2021	

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Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date	
<i>Borrowings (Financial Instruments) - Note 26</i>	90	Completion of Borrowings/Financial Instruments Working Papers	Moira Miller	Moira Miller	19/04/21 to 22/04/21		
	91	Financial Instruments - Types - Note 26.1	Moira Miller	Moira Miller	21/04/21 to 22/04/21		
	92	Financial Instruments - Fair Value - Note 26.2	Moira Miller	Moira Miller	21/04/21 to 22/04/21		
	93	Financial Instruments - Gains and Losses - Note 26.3	Moira Miller	Moira Miller	21/04/21 to 22/04/21		
	94	Financial Instruments - Risks - Note 26.4 to 26.9	Moira Miller	Moira Miller	21/04/21 to 22/04/21		
	95	Financial Instruments - Note 26.10 to 26.11	Moira Miller	Moira Miller	21/04/21 to 22/04/21		
	96	Borrowings/Financial Instruments - Complete Accounts	Moira Miller	Moira Miller	21/04/21 to 22/04/21		
	<i>Other Liabilities (Note 27)</i>	97	Finance Lease Liability	Moira Miller	Moira Miller	26/04/2021	
		98	Schools NPDO/Hub Schools Finance Lease Liability	Moira Miller	Moira Miller	29/04/2021	
		99	Waste PPP Land Contamination - Provision of working paper, same as long term debtor.	Moira Miller	Sandra Coles	20/04/2021	
100		Finalise Lead Schedule and Working Papers	Moira Miller	Moira Miller	30/04/2021		
101		Complete Other Liabilities Note (27)	Moira Miller	Moira Miller	30/04/2021		
102		Equal Pay Claims - Calculate provision and provide working papers	Moira Miller	Moira Miller	04/05/21 to 07/05/21		
103		Registered Social Landlords - Calculate provision and provide working papers	Fergus Walker	Fergus Walker	04/05/21 to 07/05/21		
104		Reorganisation Redundancy Costs - Calculate provision and provide working papers	Mary McCallum	Mary McCallum	04/05/21 to 07/05/21		
105		Landfill Sites - Restoration and Aftercare Costs - Calculate provision and provide working papers	Moira Miller	Moira Miller	04/05/21 to 07/05/21		
106		Utilities Provision - Calculate provision and provide working papers	Moira Miller	Moira Miller	04/05/21 to 07/05/21		
107	Other Provisions - Coordinate calculation of 'other' provisions and obtain working papers	Sharon Macalister	Sharon Macalister	04/05/21 to 07/05/21			

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
<i>Capital Grants Received in Advance (Note 29)</i>	108	Split Provisions between short and long term	Sharon Macalister	Sharon Macalister	21/05/2021	
	109	Provisions Note (28) - check narrative	Sharon Macalister	Sharon Macalister	21/05/2021	
	110	Finalise Lead Schedule and Working Papers	Sharon Macalister	Sharon Macalister	21/05/2021	
	111	Ministry of Defence LIBOR Funding	Morag Cupples	Morag Cupples	13/04/2021	
	112	Grant in Aid - Gaelic School Capital Fund	Morag Cupples	Morag Cupples	13/04/2021	
	113	Finalise Lead Schedule and Working Papers	Morag Cupples	Morag Cupples	13/04/2021	
	114	Complete Capital Grants Received in Advance Note (29)	Morag Cupples	Morag Cupples	13/04/2021	
<i>Pension Assets and Liabilities (Note 30)</i>	115	Calculation of Accrued Pension Contribution (30.1)	Moira Miller	Moira Miller	04/05/2021	
	116	Transactions Relating to Retirement Benefits (30.2)	Moira Miller	Moira Miller	04/05/2021	
	117	Assets and Liabilities in Relation to Post Employment Benefits (30.3)	Moira Miller	Moira Miller	04/05/2021	
	118	Pension Assets and Liabilities Recognised in the Balance Sheet (30.4)	Moira Miller	Moira Miller	04/05/2021	
	119	Analysis of Pension Fund Assets (30.5)	Moira Miller	Moira Miller	04/05/2021	
	120	Basis for Estimating Assets and Liabilities (30.6)	Moira Miller	Moira Miller	04/05/2021	
	121	Asset and Liability Matching Strategy (30.7)	Moira Miller	Moira Miller	04/05/2021	
	122	Impact on Authority's Cash Flow (30.8)	Moira Miller	Moira Miller	04/05/2021	
	123	Teachers' Pensions - Amount Paid Over (30.9)	Moira Miller	Moira Miller	04/05/2021	
	124	Teachers' Pensions - Check Contribution Rate (30.9)	Moira Miller	Moira Miller	04/05/2021	
	125	Teachers' Pensions - Added Years awarded by Council Calculation (30.9)	Moira Miller	Moira Miller	04/05/2021	
	126	Balance Sheet Notes Complete	Sharon Macalister	Sharon Macalister	28/05/2021	
6. Other Notes to the Financial Statements	127	Note 1 - Review and amend accounting policies	Sharon Macalister	Sharon Macalister	01/03/2021	
	128	Note 2 - Accounting Standards Issued but Not Yet Adopted	Sharon Macalister	Sharon Macalister	01/03/2021	
	129	Note 3 - Critical Judgements in Applying Accounting Policies	Sharon Macalister	Sharon Macalister	03/05/2021	

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	130	Note 4 - Assumptions / Estimation Uncertainty	Sharon Macalister	Sharon Macalister	17/05/2021	
	131	Note 34 - Contingent Liabilities (consider alongside provisions)	Sharon Macalister	Sharon Macalister	30/04/21 to 07/05/21	
	132	Note 35 - Termination Benefits (consider alongside Exit Packages)	Mary McCallum	Mary McCallum	30/04/21 to 07/05/21	
	133	Note 36 - Trust Funds and Other Third Party Funds (Part of preparing accounts for charities and other trusts)	Mary McCallum	Astrid Ronald	04/05/21 to 07/05/21	
	134	Note 37 - Common Good Funds (Prepare Accounts for Common Good Funds and collate information for Oban and Campbeltown Funds)	Mary McCallum	Astrid Ronald	04/05/21 to 07/05/21	
	135	Note 38 - Tax Incremental Financing (TIF) Projects - Links to NDR Income Account	Moira Miller/Fergus Walker	Moira Miller	26/05/2021	
7. Statement of Movement in Reserves - General Fund Balance	136	Analysis of General Fund Balance Movement	Moira Miller	Moira Miller	19/05/2021	
	137	Analysis of amounts included in CI&E but excluded from General Fund	Moira Miller	Moira Miller	19/05/2021	
	138	Analysis of amounts included in General Fund but excluded from CI&E	Moira Miller	Moira Miller	19/05/2021	
	139	Transfer to from General Fund Balance	Moira Miller	Moira Miller	19/05/2021	
	140	Breakdown of amounts additional to surplus/deficit on CI&E	Moira Miller	Moira Miller	19/05/2021	
<i>Other Usable Reserves (Note 33)</i>	141	Usable Capital Receipts Reserve	Moira Miller	Moira Miller	04/05/2021	
	142	Capital Fund	Moira Miller	Moira Miller	04/05/2021	
	143	Complete Capital Funds Note (33.1)	Moira Miller	Moira Miller	04/05/2021	
	144	Completion of Education R&R Fund Entries and Working Papers	Sharon Macalister	Sandra McLindon	28/04/21 to 29/04/21	
	145	Process Ledger entries through MiR Statement	Sharon Macalister	Sandra McLindon	04/05/2021	
	146	Complete Repairs and Renewals Note (33.2)	Sharon Macalister	Sandra McLindon	04/05/2021	
<i>Unusable Reserves (Note 32)</i>	147	Revaluation Reserve - Check Narrative	Moira Miller	Moira Miller	04/05/2021	

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	148	Capital Adjustment Account - Check Narrative	Moira Miller	Moira Miller	04/05/2021	
	149	Financial Instruments Adjustment Account - Check Narrative	Moira Miller	Moira Miller	14/04/2021	
	150	Pensions Reserve - Check Narrative	Moira Miller	Moira Miller	14/04/2021	
	151	Accumulated Absences Account - Check Narrative	Moira Miller	Moira Miller	13/04/2021	
	152	Statement of Movement in Reserves Complete	Moira Miller	Moira Miller	19/05/2021	
8. Cash Flow Statement - Analysis of Balance Sheet Movements	153	Revaluation Reserve	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	154	Capital Adjustment Account	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	155	Capital Activities Cash/Non Cash Transactions	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	156	Other Revenue Items not involving the movement of funds	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	157	Accrual Adjustments	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	158	Complete Operating Activities (Note 39)	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	159	Complete Operating Activities Section of Statement	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
<i>Other Cash Flow Activities</i>	160	Investing Activities (Note 40)	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	161	Financing Activities (Note 41)	Moira Miller	Moira Miller	28/05/21 to 04/06/21	
	162	Cash Flow Statement Complete	Moira Miller	Moira Miller	04/06/2021	
9. Council Tax Income Account	163	Prepare CTI Main Accounting Statement	Fergus Walker	Fergus Walker	17/05/21 to 20/05/21	
	164	Prepare and complete Calculation of Council Tax Base note	Fergus Walker	Fergus Walker	21/05/2021	
	165	Council Tax Income Account Complete	Fergus Walker	Fergus Walker	21/05/2021	
10. NDR Income Account	166	NDRI Main Accounting Statement	Fergus Walker	Fergus Walker	24/05/21 to 26/05/21	
	167	Analysis of Rateable Values	Fergus Walker	Fergus Walker	27/05/2021	
	168	NDR Charge	Fergus Walker	Fergus Walker	27/05/2021	
	169	NDR Income Account Complete	Fergus Walker	Fergus Walker	27/05/2021	
11. Remuneration Report	170	Councillors - Review policy and arrangements for changes	Sharon Macalister	Sharon Macalister	08/03/2021	

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	171	Completion of Pension Template for Senior Officers/Senior Members and submit to Pensions Office.	Mary McCallum	Mary McCallum	15/04/2021	
	172	Councillors Remuneration	Mary McCallum	Mary McCallum	12/05/2021	
	173	Senior Councillors' Remuneration	Mary McCallum	Mary McCallum	13/05/2021	
	174	Obtain Pension Information for Senior Members	Mary McCallum	Mary McCallum	14/05/2021	
	175	Senior Councillors Pension Benefits	Mary McCallum	Mary McCallum	17/05/2021	
	176	Review policy and arrangements - senior employees	Sharon Macalister	Sharon Macalister	08/03/2021	
	177	Employees remuneration (Bands over £50,000)	Mary McCallum	Mary McCallum	12/05/2021	
	178	Senior Employees' Remuneration	Mary McCallum	Mary McCallum	13/05/2021	
	179	Obtain Pension Information for Senior Employees	Mary McCallum	Mary McCallum	14/05/2021	
	180	Senior Employees' Pension Benefits	Mary McCallum	Mary McCallum	17/05/2021	
	181	Employee Exit Packages (consider alongside provisions)	Mary McCallum	Mary McCallum	30/04/21 to 07/05/21	
	182	Remuneration Report Complete	Sharon Macalister	Sharon Macalister	18/05/2021	
12.Group Accounts	183	Determination of Group Structure	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	01/03/2021	
	184	Single Entity Accounts	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	
	185	Common Good Accounts	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	
	186	Associates Accounts	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	
	187	Health and Social Care Integration Accounts	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	
	188	Live Argyll - Leisure Trust Accounts (Group Consolidation)	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	189	Consolidation	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	
	190	Completion of Group Accounts and Notes	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	24/05/21 to 31/05/21	
	191	Group Cashflow	Moira Miller	Moira Miller	24/05/21 to 31/05/21	
	192	Group Accounts and Notes Complete	Sharon Macalister/Anne MacDougall	Sharon Macalister/Anne MacDougall	31/05/2021	
13. Corporate Governance Statement	193	Completion of Corporate Governance Statement	Kirsty Flanagan/Laurence Slavin	Kirsty Flanagan/Laurence Slavin	By 01/06/2021	
14. Management Commentary	194	Completion of Management Commentary	Kirsty Flanagan/Head of Financial Services	Kirsty Flanagan/Head of Financial Services	By 01/06/2021	
	195	2020-21 ANNUAL ACCOUNTS COMPLETE	Sharon Macalister	Sharon Macalister	01/06/2021	
15. Summary Accounts and Financial Snapshot	196	Complete Summary Accounts and Financial Snapshot	Sharon Macalister	Sharon Macalister	29/05/20 to 01/06/20	check with Kirsty
16. Treasury Management Annual Report	197	Complete Treasury Management Annual Report	Moira Miller	Moira Miller	17/05/21 to 01/06/21	
17. Year-end Capital Plan Monitoring Report	198	Complete Year-end Capital Plan Monitoring Report and covering Committee Report	Morag Cupples	Gilly Allenby	17/05/21 to 01/06/21	
18. Strategic Housing Fund Annual Report	199	Complete Strategic Housing Fund Annual Report	Morag Cupples	Douglas Whyte	17/05/21 to 01/06/21	
19. Earmarked Reserves Report	200	Complete Earmarked Reserves Report	Mary McCallum	Mary McCallum	17/05/21 to 01/06/21	
20. Revenue Budget Monitoring Report	201	Complete Revenue Budget Monitoring Report	Mary McCallum	Mary McCallum	17/05/21 to 01/06/21	
21. S106 Charity Accounts Prepared	202	Prepare S106 Charity Accounts	Mary McCallum	Astrid Ronald	17/05/21 to 01/06/21	
22. Final Procedures	203	Strategic Management Team Meeting (SMT) - Draft to be tabled on the day	Kirsty Flanagan	Kirsty Flanagan	31/05/2021	
	204	Section 95 Officer final review of Annual Accounts, and accompanying year end reports (See above 15-20)	Kirsty Flanagan	Kirsty Flanagan	01/06/21 to 04/06/21	

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	205	SMT/Full Council/ Audit Committee Papers ready (complete year end pack) to be sent Legal and Regulatory Support	Kirsty Flanagan	Kirsty Flanagan	01/06/2021	
	206	Brief Council Leader/senior politicians on Annual Accounts and accompanying reports pack.	Kirsty Flanagan	Kirsty Flanagan	w/c - 31/05/2021	
	207	Audit and Scrutiny Committee	Kirsty Flanagan	Kirsty Flanagan	15/06/2021	
	208	Full Council Meeting	Kirsty Flanagan	Kirsty Flanagan	24/06/2021	
	209	Signature by Section 95 Officer	Kirsty Flanagan	Kirsty Flanagan	25/06/2021	
	210	Unaudited Accounts produced and submitted to appointed auditor	Sharon Macalister	Sharon Macalister	25/06/2021	
	211	Unaudited Accounts published on Local Authority website.	Mary McCallum	Linda Bain	25/06/2021	
23. Notice of Public Right to Inspect and Object to Accounts	212	Preparation of Public Notice for placing in local papers (provided by Moira Miller)	Mary McCallum	Linda Bain	02/06/2021	
	213	Public Notice placed in local papers (Section 195 of the 1973 Act)	Mary McCallum	Linda Bain	10/06/21 to 11/06/21	
	214	Public Notice placed on Local Authority website	Mary McCallum	Linda Bain	14/06/21 to 16/06/21	
	215	Public Notice placed in offices of the Local Authority	Mary McCallum	Linda Bain	14/06/21 to 16/06/21	
	216	Distribution of Unaudited Annual Accounts to Area Offices	Mary McCallum	Linda Bain	25/06/2021	
	217	Period of Inspection of Unaudited Annual Accounts	General Public	General Public	28/06/21 to 16/07/21	
	218	Period for registering an objection	General Public	General Public	28/06/21 to 16/07/21	
24. Whole of Government Accounts Return	219	Net Cost of Service Analysis	Moira Miller	Moira Miller	28/06/21 to 16/07/21	
	220	Net Operating Expenditure (Group Accounts)	Moira Miller	Moira Miller	28/06/21 to 16/07/21	
	221	Counter Party Data	Moira Miller	Moira Miller	28/06/21 to 16/07/21	
	222	Infrastructure Assets	Morag Cupples	Departments - Roads and Amenity	28/06/21 to 16/07/21	
	223	Additional Disclosures	Moira Miller	Moira Miller	28/06/21 to 16/07/21	

Appendix 1 - Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2020-21	Undertaking Task 2020-21	Completion Date 2020-21	Actual 2020-21 Completion Date
	224	Unaudited WGA Return complete and returned to Scottish Government	Moira Miller	Moira Miller	28/07/2021	
	225	Submission of Unaudited WGA Return to External Audit	Moira Miller	Moira Miller	28/07/2021	
	226	Sign off of WGA Return and electronic submission to Scottish Government	External Audit/Moira Miller	Moira Miller	30/09/2021	
25. Final Accounts Audit	227	Final Accounts Audit Field Work	External Audit	External Audit	28/06/21 to 20/08/21	TBC
	228	Final Clearance Meeting with Head of Strategic finance	John Cornett (Audit Scotland) and Head of Financial Services	John Cornett (Audit Scotland) and Head of Strategic Finance	26/08/2021	TBC
	229	Amendments processed and Production of Final Accounts complete with Audit Certificate for signing	Sharon Macalister	Sharon Macalister	27/08/21 to 10/09/21	TBC
	230	Production and agreement of ISA 260 report from External Audit	External Audit	External Audit	27/08/21 to 10/09/21	
	231	Audit Committee - Consideration of ISA 260 report and Final Audited Accounts	Audit Committee	Audit Committee	21/09/2021	
	232	Signing of Final Audited Accounts - Leader, Chief Executive, Head of Strategic Finance	Leader, Chief Executive, Head of Strategic Finance	Leader, Chief Executive, Head of Strategic Finance	21/09/2021	
	233	Signing of Final Audited Accounts - Audit Certificate	John Cornett - Audit Scotland	John Cornett - Audit Scotland	21/09/2021	
	234	Signed Audited Annual Accounts published on Website and distributed to local area offices and libraries.	Mary McCallum	Linda Bain	27/10/21 to 29/10/21	

YEAR END 2020/2021

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	07/04/2021	14/04/2021	15/04/2021	16/31sts accrued	100% accrued	01/04/2021	26/03/2021	100% accrued	Old Year Claims Only
Pay 10 Teachers	01	22/04/2021	29/04/2021	30/04/2021	100% part time hours for this period - See note *	N/A	20/04/2021	19/04/2021	100% accrued	Old Year Claims Only
Pay 10 Teachers	02	20/05/2021	27/05/2021	31/05/2021	See note *	N/A	18/05/2021	18/05/2021	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 Financial Services 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 Timetable

Work Area	Task Nbr	Task Description	2020/21 Dates	Lead Responsibility	Monitored / Actioned By	Comments
1. Stores & Work in Progress	1	Equipment store stock take to be completed	31/03/2021	Equipment Store Manager	Abbie	Abbie to liaise with equipment store manager
	2	Cut off date for submission of stock certificate and detailed working papers to IS Finance Team	12/04/2021	Equipment Store Manager	Abbie	Abbie to liaise with equipment store manager
	3	Cut off date for checking, signing and submission of stock certificates to Corporate Accounting	16/04/2021	Principal Accountant - Social Work	Abbie 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	16/04/2021	Principal Accountant - Social Work	Abbie and David	Calculate the movement in the stock value and supply to Moira Miller
2. Creditors Payments	1	Cut off date for submission of 2020/21 supplier invoices to creditors (posting or email)	25/03/2021	Department	David	E-mail to areas to remind them about deadline
	2	Cut off date for processing of 2020/21 SW supplier invoices through payables	31/03/2021	Creditors Section	Creditors	Malcolm to let David know when all SW batches are processed
	3	Final cheque run processed involving SW invoices	31/03/2021	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	01/03/2021	Consolidated Team	Astrid	
	2	IS Finance Team issue accrual/prepayment calculation templates to department	08/03/2021	IS Finance Team	David	
	3	Department completes accrued/prepaid expenditure template	01/04/2021 to 16/04/2021	Department	Finance Contacts	Provide support to admin and budget holders as necessary, monitor progress. <u>Evidence only required for charges of £5k or more.</u>
	4	Accrued/prepaid expenditure template submitted to IS Finance Team for checking and consolidation	16/04/2021 - 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	21/04/2021 - 3pm	IS Finance Team	David, Lorna and Abbie	Review templates and backup
4. PECOS	1	Issue SW PECOS reports to finance contacts for review and follow-up on queries with budget holders.	15/03/2021	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	25/03/2021	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	06/04/2021	Consolidated Team	Astrid	

Appendix 3 - Health and Social Care Partnership Timetable

Work Area	Task Nbr	Task Description	2020/21 Dates	Lead Responsibility	Monitored / Actioned By	Comments
	4	PECOS accruals to be added to central template	21/04/2021 - 3pm	IS Finance Team	Alistair	
5. Debtors	1	Cut off date for processing debtors invoices in 2020/21	26/03/2021	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	20/04/2021	IS Finance Team	Moira and Alison	
	3	Calculate adjustment to bad debt provision	15/04/2021	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	16/04/2021	Consolidated Team	David	Astrid to let David know when completed
7. CareFirst	1	Cut off for processing of charges to be charged to 2020/21	30/03/2021	Department	David	Instruction in year end guidance and e-mail reminder
	2	Final payables interface generated from CareFirst	31/03/2021	IS Finance Team	Karen	
	3	Snapshot of outstanding transactions taken from CareFirst	01/04/2021	IS Finance Team	Karen	Run year end reports for homecare, residential care, direct payments, fostering and adoption
	4	Recommence processing of invoices via CareFirst - all to be charged to April 2021/22 with year end adjustments processed via accrued/prepaid expenditure templates	06/04/2021	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	15/04/2021	IS Finance Team	Lorna	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.	16/04/2021	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 2020/21	01/04/2021	IS Finance Team	David	
	2	Create consolidation template to produce outturn	01/04/2021	IS Finance Team	David	
	3	Report outturn position to Judy and Kirsty	23/04/2021	IS Finance Team	David	Pass figure to Judy Orr, IJB CFO

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****16 MARCH 2021**

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 2021-22.
- 1.2 If the Audit and Scrutiny Committee identify any recommendations in relation to the strategy these will be presented to full Council on 15 April 2021.
- 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 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 as detailed in section 2.5 of the strategy. 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 review of the Council's loan fund advance repayments was undertaken in 2019-20 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.
- 1.7 The review considered new loans fund advances and historic loans fund advances to assess whether the repayment methodology was still the most prudent option. In doing so a revised policy on loans fund advance repayment profiling was introduced as follows:

For all new loans fund advances the policy for repayment is:

- **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.

- 1.8 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.
- 1.9 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.
- 1.10 There are a number of appendices in Section 5. Some of this information has been provided by our Treasury advisors, Link Asset Services.

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 continued use of the asset life method for the repayment of loan fund advances using a 5.1% annuity interest rate, with the exception of spend to save schemes where the funding/income profile method could be used.
 - c) Note the proposed asset repayment periods as detailed within section 2.6 of the Treasury Management Strategy Statement.
 - d) 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 – 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.

- 3.5.1 Equalities – None.
- 3.5.2 Socio-Economic Duty – None.
- 3.5.3 Islands 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 Financial Services and Capital Regeneration Projects:
Councillor Gary Mulvaney**

**Kirsty Flanagan
Section 95 Officer
4 February 2021**

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APPENDICES

Appendix 1 – Treasury Management Strategy Statement and Annual
Investment Strategy 2021-22



**Treasury Management Strategy Statement
and Annual Investment Strategy 2021-2022**

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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 2021/22 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. The capital strategy is being reported separately.

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. The Council approve this Strategy in February, after which the Audit and Scrutiny Committee have an opportunity to make comments and recommendations. If required the Strategy would then go back to Council in April to approve any amendments recommended by the Audit and Scrutiny Committee. The Strategy 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 to be managed).

A mid-year Treasury Management Review Report - this will update Members with the progress of the capital position, amending prudential indicators as necessary 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. This report is presented to Council after the end of each financial year.

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital 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 2021/22

The strategy for 2021/22 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 2021/22 – 2023/24

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are 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 2021/22 budget setting.

The table below summarises the capital expenditure plans as outlined within the proposed capital plan 2021-24.

Capital Expenditure £'000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Executive Director - Douglas Hendry					
Education	7,707	3,332	12,143	2,562	2,243
Facility Services - Shared Offices	1,231	721	2,954	571	431
Major Projects/CHORD	5,802	7,712	13,393	2,975	285
Executive Director - Kirsty Flanagan					
ICT	1,468	775	1,419	1,209	919
Roads and Infrastructure	18,086	9,776	27,222	21,163	11,995
Development and Economic Growth	901	1,468	1,569	0	0
Live Argyll	1,047	294	828	563	431
Health and Social Care Partnership	530	236	1,450	576	431
Total	36,772	24,314	60,978	29,619	16,735

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total Capital Expenditure	36,772	24,314	60,978	29,619	16,735
Financed by:					
Capital Receipts	1,883	740	855	855	855
Capital Grants	31,136	10,823	9,219	8,718	8,718
Capital Reserves	0	0	0	0	0
Revenue	812	12,978	17,972	0	0
Net Financing need for the year	2,941	(227)	32,932	20,046	7,162

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 reflects 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 £124m of such schemes within the CFR.

The CFR projections are noted in the following table.

	2019/20	2020/21	2021/22	2022/23	2023/24
£'000	Actual	Estimate	Estimate	Estimate	Estimate
Capital Financing Requirement					
Opening CFR	309,994	296,187	285,516	308,780	318,656
Closing CFR	296,187	285,516	308,780	318,656	315,093
Movement in CFR	(13,807)	(10,671)	23,264	9,876	(3,563)
Movement in CFR represented by					
Net financing need for the year (above)	2,941	(227)	32,932	20,046	7,162
Less scheduled debt Amortisation	16,748	10,444	9,668	10,170	10,725
Movement in CFR	(13,807)	(10,671)	23,264	9,876	(3,563)

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	2019/20	2020/21	2021/22	2022/23	2023/24
£'000	Actual	Estimate	Estimate	Estimate	Estimate
Expected Investments	68,100	72,500	60,000	50,000	40,000

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	2019/20 Actual	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	200	200	196	210	214
Other long term liabilities	124	124	120	115	110
Total	324	324	316	325	324

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	2019/20 Actual	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	205	205	201	215	219
Other long term liabilities	127	127	123	118	113
Total	332	332	324	333	332

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 was undertaken during 2019-20 to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances.

For all new loans fund advances the policy for the repayment is:-

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 current loans fund repayments is based on historic interest rates over a 15 year period ensuring that a prudent rate is used. The current rate is 3.57%, however it is still considered prudent to use the average historic rate at this time.

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.

During the year it was identified that Piers and Harbours have three main types of work undertaken which have differing asset lives. This amendment has been included within the table below which details 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 - Major Structural Work	60
Piers and Harbours - Medium Term Works e.g painting/cathodic protection	20
Piers and Harbours - Limited Lifespan Improvements	10
Roads and 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 appropriate 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 2020 and at 31 December 2020 are shown below for both borrowing and investments.

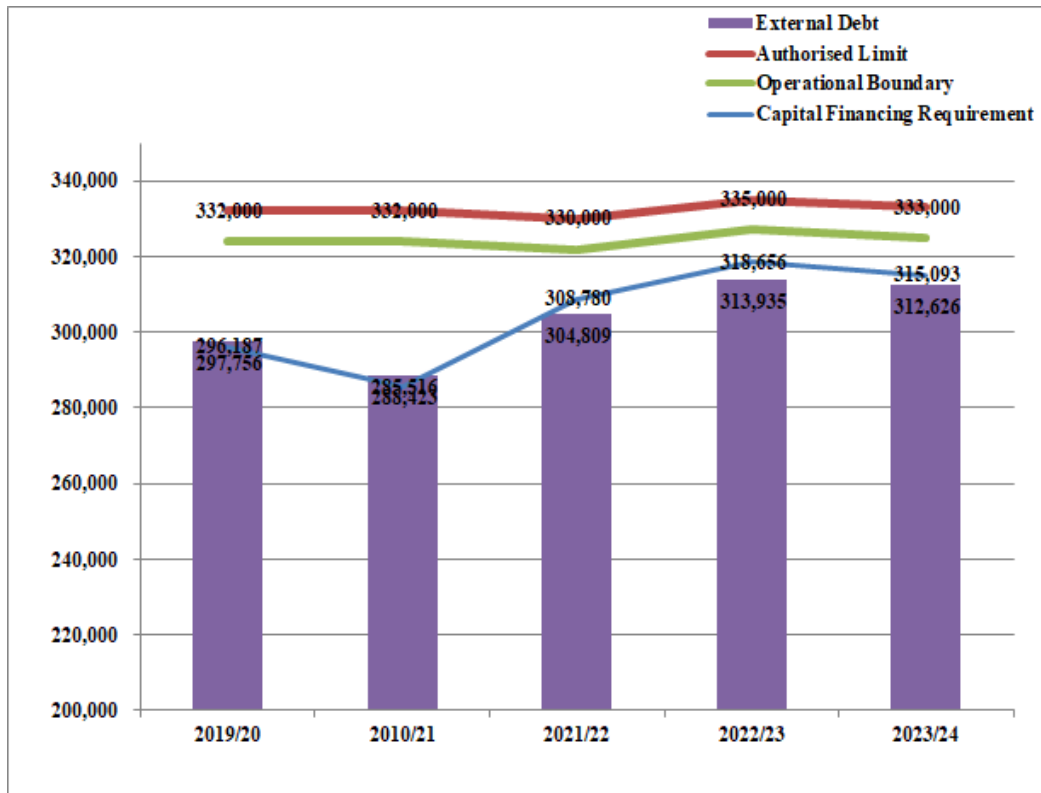
TREASURY PORTFOLIO				
	Actual 31.3.20	Actual 31.3.20	Current 31.12.20	Current 31.12.20
	£000	%	£000	%
Treasury investments				
Banks	32,742	41%	47,004	42%
Building Societies - rated	0	0%	0	0%
Local Authorities	22,000	28%	35,000	31%
Money Market Funds	15,050	19%	26,480	24%
Certificates of Deposit	5,000	6%	0	0%
Third Party Loans	4,221	5%	3,949	4%
Total managed in house	79,013	100%	112,433	100%
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	0	0%	0	0%
Total Treasury Investments	79,013	100%	112,433	100%
Treasury external borrowing				
PWLB	122,615	71%	118,843	70%
LOBOs	39,255	23%	39,255	23%
Market	11,000	6%	10,000	6%
Special	174	0%	132	0%
Temporary Borrowing	562	0%	665	0%
Local Bonds	33	0%	26	0%
Total External Borrowing	173,639	100%	168,921	100%
Net Treasury Investments / (Borrowing)	(94,626)		(56,488)	

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.

	2019/20	2020/21	2021/22	2022/23	2023/24
£'000	Actual	Estimate	Estimate	Estimate	Estimate
External Debt					
Debt as 1st April	183,476	173,639	168,879	190,080	204,303
Change in Debt (In Year)	(9,837)	(4,760)	21,201	14,223	3,998
Other long-term liabilities (OLTL) at 1st April	129,767	124,117	119,544	114,729	109,632
Change in OLTL (In Year)	(5,650)	(4,573)	(4,815)	(5,097)	(5,307)
Actual gross debt at 31st March	297,756	288,423	304,809	313,935	312,626
The Capital Financing Requirement	296,187	285,516	308,780	318,656	315,093
Under / (Over) borrowing	(1,569)	(2,907)	3,971	4,721	2,467

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 2021/22 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 Section 95 Officer 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 Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View		9.11.20												
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	

Additional notes by Link on this forecast table: -

- Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.
- During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.
- We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent

meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

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 exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate is gilt plus 60bps (G+60bps)**

As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -

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

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 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 over-borrowed position as at the end of 2020/21. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This over-borrowed position is expected to be temporary as the delays in delivering the Council's capital programme because of CoVID 19 are recovered in future years, returning eventually to an under-borrowed position. It is expected that cash supporting the Council's reserves, balances and cash flow will be 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 2021/22 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 Section 95 Officer, 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 borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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") and CIPFA Treasury Management Guidance Notes 2018.

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 2021/22 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 counterparties 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 24 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

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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 (the long term forecast is for periods over 10 years in the future):

2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment Rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities.

This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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	2021/22	2022/23	2023/24
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 un compounded.

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 2020/21 – 2023/24

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.

	2019/20	2020/21	2021/22	2022/23	2023/24
%	Actual	Estimate	Estimate	Estimate	Estimate
Ratio	4.64%	4.53%	4.98%	5.02%	5.07%

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 2021/22		
	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 2021/22		
	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	Actual	Current	Current
		31.3.20	31.3.20	31.12.20	31.12.20
Treasury investments		£000	%	£000	%
Banks	Clydesdale Bank	242	0%	4,504	4%
	Bank of Scotland	5,000	6%	7,500	7%
	Goldman Sachs	7,500	9%	0	0%
	Qatar National Bank	0	0%	10,000	9%
	Commonwealth Bank of Australia	0	0%	0	0%
	Santander	7,500	9%	12,500	11%
	ANZ Banking Group/London	7,500	9%	0	0%
	Bayerische Landesbank	0	0%	0	0%
	DBS Bank	0	0%	0	0%
	Close Brothers	0	0%	12,500	11%
	First Abu Dhabi Bank	5,000	6%	0	0%
		32,742	41%	47,004	42%
Building Societies - rated	Nationwide Building Society	0	0%	0	0%
Local Authorities	Cherwell District Council	5,000	6%	0	0%
	Cornwall County Council	5,000	6%	0	0%
	Dudley Metropolitan Borough Council	0	0%	5,000	4%
	Lancashire County Council	7,000	9%	5,000	4%
	London Borough of Croydon	0	0%	7,500	7%
	Rotherham Metropolitan Borough Council	0	0%	7,500	7%
	Thurrock Borough Council	5,000	6%	10,000	9%
		22,000	28%	35,000	31%
Money Market Funds	Aberdeen Liquidity Sterling Fund Class L1	7,500	9%	0	0%
	BNP Paribas Inticast Fund Federated	0	0%	12,150	11%
	CCLA	7,550	10%	0	0%
	AVIVA	0	0%	14,330	13%
		0	0%	0	0%
		15,050	19%	26,480	24%
Certificates of Deposit	Royal Bank of Scotland	0	0%	0	0%
	National Westminster Bank Plc	5,000	6%	0	0%
		5,000	6%	0	0%
Third Party Loans	Argyll Community Housing Association	2,590	3%	2,524	2%
	Fyne Homes	180	0%	0	0%

West Highland Housing Association Ltd	894	1%	873	1%
The Port Ellen Station	65	0%	60	0%
Hubco Sub Debt	492	1%	492	0%
	4,221	5%	3,949	4%
Total Treasury Investments	79,013	100%	112,433	100%

		Actual 31.3.20	Actual 31.3.20	Current 31.12.20	Current 31.12.20
Treasury external borrowing					
Local Authorities		0	0%	0	0%
PWLB		122,615	71%	118,843	70%
LOBOs	Commerzbank Finance & Covered Bonds S.A.	13,000	7%	13,000	8%
	FMS Wertmanagement	5,255	3%	5,255	3%
	Bayerische Landesbank	21,000	12%	21,000	12%
		39,255	23%	39,255	23%
Market	Barclays (formerly LOBO)	10,000	6%	10,000	6%
	Prudential assurance co	1,000	1%	0	0%
		11,000	6%	10,000	6%
Special	Prudential assurance co	14	0%	12	0%
	Salix Finance Ltd	160	0%	120	0%
		174	0%	132	0%
Temporary Borrowing		562	0%	665	0%
Local Bonds		33	0%	26	0%
Total External Borrowing		173,639	100%	168,921	100%
Net Treasury Investments / (Borrowing)		(94,626)		(56,488)	

Appendix 3 – Interest Rate Forecasts 2021 - 2024 and Commentary Provided by Link Asset Services (at 05.01.21)

Link Group Interest Rate View		9.11.20				(The Capital Economics forecasts were done 11.11.20)								
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate														
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate														
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

The above interest rate forecasts, provided by Link Asset Services, were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - 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**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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, and they had threatened to derail the 7 year EU

budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.

- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK** - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- 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 rapid series of increases in Bank Rate to stifle inflation.

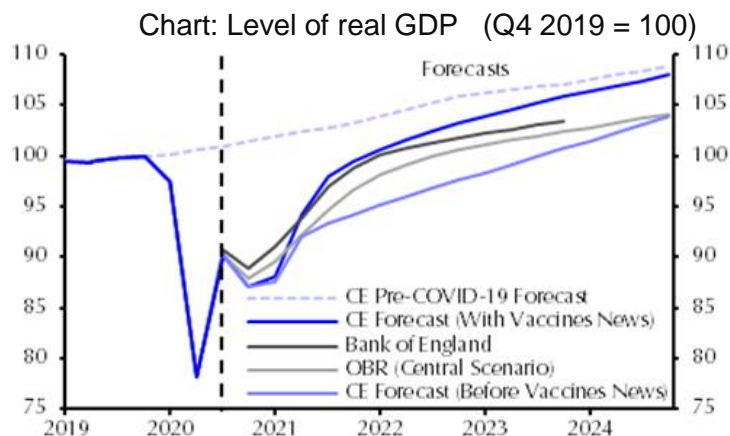
Appendix 4 – Economic Background Provided by Link Asset Services (at 05.01.21)

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
 - The economy would recover to reach its pre-pandemic level in Q1 2022
 - The Bank also expected there to be excess demand in the economy by Q4 2022.
 - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to **the Bank’s forward guidance in August** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However,

this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

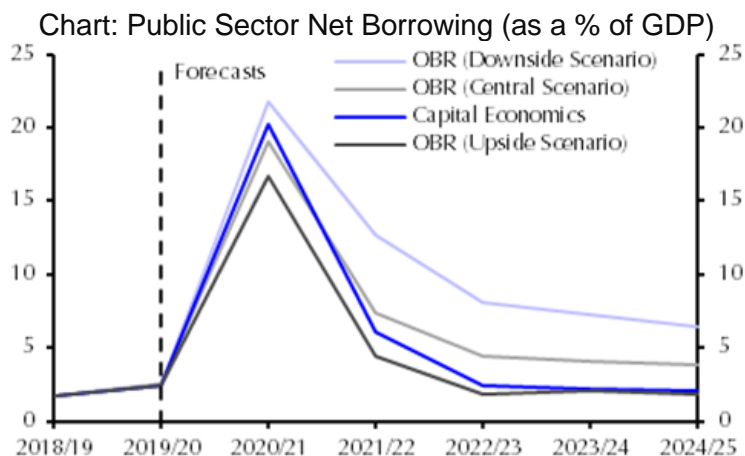
- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.
- **December 2020 / January 2021.** Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the

UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.



(if unable to print in colour..... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

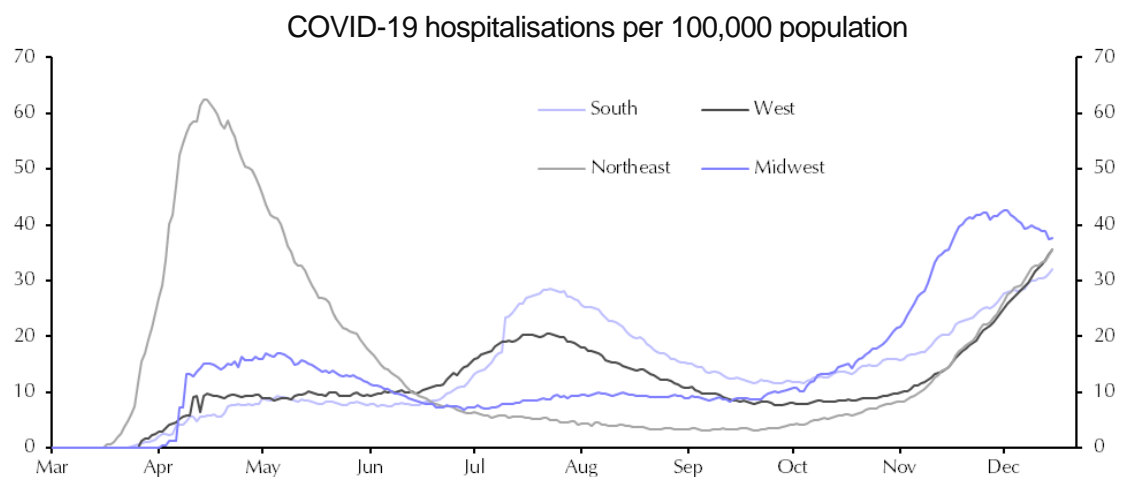


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- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.
- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
 - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
 - The furlough scheme was lengthened from the end of March to the end of April.
 - The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).
- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- **US.** The final result of **the November elections** meant that the Democrats gained the Presidency and a majority in the House of Representatives. They also took effective control of the Senate following run-off elections in Georgia in early January, as the Senate is split 50/50, but the Democrats have the casting vote of the President of the Senate, who is the Vice-President Kamala Harris.

Victory in both run-off seats for the Democrats gives them control of both Houses and President Biden will consequently have a stronger hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a \$900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth \$600 per person and a three-month extension of enhanced unemployment insurance (including a \$300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.
- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth

and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed’s meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.
- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by “only” 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.
- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB’s December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank’s forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly

effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.
- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- 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.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

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 table 1 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 needed. Whilst 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 table 1 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).
- **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 complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown in table 1 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

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

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 Link 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 Section 95 Officer, 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 2 year.	£unlimited, maximum 2 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
	<p>agreement of the counterparty, and penalties can apply.</p> <p>Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.</p>			
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.	£15m 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 they have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£15m per fund	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’s. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
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 Section 95 Officer 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 Section 95 Officer 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 Section 95 Officer 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 Section 95 Officer 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 (01-12-20)

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+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- 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.
- Submitting 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 Financial Services and Major Projects):

- 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.

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Audit & Scrutiny Committee Work Plan 2020 – 2021

This is an outline plan to facilitate forward planning of reports to the Audit & Scrutiny Committee

Report	Lead Service	Regularity
16 March 2021	Reports to Committee Services by 19 February 2021	
Internal Audit and Counter Fraud 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 <ul style="list-style-type: none"> • Work Experience / Placements • Management of Term Contracts 	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
Economic Strategy Scrutiny Report	Audit & Scrutiny Committee Chair	One-off
Council's Best Value Action Plan	Chief Executive/Head of Customer Support Services	One-off
Waste Management	Head of Roads and Infrastructure Services	One-off
Performance Management Review Update	Head of Customer Support Services	One-off
RIPSA Annual Report	Governance and Risk Manager	Annual
Internal Audit 2021/22 Plan	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 and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly

Audit & Scrutiny Committee Work Plan 2020 – 2021

Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee	Chief Internal Auditor	Quarterly
<p>2020/21 Internal Audit Plan</p> <ul style="list-style-type: none"> • Capital Monitoring • Sickness Absence • Intercompany Controls (Live Argyll) • Charging for Non-Residential Care • Workforce Planning • Warden Services • Disaster Recovery Planning <p>2021/22 Internal Audit Plan</p> <ul style="list-style-type: none"> • Land and Asset Disposal • Purchasing Cards 		
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
Out of Authority Care Placement Scrutiny Report	Audit & Scrutiny Committee Chair	One-off
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

Audit & Scrutiny Committee Work Plan 2020 – 2021

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
14 September 2021	Reports to Committee Services by 20 August 2021	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee <ul style="list-style-type: none"> • Civil Contingencies • Contract Management (Roads and Amenities) • Planning Applications • Adult Protective Services • HR Project Management 	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
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
Corporate Complaints Annual Report 2019/20	Governance, Risk and Safety Manager	Annual
Freedom of Information Annual Report 2019/20	Governance, Risk and Safety Manager	Annual
Audit & Scrutiny Committee 2019/20 Annual Report	Audit & Scrutiny Committee Chair	Annual
Strategic Risk Register – Assurance Mapping	Chief Internal Auditor	Annual
Trust Fund Annual Accounts	External Audit	Annual
14 December 2021	Reports to Committee Services by 19 November 2021	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly

Audit & Scrutiny Committee Work Plan 2020 – 2021

Internal Audit Reports to Audit and Scrutiny Committee <ul style="list-style-type: none"> • Street Cleaning • ELC Parental Satisfaction • School Funds • Oban Airport • LEADER • Child Protective Services 	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
PSIAS Self-Assessment	Chief Internal Auditor	Annual
Local Government Benchmarking Framework Report	Head of Customer Support Services	Annual
Council 6-month Performance Report – April to September 2021	Chief Executive/Head of Customer Support Services	Bi-Annual
15 March 2022	Reports to Committee Services by 18 February 2022	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2022/23 <ul style="list-style-type: none"> • Fixed Asset register • Live Argyll Budget Monitoring • Complaints Handling • Environmental Health • ICT Remote Working 	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly

Audit & Scrutiny Committee Work Plan 2020 – 2021

Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
RIPSA Annual Report	Governance and Risk Manager	Annual
Internal Audit 2022/23 Plan	Chief Internal Auditor	Annual
External Audit – 2021/22 Annual Plan	Audit Scotland	Annual
Audit Scotland Report – Financial Overview 2020/21	Head of Financial Services	Annual
2021/22 Unaudited Annual Accounts Preparation Plan and Timetable	Head of Financial Services	Annual
Treasury Management Strategy and Annual Investment Strategy	Head of Financial Services	Annual
14 June 2022	Reports to Committee Services by 20 May 2022	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee <ul style="list-style-type: none"> • Education Processes • Climate Change Act 	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
Council Performance Report – October 2021 to March 2022	Head of Customer Support Services	Bi-Annual
Strategic Risk Register Update	Chief Executive	Annual
Internal Audit 2021/22 Annual Report	Chief Internal Auditor	Annual
Review of Code of Corporate Governance	Governance, Risk and Safety Manager	Annual
External Audit 2021/22 Management Report	Audit Scotland	Annual
Local Government Benchmarking Framework Report	Head of Customer Support Services	Annual
Unaudited Financial Accounts	Head of Financial Services	Annual
2022/23 Scrutiny Plan	Chief Internal Auditor	Annual
Local Government in Scotland: Challenges and Performance 2022	Audit Scotland	Annual

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