

# Corporate Policy and Strategy Committee

10.00am, Tuesday, 4 December 2012

## Operational governance - update

Item number	8.2
Report number	
Wards	All

### Links

Coalition pledges	<a href="#">P30</a>
Council outcomes	<a href="#">CO25 &amp; CO26</a>
Single Outcome Agreement	

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## Operational governance - update

### Summary

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On 6 November 2012 the Governance, Risk and Best Value Committee considered a report on the Council's governance review programme, updates on key areas of the corporate risk register and the significant progress made in relation to:

- operational governance framework;
- procurement;
- audit and risk;
- internal controls;
- governance of major projects;
- arms length external organisations; and
- ICT strategy.

The Governance, Risk and Best Value Committee:

- noted the progress outlined in relation to the key areas of the governance review referred to in section 2.1 of the report;
- noted the progress outlined in relation to the main corporate risks referred to in section 2.2 of the report;
- noted the future developments set out in section 2.3 of the report;
- agreed that the Director of Corporate Governance would provide a progress report on operational governance and internal controls to the Governance, Risk and Best Value Committee on a quarterly basis;
- requested that the Chief Executive reports on the high risks regarding organisational controls in January 2013;
- referred the report to the Corporate Policy and Strategy Committee for its information.

## Recommendations

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That the Corporate Policy and Strategy Committee notes the Council's governance review programme, the updates on key areas of the corporate risk register and the significant progress made in relation to operational governance.

## Measures of success

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Not applicable.

## Financial impact

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Not applicable.

## Equalities impact

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Not applicable.

## Sustainability impact

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Not applicable.

## Consultation and engagement

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Not applicable.

## Background reading / external references

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[26 October 2010 – Finance and Resources Committee – item 23 – Governance of Major Projects](#)

[6 December 2011- Policy and Strategy Committee- item 13 – Management Reporting Arrangements](#)

[22 December 2011- City of Edinburgh Council – item 8.2- Management Reporting Arrangements](#)

[19 January 2012 – City of Edinburgh Council – Item 4.1\(a\) – Alternative Business Models review programme.](#)

[19 January 2012 – City of Edinburgh Council – Item 4.1\(b\) – Alternative Business Models review programme.](#)

[20 March 2012 – Finance & Resources Committee – Item 16 – Corporate Procurement Transformation Project](#)

[31 July 2012 – Finance & Resources Committee – Item 13 – Corporate Procurement Transformation Project](#)

[7 August 2012 – Policy & Strategy Committee – Item no 11 – Property Conservation Service Re-design](#)

[23 August 2012 - City of Edinburgh Council – Item no 8.1 – Governance Review](#)

[20 September 2012 – City of Edinburgh Council – Item 8.1 – Governance Review: Political Management Arrangements and Operational Governance](#)

[2 October 2012 – Policy and Strategy Committee – Item 7 – Welfare Reform](#)

[2 October 2012 – Policy and Strategy Committee- Item 13 – Integration of Health and Social Care: Proposals for interim governance arrangements](#)

[25 October 2012 – City of Edinburgh Council – Item 8.4 – Governance Review and Transformation Programme](#)

<b>Coalition pledges</b>	P30 - Continue to maintain a sound financial position including long-term financial planning
<b>Council outcomes</b>	CO25 - The Council has efficient and effective services that deliver on objectives CO26 - The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives
<b>Single Outcome Agreement</b>	
<b>Appendices</b>	Report by the Chief Executive

# Governance, Risk and Best Value Committee

3pm, Tuesday 6 November 2012

## Operational governance - update

<b>Item number</b>	8.5
<b>Report number</b>	
<b>Wards</b>	All

### Links

<b>Coalition pledges</b>	P30
<b>Council outcomes</b>	CO25 & 26
<b>Single Outcome Agreement</b>	

### Sue Bruce

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# Executive summary

## Operational governance – update

### Summary

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This reports outlines, for the first meeting of the Governance, Risk and Best Value committee, details of the Council's governance review programme and the significant progress made in relation to:

- operational governance framework;
- procurement;
- audit and risk;
- internal controls;
- governance of major projects;
- arms length external organisations; and
- ICT strategy.

In addition, updates are provided on the following areas of the corporate risk register:

- trams;
- property conservation;
- financial position;
- welfare reform; and
- health and social care integration.

### Recommendations

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- (a) To note the progress outlined in relation to the key areas of the governance review referred to in section 2.1.
- (b) To note the progress outlined in relation to the main corporate risks referred to in section 2.2.
- (c) To note the future developments set out in section 2.3.
- (d) To agree that the Director of Corporate Governance will provide a progress report on operational governance and internal controls to the Governance, Risk and Best Value Committee on a quarterly basis.

## Measures of success

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Improvements across all areas of operational governance and the internal control framework.

Quarterly reports on the governance review programme will be provided to the Governance, Risk and Best Value Committee.

## Financial impact

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

## Equalities impact

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

## Sustainability impact

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There is no sustainability impact as a result of this report.

## Consultation and engagement

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Appropriate consultation and engagement is and will continue to be undertaken in line with the programme plan.

Elected members and officers have been consulted on all key aspects of the review and details are outlined within the body of the report.

## Background reading / external references

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[26 October 2010 – Policy and Strategy Committee – item 23 – Governance of Major Projects](#)

[6 December 2011- Policy and Strategy Committee- item 13 – Management Reporting Arrangements](#)

[22 December 2011- City of Edinburgh Council – item 8.2- Management Reporting Arrangements](#)

[19 January 2012 – City of Edinburgh Council – Item 4.1\(a\) – Alternative Business Models review programme.](#)

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[20 March 2012 – Finance & Resources Committee – Item 16 – Corporate Procurement Transformation Project](#)

[31 July 2012 – Finance & Resources Committee – Item 13 – Corporate Procurement Transformation Project](#)

[7 August 2012 – Policy & Strategy Committee – Item no 11 – Property Conservation Service Re-design](#)

[23 August 2012 - City of Edinburgh Council – Item no 8.1 – Governance Review](#)

[20 September 2012 –City of Edinburgh Council – Item 8.1 – Governance Review: Political Management Arrangements and Operational Governance](#)

[2 October 2012 – Policy and Strategy Committee – Item 7 – Welfare Reform](#)

[2 October 2012 – Policy and Strategy Committee- Item 13 – Integration of Health and Social Care: Proposals for interim governance arrangements](#)

[25 October 2012 – City of Edinburgh Council – Item 8.4 – Governance Review and Transformation Programme](#)



## Operational governance - update

### 1. Background

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- 1.1 The governance review is being undertaken following resolution by Council in June 2011 that a review of the Council's governance arrangements was required to ensure any weaknesses within the existing internal control framework in the City of Edinburgh Council were addressed.
- 1.2 In June 2011, the Council undertook an organisational restructure to combine the two former central service directorates of Corporate Services and Finance, forming a new Corporate Governance directorate with a remit to focus on critical aspects of governance and performance.
- 1.3 The former Directors of Corporate Services and Finance retired on 30 April and 30 June 2011 and the new Director of Corporate Governance was appointed on 2 September 2011.
- 1.4 The senior management structure for the Corporate Governance directorate was agreed by Council in March 2012, reflecting and strengthening the Council's commitment to enhanced governance.
- 1.5 On 2 September 2011, the Council agreed revised governance arrangements for the Edinburgh tram project. tie Limited, the arms' length company responsible for management of the tram project on behalf of the Council was subsequently disbanded.
- 1.6 In January 2012, a further re-alignment of management arrangements was undertaken, including transfer of the responsibility for property conservation and transport from the directorate of City Development to Services for Communities.
- 1.7 The Council is facing a range of challenges in relation to performance, transformation, service re-design and delivery alongside current and future financial constraints. On taking up his post on 26 September 2011, the Director of Corporate Governance initiated a root-and-branch review of all aspects of governance, internal controls and the approach to future financial management in order to position the Council to meet these challenges and to address a significant range of serious legacy issues.
- 1.8 The key objectives of the governance review are to ensure the organisation has the infrastructure in place to be able to embed critical change objectives, deliver effective and efficient services, improve performance, achieve savings and maximise the potential of the public pound.

- 1.9 The Council has also identified in its corporate risk register several other challenges including: the completion of the tram project; the significant funding gap facing all Councils over the coming years, around £95m over five years for the City of Edinburgh Council; the post ABM improvement plans; and the necessary improvements to the property conservation service. Audit Scotland has since highlighted these as significant risks in its 2012 improvement plan.
- 1.10 This report provides members of the new Governance, Risk and Best Value Committee with an update on:
- the governance review and control framework (section 2.1);
  - the main corporate risks (section 2.2); and
  - areas of future development (section 2.3).

## **2. Main report**

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### **2.1 Governance review and control framework**

#### **2.1.1 General**

- (a) The governance review is being undertaken following resolution by Council on 30 June 2011 that a ‘thorough review of governance arrangements is required.’
- (b) The review was established by the Director of Corporate Governance, working closely with elected members, to ensure that the Council’s governance arrangements are transparent, accountable, efficient and modern. The review has been subdivided into four parts: political governance; operational governance; strategic governance; and programme governance.
- (c) The objective of the ongoing review work is to deliver a comprehensive framework for all aspects of governance, strategy and transformation by the end of 2012 to secure the following key objectives:
- clear statement of vision, values and strategic objectives aligned with the capital coalition pledges;
  - effective, efficient and collaborative decision-making and strategic planning;
  - enhanced, modern and flexible risk and financial management;
  - robust, clear and accountable organisational frameworks;
  - focus on culture change and a shared commitment to high standards of governance; and
  - effective budget management.
- (d) The review programme includes a very wide range of development work that has also formed a roadmap for the future development and transformation of the

Council while ensuring that any legacy issues or areas of concern have been assessed and an appropriate performance improvement approach agreed.

- (e) This report focuses directly on the operational governance programme. In particular, it provides detailed background, key areas for improvement and progress with implementation. Links to relevant reports and Council decisions covering other elements of the review are provided in the background papers section of the executive summary.

### **2.1.2 Operational governance review**

- (a) The initial scope of the review involved a range of administrative governance areas on the basis that Audit Scotland's annual audit report for 2010/2011 had confirmed there were no material weaknesses in the accounting and internal control systems within the City of Edinburgh Council.
- (b) Notwithstanding this, the Corporate Management Team (CMT) through the Director of Corporate Governance acted on a range of concerns and instructed a very detailed assessment of a full range of the internal management and control frameworks of the Council. The assessment focused on the following profile areas of the Council's business:
- operational governance framework;
  - procurement;
  - audit and risk;
  - finance and internal controls;
  - governance of major projects;
  - arms length external organisations; and
  - ICT strategy.
- (c) On completion of scoping and review work across each of the areas, proposals for action were implemented in some areas, including procurement. The review process provided information on a range of internal control issues that required to be addressed and on 31 May 2012, the Director of Corporate Governance, in his capacity as Monitoring Officer, met with the Corporate Management Team. This meeting provided a detailed outline of issues and risks, an overview of the state of the internal control framework and environment and highlighted the pressing requirement for focused improvement and development work.
- (d) In recognition of the ongoing assessment that the existing internal control framework required to be strengthened, the Director of Corporate Governance amended the annual assurance statement to highlight that, although some reliance could be placed on the existing internal control framework, a range of improvement actions were required.

- (e) The Corporate Management Team held a further meeting on 14 June 2012 and committed to a range of actions in relation to all areas of operational governance. This included discussions with key elected members including the Leader, Deputy Leader, Convener and Vice Convener of the then Finance and Resources and Audit Committees, all of whom shared concerns about the need for improved controls and were committed to improvements in performance.
- (f) The approach recommended by CMT and agreed by elected members at the Council meeting on 23 August 2012 included support for the critical improvements proposed by the Director of Corporate Governance, by agreeing an action and implementation plan. Regular reporting to the Council is in place and appropriate engagement has been undertaken at all stages with elected members, staff groups and trade unions.

### **2.1.3 Operational governance framework**

- (a) The review team assessed the operational governance framework of the Council in 2011 and noted that this had not been holistically or significantly updated for a considerable period of time. Following this assessment a full range of development and review work has been undertaken including significant re-drafting and revision of the following:
- Committee terms of reference: following extensive consultation with elected members and officers, the Council approved a fully updated and revised version on 20 September 2012 for implementation with the new political management arrangements from 29 October 2012;
  - scheme of delegation to officers: during September and October 2012, consultation has been undertaken with both officers and elected members on a proposed new scheme which has been fully updated to reflect new statutory provisions, the current organisational structure and areas of responsibility assigned to chief officials. The proposed new scheme will be considered by the Council in November 2012;
  - financial regulations: new financial regulations were approved by the Council on 25 October 2012;
  - contract standing orders and guidance for the appointment of consultants: revised contract standing orders and guidance were approved by the Council on 25 October 2012;
  - anti bribery policy and procedure: this was approved by the Policy and Strategy Committee on 7 August 2012 to significantly strengthen anti-corruption measures and ensure the requirements of the Bribery Act 2010 are met. The policy sets out a clear statement that bribery and corruption in any form are unacceptable, establishes a zero tolerance approach and sets out key principles along with corporate and employee responsibilities necessary to ensure the prevention of bribery and corruption. The Council's organisational development

division has completed significant engagement with staff so there is an awareness of the terms of the policy and procedure; and

- employee code of conduct: this was approved by the Policy and Strategy Committee on 7 August 2012. The existing employee code of conduct has been significantly updated including specific references to bribery and corruption, a wider definition of conflict of interest and a reinforced requirement for employees to declare any/all actual or potential conflicts of interest.

- (b) Further work is ongoing to complete the process of updating the Council's operational governance framework. In particular, a corporate debt policy and procurement handbook are in the process of being completed for early consideration by elected members.

#### **2.1.4 Procurement**

- (a) The Corporate Management Team considered the outcome of a high level review of tendering in January 2011 and recommended that the future delivery model for the provision of procurement was to be considered as part of the alternative business models programme. Following the Council's decision on 19 January 2012 to keep the procurement strategy and delivery functions in-house a transformation programme was consequently immediately initiated by the Director of Corporate Governance.

- (b) The project team developed a specification with the following key objectives:
- internal improvement of the corporate procurement function with the help of industry experts who could also assist with the delivery of transformational change;
  - the development and transfer of knowledge and skills to the existing team to ensure the in-house function developed the appropriate expertise to support the Council beyond the end of the contract period;
  - meeting the requirements of all service areas to deliver efficient and cost effective front line services;
  - expand and develop category management capability;
  - develop and embed contract and supply chain management throughout the Council;
  - focus on best value and maximising the impact of all council revenue streams; and
  - identify and deliver cashable savings opportunities of around £10 million during the financial year 2012/13 and if the contract period is extended up to a further £50-£60 million over the next 5-6 financial years.

- (c) On 21 March 2012 the Finance and Resources Committee appointed Mott MacDonald, who commenced work on 2 May 2012, and are currently working with the Council's procurement team to deliver savings and enhance capability, capacity and performance of the Council's in-house function.
- (d) Existing Governance arrangements consist of a procurement partnership board (PPB), supported by appropriate delivery methodologies at an operational level. Mott MacDonald, assisted by Council officers, will propose savings plans to the PPB throughout the year which the Board may approve or reject, for recommendation to the relevant Committee for approval where required. All PPB recommendations which have policy implications will automatically be referred to elected members through Committee for decision making. A six monthly report is provided to the Finance and Budget Committee to update on progress and performance. Enhanced arrangements to engage with elected members throughout the procurement process are currently being developed.

### **2.1.5 Audit and risk**

- (a) The Director of Corporate Governance highlighted underlying concerns as to the robustness of the Council's systems of internal control and related risk management arrangements shortly after his appointment in the latter part of 2011. The issues pointed to an inherent and fundamental weakness in some aspects of these areas. Concerns were reinforced by the fact that the scope of existing and planned audit scrutiny was not suitably targeted to address these critical areas of risk and internal control.
- (b) The Director of Corporate Governance commissioned independent external assessments of internal controls and the adequacy of the internal audit and risk function in early 2012. The findings in relation to internal controls are discussed in the next section of this report.
- (c) With regard to the audit and risk function, the findings of the external review by Ernst and Young supported earlier indications that current activity was not sufficiently focused on high-risk areas and, in some cases, was not adequate for an organisation of the size, nature and complexity of the City of Edinburgh Council. The results of this "current state assessment" are set out in Appendix 1.
- (d) The reports' key observations included the following assessments of the Council's internal audit and risk management activity:
- the existing function was assessed as having a fairly narrow focus on financial controls, with a need to increase productivity, capacity and capability in more specialist areas such as ICT audit and risk management;
  - a requirement to realign the existing service and increase its influence; and

- current risk management practices were operating at a basic level, with a pressing need to improve visibility, accountability and transparency across a range of areas.
- (e) The combined effect of the reports' findings made a fundamental review of the service a critical priority. The Chief Internal Auditor of the Council retired on 31 July 2012 and an interim arrangement to manage the internal audit and risk function was then put in place involving an external partner selected by means of competitive tender.
- (f) This arrangement facilitated the undertaking of a full assessment of the Council's audit and risk management arrangements, including exploring by way of competitive tender the extent to which existing capacity and capability could be strengthened through a co-sourced or outsourced delivery model.
- (g) The results of this assessment and recommendations to develop the services going forward will be reported to the Council meeting on 22 November 2012, with a likely recommendation to proceed by way of a co-sourced model.

### **2.1.6 Internal controls**

- (a) Following appointment in September 2011, the Director of Corporate Governance became aware of a range of inherent and fundamental weaknesses in some areas of the Council's internal controls. To assess the existing internal control environment and identify key improvement actions an independent review of internal controls was commissioned from KPMG.
- (b) The report concluded that improvements to the existing systems of internal control were urgently required to address a number of significant risks. The assessment, completed by KPMG in April 2012 made a total of 43 recommendations, with 12 of these to address weaknesses assessed as posing a high risk to the Council. A summary of the findings is set out in appendix two to this report.
- (c) A comprehensive action plan to address the issues and recommendations, highlighted by KPMG was compiled in May 2012 and implementation is being actively monitored and will be reported to the Governance, Risk and Best Value Committee on a quarterly basis.
- (d) The internal control weaknesses highlighted in the KPMG report have since been commented on in Audit Scotland's subsequent report dated August 2012.

### **2.1.7 Governance of major projects**

- (a) The Policy and Strategy Committee considered a report on the governance of major projects on 26 October 2010 that outlined recommendations from the Council's projects' best practice group. To ensure effective governance and

programme management arrangements it was agreed that the following be considered for action and implementation:

- a project administration office;
- adequate resources to deliver projects;
- inclusion of non-capital projects in governance and monitoring arrangements; and
- provision for key stage, gateway and peer reviews.

(b) During 2011, the Council had variable programme and project management arrangements in place with competing projects and delivery challenges in a range of high profile areas. Recognising this, a range of new approaches were put in place, including the PROSCI approach to change management, to ensure that each of the Council's major, capital and transformation projects were effectively managed. There had been no effective corporate approach in place for Council-wide co-ordination of projects, change management or initiatives and it has not always been clear how each was aligned to support the Council's vision, values and strategic outcomes.

(c) In addition, issues with the planning and management of the Council's capital programme had led to a culture, established over many years of over programming and reliance on project slippage to remain within financial constraints. Furthermore there has been evidence that within this culture, programmes had not always been appropriately assessed for financial and deliverability risks.

(d) In February 2012, the Policy and Strategy Committee agreed the new senior structure for the Corporate Governance Directorate. This included the creation of a corporate programme office (CPO) to lead, promote and support corporate working on project and programme management.

(e) The new approach to project and programme management is intended to provide appropriate levels of corporate support and challenge in future, and hence better accountability to elected members in future.

(f) By embedding best practice and taking a corporate approach to project delivery across the Council the objective is to ensure that in future all Council programmes and projects are managed to:

- drive innovative approaches to service delivery working with all service areas and key stakeholders and focused on the delivery of outcomes and lessening the burden of bureaucracy;
- ensure the Council is working collaboratively with citizens, key stakeholders, partners, elected members and all service areas to provide a balance of challenge, enablement and support;



- promote and embed a robust, effective project initiation process ensuring all new projects are aligned to the Council's vision and capital coalition pledges;
  - support a risk based approach;
  - ensure appropriate and skilled resources are assigned to support successful and effective delivery;
  - provide a structured, consistent quality assurance framework;
  - ensure meaningful, effective and efficient reporting to citizens, elected members and management;
  - build a greater level of capability, skills and knowledge across the organisation; and
  - provide continuous high level monitoring for elected members on all corporate projects.
- (g) The CPO has brought together oversight of all major Council projects and adopted the managing successful programmes (MSP) model harnessing best practice from experience in both the public and private sectors. The CPO team, led by the Head of Corporate Programmes includes senior manager roles dedicated to service re-design, supporting and developing transformational change, major programmes/projects, including internal improvement plans and a centre of excellence.

### **2.1.8 Arms length external organisations (ALEOs)**

- (a) During 2011, new governance arrangements were agreed for the Council's tram project and tie Limited, the Council ALEO responsible for managing the tram project was disbanded. In light of the wider impact of the current economic climate, funding pressures and a clear focus and commitment to secure best value a detailed review of Council ALEOs was instructed that was carried out by Invercap Corporate Solutions and completed in August 2012. The objective of this review was to strengthen current governance arrangements recognising the requirement to set out an enhanced framework for the Council's relationship with ALEOs. The proposals are based on the core principles of transparency, accountability and integrity taking account of the Audit Scotland toolkit and other appropriate guidance.
- (b) The revised governance framework includes:
- effective oversight and monitoring of all ALEOs;
  - role of Council Committees in respect of ALEOs;
  - participation of CEC appointed non-executive directors within the board structure; and

- the establishment of audit, nominations and remuneration committees of the company boards.
- (c) Consultation is underway with both elected members and officers on the proposals. A report outlining the proposed new governance framework will be considered by the Council in December 2012.

### **2.1.9 ICT strategy**

- (a) The Council has undertaken a range of scoping and engagement work from February 2012 to assess the existing ICT strategy and future plans. This has confirmed that to support effective service delivery and attainment of best value it is critical for changes to be made and for the Council to have customer centric, easy to use solutions that evolve as customers' needs and behaviours develop, enabling all key services.
- (b) Shortly afterwards in May 2012 Audit Scotland prepared an ICT service review for the City of Edinburgh Council that recognised a number of areas of good practice within the organisation. In addition, the report highlighted that the existing ICT strategy may not reflect the Council's current strategic objectives and changing information needs.
- (c) A new ICT strategy is being consulted on and developed currently with an initial overview report to be considered by the Corporate Policy and Strategy Committee in December 2012. The ICT Strategy Sounding Board with elected members will drive forward the strategy in the coming months.

## **2.2 Corporate risks**

### **2.2.1 General**

- (a) The Council's corporate risk policy and strategy has been fully updated and details are provided in a separate report on this agenda.
- (b) A full exercise is currently being undertaken to update the corporate and all service area risk registers. A report with full details will be provided for the December meeting of the Governance, Risk and Best Value Committee.

### **2.2.2 Trams**

- (a) As indicated above, one of the main challenges highlighted in the corporate risk register is the tram project which has been subject to considerable public scrutiny. The Chief Executive is tasked with reporting tram project progress to the Council's new Governance, Risk and Best Value Committee on a quarterly basis.
- (b) The governance arrangements which were revised following the Settlement Agreement in September 2011 continue to work well, with good cooperation between the Council, Transport Scotland and the main contractors, which can

be evidenced by the steady pace of progress. The project remains on course to be delivered in line with the revised programme and budget, with a cost of work done to period 6 2012/13 of £669m.

- (c) A detailed update on the Tram Project is provided as a separate report on the agenda for this meeting of the Committee.

### **2.2.3 Property conservation**

- (a) Another challenge highlighted in the corporate risk register is the property conservation service which has also been subject to considerable public scrutiny.
- (b) In March 2011 the Chief Executive changed the management arrangements for the property conservation service in order to ensure thorough scrutiny following representations made to her upon her arrival in 2011. Under those revised arrangements, the Director of Services for Communities conducted an initial investigation as a result of which the Council commissioned Deloitte to undertake a detailed investigation. That investigation ran in parallel with a police investigation.
- (c) The Council's investigation identified significant management failings in the property conservation service and also other major weaknesses elsewhere in the Council's property function within City Development. The Council investigation resulted in a significant number of disciplinary investigations which in turn resulted in a number of dismissals as well as other sanctions.
- (d) The Council has also suspended work with a number of contractors who may be implicated following the Council's investigation and the Council will shortly consider whether those suspensions should be converted into exclusions.
- (e) The Council's investigation also identified significant weaknesses in terms of financial and project management. This position has now been forensically examined and the full extent of these issues properly defined. Work is now in hand to recover uncollected and unbilled debt and progress is being made in terms of resolving outstanding customer complaints.
- (f) It is recognised that the existing business model and working arrangements are no longer viable. As a result, an external consultation regarding future service re-design has recently been carried out. The results will be reported to committee shortly. The new service is scheduled to begin to operate in Spring 2013.
- (g) A dedicated sub committee of the Finance and Budget Committee has been established to oversee this work. That sub committee is meeting on a monthly basis.

## **2.2.4 Financial position**

- (a) A key priority for the Council has been to ensure ongoing financial stability.
- (b) Substantial progress has been made since the Council's initial best value assessment in 2006 including:
- all services maintaining expenditure within the budgeted level for each of the last 3 financial years;
  - building up the level of unallocated reserves and making appropriate provision for liabilities arising from equal pay and the introduction of modernised pay arrangements; and
  - developing and maintaining a long term financial plan which captures the key factors influencing the Council's additional need to spend and compares the combined impact of these elements to the projected level of resources available to identify the net annual savings requirement going forward.
- (c) Audit Scotland's update report earlier this year to the Council's assurance and improvement plan 2012/15 concluded that the Council's overall financial management was soundly based.
- (d) Notwithstanding that, the Council requires to make savings of circa £95m over the next five years relative to a gross annual budget of £1.4bn.
- (e) A draft set of officer proposals have been prepared following a priority based planning and outcome based process. These have a particular initial focus on balancing the 2013/2014 budget and form part of a 5 year budget framework. It is expected that they will be presented to Committee for consideration by elected members in early December and form the basis of public consultation and engagement.

## **2.2.5 Welfare reform**

- (a) On 8 March 2012, the Welfare Reform Act received Royal Assent. The Act introduces a wide range of reforms across the benefits and tax credits system with the intention of:
- making work pay;
  - simplifying the benefits and tax credit system; and
  - reducing the cost of the benefits system.
- (b) A major change introduced by the Act is the introduction of a universal credit to replace many of the existing benefits and which will now be applied for online and paid monthly in arrears.
- (c) COSLA have prepared a standard template for the analysis of the financial and other risks and impacts associated with welfare reform - a business continuity

impact assessment (BCIA). The Council has agreed to adopt the BCIA and has begun analysis of the potential impacts in more detail. Further reports will be made to the Corporate Policy and Strategy Committee in future on the outcome of this analysis.

### **2.2.6 Health and Social Care Integration**

- (a) The Scottish Government has consulted on proposals to integrate adult health and social care services in Scotland with the aim of improving the quality and consistency of outcomes for people. The exact form which integration will take is yet to be confirmed and the final legislative framework will be informed by comments received as part of the consultation but it is recognised that integration will have a significant impact on how Local Authorities hold integrated services accountable.
- (b) Interim governance arrangements were agreed by the Policy and Strategy Committee on 2 October 2012 to support the integration of health and social care services. The shadow health and social care partnership will be made up of voting and non-voting members and will over see the establishment of a new joint HSCP from 1 April 2013, subject to Scottish Government legislation and guidance. Regular updates on developments will be reported to the Corporate Policy and Strategy Committee.

### **2.3 Future developments**

- (a) Following significant changes of senior personnel in 2011, the current Corporate Management Team (CMT) have been pro-active in addressing a range of issues which include: working corporately; developing a vision, values and strategic direction; and addressing the legacy internal governance and control issues.
- (b) The CMT is committed to ensuring that improvements are implemented by means of a single approach which brings together a wide range of reviews, change programmes and strategic projects, all of this reflecting the policy direction of elected members and the importance of an effective member/officer/public interface.
- (c) The wider governance review and a range of ongoing improvement actions have supported the Council to develop the following detailed plans to ensure there is scope to continue to achieve best value and provide key services all within the current financial constraints:
  - priority based planning: from January 2012, this approach has been undertaken to focus on aligning the Council's resources to the agreed priority outcomes, service delivery drivers and capital coalition pledges. The outcome of the process is the Council's draft 5 year budget framework that will support consultation with citizens and inform members' decision making throughout the budget process;

- Edinburgh transformation programme: a framework for transformation across the organisation and a range of Council services has been developed to support delivery of the Council's strategic outcomes, capital coalition pledges and single outcome agreement. The framework is aligned to the priority based planning approach and it will be a key focus of the upcoming budget process. The transformation framework has identified six themed areas for development including customer access and strategy, early intervention, personalisation, health and social care integration, community capacity building and partnership models. The themed approach to develop a framework and delivery plan for transformation activities ensures the Council can make significant progress in a strategic and cross cutting way; and
- operational excellence: in recognition of the requirement for the organisation to make significant progress to become more efficient and effective the Council agreed an operational excellence programme of work to implement improvement actions in relation to process transformation, business support services, property rationalisation, procurement, ICT strategy, corporate programme office, governance review, cooperative development unit and organisational development. A formal programme management approach is in place for the programme along with regular progress reporting to the Finance and Budget Committee.

### 3. Recommendations

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- 3.1 To note the progress outlined in relation to the key areas of the governance review referred to in section 2.1.
- 3.2 To note the progress outlined in relation to the main corporate risks referred to in section 2.2.
- 3.3 To note the future developments set out in section 2.3.
- 3.4 To agree that the Director of Corporate Governance will provide a progress report on operational governance and internal controls to the Governance, Risk and Best Value Committee on a quarterly basis.

Sue Bruce  
Chief Executive

# Appendix One

## Ernst & Young: Risk management – current state assessment

Area	Indicative basic practices	Indicative average practices	Indicative leading practices
<b>Governance</b>	<ul style="list-style-type: none"> <li>▶ Limited explicit ownership for overall governance</li> <li>▶ Policies and procedures for risk governance not formally defined</li> <li>▶ Implicit ownership for risks</li> <li>▶ Various stand alone committees with risk roles</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clear risk ownership across business and functions</li> <li>▶ Defined risk roles across Audit Committee and business risk forums, etc.</li> <li>▶ Policies and procedures exist and are communicated</li> <li>▶ Overall framework ensuring compliance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Explicit ownership of risk and clear evidence of accountability</li> <li>▶ Policies and procedures are enforced</li> <li>▶ Risk committee with integrated risk committee roles across Audit Committee and business risk forums, etc.</li> </ul>
<b>Risk strategy</b>	<ul style="list-style-type: none"> <li>▶ Various frameworks in place across organisation</li> <li>▶ Limited linkages of risk and stakeholder value</li> <li>▶ No explicit Risk Management (RM) strategic plan</li> <li>▶ No assurance mapping</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consistent framework rolled out across organisation</li> <li>▶ Linkage of risk to strategic goals</li> <li>▶ Overall RM plan to achieve compliance with regulatory requirements</li> <li>▶ Minimal view of all assurance requirements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Board sponsored, comprehensive framework fully embedded across organisation</li> <li>▶ Explicit linkage of stakeholder value and risk</li> <li>▶ Clear responsibilities and objectives established for RM</li> <li>▶ Integrated process of identifying assurance needs</li> </ul>
<b>Risk management processes</b>	<ul style="list-style-type: none"> <li>▶ Basic risk assessments and treatment provision across businesses</li> <li>▶ Limited risk management across core business processes</li> <li>▶ Risk management is reactive in nature</li> </ul>	<ul style="list-style-type: none"> <li>▶ Top down and bottom up risk assessment, with appropriate escalation processes</li> <li>▶ Business and functions working together</li> <li>▶ Risk management integrated into core processes with some modelling capability</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clear linkage between financial performance and risk management performance</li> <li>▶ Overall risk and treatment portfolio approach</li> <li>▶ Coordinated risk management within core processes, with appropriate quantification tools</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>▶ Limited use of technology to capture risks or monitor performance</li> <li>▶ Various simple databases used to analyse risk management information</li> <li>▶ Intranet used for simple document management</li> </ul>	<ul style="list-style-type: none"> <li>▶ Early warning system (EWS) based around KPIs</li> <li>▶ Risk repository and intranet operated by risk specialists</li> <li>▶ Various stand alone risk tools</li> <li>▶ Basic modelling tools for core processes</li> </ul>	<ul style="list-style-type: none"> <li>▶ Integrated EWS from financial and risk systems, using internal and external data</li> <li>▶ Sophisticated risk databases and intranet used by whole organisation</li> <li>▶ Complex modelling and simulation tools</li> </ul>
<b>Risk management functions</b>	<ul style="list-style-type: none"> <li>▶ Stand alone functions, with potential for overlap, and limited communication or sharing of information</li> <li>▶ Minimal reporting of risk and assurance from group functions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clearly defined roles across functions although stand alone</li> <li>▶ Elements of clear assurance planning by functions, coordinated with business</li> <li>▶ Formalised reporting</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fully coordinated assurance provision by functions (internal, outsourced and embedded)</li> <li>▶ Clear objectives for functions around cost savings, efficiency, assurance, learning, etc.</li> <li>▶ Performance improvement and adding value key objective for functions</li> </ul>
<b>Culture and capability</b>	<ul style="list-style-type: none"> <li>▶ Various policies and procedures in place although not fully reflective of actual operations</li> <li>▶ Limited clarity on skills needs with risk management training focused on specialist roles</li> <li>▶ Minimal use of performance measures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clear procedures across businesses and core functions with clarity of individual skills needs</li> <li>▶ Compliance focused risk management training</li> <li>▶ Reasonable coverage of individual performance measures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Organisation-wide risk management handbook with supporting roll out and communications</li> <li>▶ Interactive training programme linked to key processes and roles and individual development</li> <li>▶ Staff incentives based around individual risk based performance measures/scorecards, etc.</li> </ul>

▣ Status at May 2012    ▣ Recommended future state

## Appendix Two

### KPMG: Review of organisation wide controls

Area	Recommendations			Total	Phase two recommended
	High	Moderate	Low		
Organisation-wide controls		2	4	6	
Budget monitoring			2	2	
Performance management		5		5	Further review
Fraud	2	2	2	6	Further review
Accounts payable	5	3		8	Yes
Accounts receivable	2			2	Yes
Cash collection	3	3		6	Yes
Payroll		2	2	4	
Treasury		1	1	2	
Non-domestic rates		2		2	
<b>Total</b>	<b>12</b>	<b>19</b>	<b>12</b>	<b>43</b>	