

SCRUTINY SCHEDULE - UPDATE

1.0 EXECUTIVE SUMMARY

1.1 This report updates members on the progress on the consideration of topics for Scrutiny review.

1.2 An outline scrutiny schedule was agreed at the March 2016 meeting of the Performance Review and Scrutiny (PRS) Committee which included Tax Incremental Financing (TIF) and Health and Social Care Integration.

Tax Incremental Financing (TIF)

1.3 In respect of the TIF project, members agreed to place on hold any scrutiny activity pending the outcome of a planned internal audit report. This report has now been completed is attached at appendix 1 for information. The Audit report provides a substantial level of assurance in respect of governance, monitoring and reporting arrangements and financial management arrangements.

1.4 After significant discussion the report was noted at the December Audit Committee with a request that it be forwarded to the PRS Committee. Members of the Audit Committee raised performance concerns in respect of overall project viability and the ability to generate sufficient non-domestic rate (NDR) income to repay borrowing. Concerns were also expressed around the project timeline in respect of delays and an ability to meet completion deadline of 2020.

1.5 Management provided commentary in response to these concerns and intimated that discussions are on-going with the Scottish Government which includes dialogue around financial modelling and timeline.

Integrated Health and Social Care (HSCP)

1.6 The committee previously discussed the inclusion of HSCP as a possible item for scrutiny. At the November 2016 PRS meeting members were provided with advice as to the role of the committee, specifically that the Council, via PRS, monitors the performance of the HSCP in relation to the agreed outcomes as set out in the 3 year strategic plan.

1.7 To date, HSCP Performance reports to the PRS Committee have not been in a format or of sufficient frequency and timeliness to allow effective scrutiny. In an attempt to fulfil their scrutiny duty, the Committee suggests future reporting in a format which is aligned to the measurable actions in place to meet strategic objectives as outlined in the 3 years strategic plan.

SCRUTINY SCHEDULE - UPDATE

2.0 INTRODUCTION

- 2.1 This report provides an update to the PRS Committee's outline scrutiny plan in respect of two of the proposed topic areas, being Tax Incremental Financing and Health and Social Care Integration.
- 2.2 It is proposed that both these topic areas will be scrutinized, in the first instance, via reports back to the next meeting of the Committee.

3.0 RECOMMENDATIONS

- 3.1 Members request that the Executive Director of Development and Infrastructure provides a status report on TIF project progress which includes, amongst other things, detail on both financial viability and projected completion dates. The report should clearly articulate any risks to deliverability of the TIF initiative. This report is to be submitted to the next meeting of the PRS committee.
- 3.2 Members request that the format of HSCP performance reporting to the PRS Committee is revised to a style which provides progress updates against the measurable actions taken to address strategic objectives as outlined in the 3 year strategic plan. Reports should provide a status position, commentary on actions taken to date and detail of any risk, emerging or existing which may impact on deliverability.

4.0 DETAILTax Incremental Financing (TIF)

- 4.1 The committee previously discussed the inclusion of the TIF project as a possible item for scrutiny. The Chief Internal Auditor advised that an Internal Audit of the TIF project was scheduled to take place as part of the Internal Audit Plan which was due to be approved by the Audit Committee. Thereafter, the findings from the Internal Audit would be reported to the Audit Committee. The PRS committee asked that the TIF project be added to the Scrutiny Timetable, but no further action would be taken until the work of the Audit Committee had been completed, and at that point it would be reviewed.

- 4.2 The audit report is now complete and was submitted to the December meeting of the Audit Committee. The scope of the audit focused on the:
- Review of Governance arrangements
 - Review of monitoring procedures and reporting arrangements
 - Review of financial management arrangements including modelling, budgeting and general controls
 - Identification and mitigation against known risks.
- 4.3 In respect of the scope detailed above, the audit provided a substantial level of assurance which is defined as Internal Control, Governance and management of risk being sound with only minor areas of weakness and where specific elements of residual risk are slightly above an acceptable level.
- 4.4 The audit report quotes from committee minutes stating that commercial agents have been appointed to challenge the Economic model presented in the original 2013 Lorn Arc Programme Full Business Case. Specifically the OLI Area Lorn Arc update report of October 2016 stated that “the TIF financial model was unlikely to generate the required increase in NDR to pay off the intended borrowing of £18.9m over 25 years.” It was noted that the commercial agents report was completed in October 2016 and is currently under review by Council Officers to ascertain the impact on the financial model in regard to affordability of all projects.
- 4.5 The audit report also references a Scottish Government award letter which outlines key dates for the TIF project, one of which is December 2020 whereby all TIF projects should be practically complete unless otherwise agreed with the Scottish Government. It was noted from the project risk register that there is a high risk that all projects will not be completed by December 2020.
- 4.6 Members of the Audit Committee, whilst acknowledging the scope of the audit, raised performance concerns in respect of these viability and deliverability issues. The decision of the committee was to note the content of the summary report and the detail within each individual report; and to bring the audit report TIF to the attention of the PRS Committee.
- 4.7 The Internal Audit report demonstrates that management are sighted on the issues and have indicated that discussions are on-going with the Scottish Government and others.
- 4.8 In order to provide assurance to the PRS committee that these issues are being addressed it is suggested that the service prepare a status overview report to be brought to the next meeting which provides, amongst other things, detail on both financial viability and projected completion dates. The report should clearly articulate any risks to deliverability of this initiative.

Integrated Health and Social Care (HSCP)

- 4.9 The committee discussed the inclusion of HSCP as a possible item for scrutiny. The committee has a scrutiny role in respect of the HSCP to monitor performance in relation to the agreed outcomes as set out in the 3 year strategic plan.
- 4.10 With regards to this specific role, performance reports submitted to date do not align or easily allow for effective scrutiny of these matters with the focus being on national well-being indicators and associated subset measures. Reports are not of sufficient frequency to allow timely scrutiny.
- 4.11 The committee acknowledge that arrangements are in their infancy however in order to In an attempt to fulfil their scrutiny duty suggest that, moving forward, a performance reporting format be adopted which provides progress updates against the measurable actions taken to address strategic objectives as outlined in the 3 year strategic plan. These updates should provide a status position, commentary on actions taken to date and detail of any risk, existing or emerging which may impact on deliverability.

5.0 CONCLUSION

- 5.1 Tax Incremental Financing and HSCP performance reporting will be the subject of the committee's forth-coming scrutiny activity.

6.0 IMPLICATIONS

- 6.1 Policy - None
- 6.2 Financial - None
- 6.3 Legal - None
- 6.4 HR - None
- 6.5 Equalities - None
- 6.6 Risk - Failure to ensure adequate scrutiny arrangements are in place
- 6.7 Customer Service - None

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APPENDICES

Appendix 1 - Internal Audit Report - Tax Incremental Financing

Appendix 2 - HSCP 3 Year Strategic Plan Measurable Actions Extract