

Notice of meeting and agenda

Finance and Resources Committee

10.00am, Friday 27 October 2017

Dean of Guild Court Room, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

Contact

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1. Order of business

- 1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2. Declaration of interests

- 2.1 Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3. Deputations

- 3.1 If any

4. Minutes

- 4.1 Minute of the Finance and Resources Committee of 28 September 2017 - submitted for approval as a correct record (circulated)

5. Forward planning

- 5.1 Finance and Resources Committee Key Decisions Forward Plan November 2017 to January 2018 (circulated)
- 5.2 Finance and Resources Committee Rolling Actions Log (circulated)

6 Business Bulletin

- 6.1 None.

7. Executive decisions

- 7.1 Revenue Budget Framework 2018/23 – Mid-Year Review - report by the Executive Director of Resources (circulated)
- 7.2 Capital Investment Framework 2018/19 – 2026/27 - report by the Executive Director of Resources (circulated)
- 7.3 Approach to Citizen Engagement on 2018/19 Budget and Council Change Themes - report by the Chief Executive (circulated)
- 7.4 Leith Walk Phase 4 - Appointment of Land Engineering - referral from the Transport and Environment Committee (circulated)

8. Routine decisions

- 8.1 Internal Audit Quarterly Update Report: 1 January 2017 - 30 June 2017 - referral from the Governance, Risk and Best Value Committee (circulated)

9. Motions

None.

Laurence Rockey

Head of Strategy and Insight

Committee Members

Councillors Rankin (Convener), Donaldson (Vice-Convener), Bridgman, Corbett, Howie, Hutchison, Johnston, Miller, Neil Ross, Watt and Whyte.

Information about the Finance and Resources Committee

The Finance and Resources Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council. The Finance and Resources Committee usually meets every eight weeks.

The Finance and Resources Committee usually meets in the Dean of Guild Court Room in the City Chambers on the High Street in Edinburgh. There is a seated public gallery and the meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Stuart McLean or Louise Williamson, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG, Tel 0131 529 4106 / 0131 527 4264 or e-mail stuart.mclean@edinburgh.gov.uk / louise.p.williamson@edinburgh.gov.uk

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

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Finance and Resources Committee

10.00am, Thursday, 28 September 2017

Present

Councillors Rankin (Convener), Donaldson (Vice-Convener), Bridgman, Corbett, Howie, Hutchison, Johnston, Miller, Neil Ross, Rose (substituting for Councillor Whyte) and Watt.

1. Minutes

Decision

To approve the minute of the Finance and Resources Committee of 5 September 2017 as a correct record.

2. Key Decisions Forward Plan

The Finance and Resources Committee Key Decisions Forward Plan for November 2017 to March 2018 was submitted.

Decision

To note the Key Decisions Forward Plan from for November 2017 to March 2018.

(Reference – Finance and Resources Committee Key Decisions Forward Plan, submitted.)

3. Rolling Actions Log

The Finance and Resources Committee Rolling Actions Log was submitted.

Decision

1) To agree to close the following actions.

Action 3 - Revenue Monitoring 2017/18 – Month Three Position

Action 4 - Revenue and Capital Budget Framework 2018/23 – Progress Update

Action 7 - Settlement Agreement with Viridor Waste Management Ltd

- 2) To otherwise note the rolling actions log.

(Reference – Rolling Actions Log, submitted.)

4. Business Bulletin

Decision

To note the Finance and Resources Committee Business Bulletin.

(Reference – Business Bulletin, submitted.)

5. Revenue Budget Monitoring 2017/18 – Update

Details were provided on the current projections of expenditure and income with mitigating actions identified to bring net expenditure back in line with approved levels over the remainder of the year.

Decision

- 1) To note there was a slight improvement in the net overall projected position for the year, albeit this included a further worsening of the outturn forecast within Health and Social Care.
- 2) To note that an intensive four-week period of review of current and planned employee cost expenditure had been initiated across all Directorates to identify further potential efficiencies.
- 3) To note that more detailed, service-specific monitoring updates would continue to be considered at relevant Executive Committees.
- 4) To note that the Interim Chief Officer of the Edinburgh Health and Social Care Partnership would provide a service-specific update to the Finance and Resources Committee on 7 November 2017.
- 5) To note that a further, Council-wide update would also be brought to the Finance and Resources Committee's meeting on 7 November 2017.

(References – Finance and Resources Committee, 5 September 2017 (item 6); report by the Executive Director of Resources, submitted.)

6. City of Edinburgh Council 2016/17 Annual Audit Report to the Council and the Controller of Audit - referral from the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee on 26 September 2017 considered a report that outlined the principal findings arising from the Council's 2016/17 external

audit. The report was referred to the Finance and Resources Committee for approval of the audited Annual Accounts for 2016/17.

Decision

- 1) To approve the audited Annual Accounts for 2016/17.
- 2) To refer the audited Annual Accounts for 2016/17 to Council for noting.

(References – Governance Risk and Best Value Committee, 26 September 2017 (item 8); joint report by the Chief Executive and the Executive Director of Resources, submitted)

7. The City of Edinburgh Council Charitable Trusts – Report to Those Charged with Governance on the 2016/17 Audit

Committee considered a report which detailed the External Auditor's view on matters which arose from their audit in compliance with International Standard on Auditing 260, in respect of the City of Edinburgh Council's Charitable Trusts.

Decision

- 1) To approve the Audited Trustee's Annual Report and Accounts for 2016/17 and note that these would be submitted to the External Auditor by 29 September 2017 and to OSCR by 31 December 2017.
- 2) To note the commentary on the management of the Charitable Trusts included in the Audit Management Report in Appendix 1 to the report by the Executive Director of Resources.
- 3) To note that the Usher Hall Conservation Trust would now be formally wound up, as approved by the Finance and Resources Committee on 23 February 2017.

(References – Finance and Resources Committee, 23 February 2017 (item 14); report by the Executive Director of Resources, submitted)

8. Adoption of the Scotland Excel Framework Agreement for the Supply and Delivery of Education and Office Furniture

Approval was sought for the adoption and implementation of the Scotland Excel Framework for the Supply and Delivery of Education and Office Furniture.

Decision

To approve the adoption and implementation of the Scotland Excel Framework for the Supply and Delivery of Education and Office Furniture, which would be active from 1

May 2017 to 29 February 2020 with the option to extend for a further 12 months with an estimated value of £2.98m.

(Reference – report by the Executive Director of Resources, submitted)

9. Adoption of the Scotland Excel Framework Agreement for the Supply and Distribution of Frozen Foods

Approval was sought for the adoption and implementation of the Scotland Excel Framework for the Supply and Distribution of Frozen Foods.

Decision

To approve the adoption and implementation of Lot 2 (distribution) and Lot 3 (supply and distribution) of the Scotland Excel Framework for Supply and Distribution of Frozen Foods, from 28 September 2017 to 30 June 2019, with the option to extend until 30 June 2021.

(Reference – report by the Executive Director of Resources, submitted)

10. Contract for Telecom Services (Mobile and Fixed Lines)

Approval was sought for the adoption of the Crown Commercial Services Framework Agreement, RM1045, for Network Services.

Decision

To approve the adoption of the Crown Commercial Services Framework Agreement, RM1045, for Network Services and to delegate authority to the Executive Director of Resources to finalise and award a contract to Telefonica UK Ltd for Telecom Services (Mobile and Fixed Line) for a period of three years commencing 1 October 2017.

(Reference – report by the Executive Director of Resources, submitted)

11. Community Empowerment (Scotland) Act 2015: Proposed Consultation response on Common Good Matters

Approval was sought for the Council's response to the Scottish Governments consultation in relation to Common Good property.

Decision

- 1) To approve the Council's response to the Scottish Government consultation in relation to Common Good property subject to the following changes:
 - To recommend a further tab be added to the register that would highlight properties that were under investigation.
 - The period of consultation should be flexible.

2) To refer the report to the Corporate Policy and Strategy Committee for noting.

(Reference – report by the Executive Director of Resources, submitted)

12. Framework Agreement – Reception, Handling and Transfer of Waste

Approval was sought to appoint four Suppliers to a Framework Agreement for the Reception, Handling and Transfer of Waste.

Decision

To approve the appointment of the following Suppliers to a Framework Agreement (Framework) for the Reception, Handling and Transfer of Waste for a period of 13 months from November 2017 with the option to extend up to a further 12-month period to:

- Viridor Waste Management Ltd;
- Biffa Waste Management Ltd;
- NWH Group; and
- William Tracey Group.

(References – Finance and Resources Committee, 23 February 2017 (item 28); report by the Executive Director of Place, submitted.)

13. System Integration Feasibility for the Edinburgh Tram Extension – Award under Urgency Provisions

The Committee was asked to note that in consultation with the Convenor and Vice Convenor of the Finance and Resources Committee and in line with the Council's Contract Standing Orders and the Scheme of Delegation, the Council had awarded a Contract to Siemens Ltd for the maximum value of £150,000 to provide professional services to support the Council in formalising the approach to the procurement of the Systems Installation and Integration as part of the Edinburgh Tram Extension Project.

Decision

- 1) To note the Convenor and Vice Convenor of the Finance and Resources Committee provided Delegated Authority to the Executive Director of Place to award a contract to Siemens for a maximum value of £150,000 under the Urgency Provisions as detailed in the Contract Standing Orders.

- 2) To note that in the event that Stage 2 of project development was not approved by Council on 21 September 2017 all work would cease with Siemens and the Council would only be liable for expenditure incurred up to that date.

(References – Act of Council No 1(b) of 21 September 2017; report by the Executive Director of Place, submitted)

14. City Chambers – New Lease to Electoral Commission

Approval was sought to grant a new 10 year lease to the Electoral Commission on the terms and conditions outlined in the report by the Executive Director of Resources.

Decision

To approve a new 10 year lease to the Electoral Commission of rooms 3.7, 3.8 and 3.9 at City Chambers on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

15. Proposed New Lease, Nelson Hall, 5 Spitalfield Crescent, Edinburgh

Approval was sought for the lease of Nelson Hall to SCOOSH on the terms outlined in the report and other terms and conditions to be agreed by the Executive Director of Resources.

Decision

To approve the lease of Nelson Hall to SCOOSH on the terms outlined in the report and other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

16. Restructure of Various Leases at Leith Links, Edinburgh

Approval was sought to grant new leases to Leith Community Crops in Pots and Leith Athletic Football Club on the terms and conditions outlined in the report by the Executive Director of Resources.

Decision

To approve the new leases to Leith Community Crops in Pots and Leith Athletic Football Club on the terms outlined in the report and on other terms and conditions to be agreed by the Executive Director of Resources.

(Reference – report by the Executive Director of Resources, submitted)

17. Award of Contracts for the Delivery of Mental Health Wellbeing Services

Approval was sought to award 27 contracts for the delivery of Mental Health Wellbeing Services for the period 1 November 2017 to 31 October 2019.

Decision

- 1) To approve the award of the 27 contracts to the 18 providers listed in Appendix 1 of the report by the Interim Chief Officer, Edinburgh Health and Social Care Partnership, for the period 1 November 2017 to 31 October 2019.
- 2) To agree that as these contracts would facilitate a test of concept and change that the Chief Officer of the Edinburgh Integration Joint Board (EIJB) be given discretion, after consulting providers, to make reasonable variations to contract service specifications where interim evaluation of the test indicates these would be beneficial.

(References – Edinburgh Integration Joint Board, 14 July 2017 (item 8); report by the Interim Chief Officer, Edinburgh Health and Social Care Partnership, submitted.)

18. Award of Contracts for the Provision of Domestic Abuse Services

The Convener ruled that the following item, notice of which had been given at the start of the meeting, be considered as a matter of urgency as the contracts referenced within the report by the Interim Head of Service, Safer and Stronger Communities were due to commence on the 1 November 2017 and to allow the report to be continued to a future meeting would put service users at risk.

Approval was sought to award four contracts for the provision of domestic abuse services.

Decision

To approve the award of a contract to the following providers for the provision of Domestic Abuse Services, which would commence on 9 November 2017 and operate for an initial period of 24 months, with the option to extend for a further period of 12 months:

- Edinburgh Women Aid an award of £480,667 per annum.
- Shakti Women's Aid an award of £311,100 per annum.

- Four Square (trading as Keymoves Cranston Street) an award of £230,880 per annum.
- Comas (Woman zone) an award of £40,192 per annum.

(Reference – report by the Interim Head of Service, Safer and Stronger Communities, submitted.)

19. Resolution to Consider in Private

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following items of business on the grounds that they involved the disclosure of exempt information as defined in Paragraphs 6, 8 and 10 of Part 1 of Schedule 7(A) of the Act.

20. Settlement Agreement with Viridor Waste Management Limited

Approval was sought for a settlement agreement with Viridor Waste Management Limited (“Viridor”) to cover various issues arising out of a long-standing waste contract.

Decision

Detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Executive Director of Place, submitted)

21. 329 High Street – Update on Proposed Disposal

Approval was sought to continue with the disposal on the basis of revised terms and Conditions as outlined in the report by the Executive Director of Resources.

Decision

Detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.

(References – Finance and Resources Committee, 23 March 2017 (item 31); report by the Executive Director of Resources, submitted.)

22. Miscellaneous Debts Write-Off

Details of miscellaneous debt that were outstanding and deemed uncollectable were presented.

Decision

- 1) To agree the write-off from miscellaneous debt.

- 2) To note the position on the use of registered inhibitions as part of the debt recovery process.

(References – Corporate Policy and Strategy Committee, 8 August 2017 (item 13); report by the Executive Director of Resources, submitted)

Finance and Resources Committee – 27 October 2017 November 2017 to January 2018

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
1.	Proposed Community Asset Transfer Request – Former Gilmerton Dykes Bothy	7 November 2017		Executive Director of Resources Lead Officer: Shaun Crosby 0131 469 5228 shaun.crosby@edinburgh.gov.uk	
2.	Bus Tracker – Future Provision	7 November 2017		Executive Director of Place Lead Officer: Ewan Kennedy 0131 469 3575 ewan.kennedy@edinburgh.gov.uk	
3.	Revenue Monitoring 2017/18 – month five position	7 November 2017		Executive Director of Resources Lead Officer: Fraser Rowson 0131 469 3166 fraser.rowson@edinburgh.gov.uk	
4.	Capital Monitoring 2017/18 – month five position	7 November 2017		Executive Director of Resources Lead Officer: Denise Pryde 0131 469 3195 denise.pryde@edinburgh.gov.uk	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
5.	Chief Executive Revenue monitoring 2017/18 - month five position	7 November 2017		Executive Director of Resources Lead Officer: Iain Shaw 0131 469 3117 iain.shaw@edinburgh.gov.uk	
6.	Resources Revenue budget monitoring 2017/18 - month five position	7 November 2017		Executive Director of Resources Lead Officer: Iain Shaw 0131 469 3117 iain.shaw@edinburgh.gov.uk	
7.	Treasury Management: Mid-term Report 2017/18	7 November 2017		Executive Director of Resources Lead Officer: Iain Shaw 0131 469 3117 iain.shaw@edinburgh.gov.uk Amanda Livingstone 0131 469 6295 amanda.livingstone@edinburgh.gov.uk	
8.	New lease to Edinburgh Headway Group at 27 Peffer Place.	7 November 2017		Executive Director of Resources Lead Officer: Andrew McCurrach 0131 529 4682 andrew.mccurrach@edinburgh.gov.uk	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
9.	Proposed 5 year lease of Unit 1 The Clocktower, Flassches Yard, South Gyle Crescent, Edinburgh	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 graeme.mcgartland@edinburgh.gov.uk	
10.	Edinburgh Health and Social Care Partnership – Update on Financial Position of Council Services	7 November		Interim Chief Officer, Edinburgh Health and Social Care Partnership Lead Officer: Michelle Miller 0131 553 8201 michelle.miller@edinburgh.gov.uk	
11.	Workforce Dashboard	7 November 2017		Executive Director of Resources Lead Officer: Katy Miller 0131 469 5522 katy.miller@edinburgh.gov.uk	
12.	Award of Contract for the Provision of Occupational Health Services and Employee Assistance Programme	7 November 2017		Executive Director of Resources Lead Officer: Paul Dickson 0131 529 5736 paul.dickson@edinburgh.gov.uk	
13.	Award of Clerk of Works Framework	7 November 2017		Executive Director of Resources Lead Officer: John Jackson 0131 529 4562 john.jackson2@edinburgh.gov.uk	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
14.	Boroughmuir High School, Viewforth, Bruntsfield: Update on Proposed Sale	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 graeme.mcgartland@edinburgh.gov.uk	
15.	Open Framework for Learning and Development – Contract Ref: CT2132	7 November 2017		Executive Director of Resources Lead Officer: Margaret-Ann Love 0131 529 6476 margaretann.love@edinburgh.gov.uk	
16.	Pupil Equity Funding Open Framework Agreement	7 November 2017		Executive Director of Resources Lead Officer: Neil Fraser 0131 469 3813 neil.fraser@edinburgh.gov.uk	
17.	Homelessness Prevention – Locality Support Services	7 November 2017		Chief Executive Lead Officer: Nicky Brown 0131 529 7589 nicky.brown@edinburgh.gov.uk	
18.	Adoption of the Scotland Excel Framework Agreement for the Supply and Delivery of Personal Protective Equipment	7 November 2017		Executive Director of Place Lead Officer: Murray Black 0131 469 5232 murray.black@edinburgh.gov.uk	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
19.	Transport Infrastructure Framework – Award under Delegated Authority	7 November 2017		Executive Director of Place Lead Officer: Cliff Hutt 0131 469 3751 cliff.hutt@edinburgh.gov.uk	
20.	329 High Street – Update on Proposed Disposal B Agenda Item	7 November 2017		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 graeme.mcgartland@edinburgh.gov.uk	
21.	LDP Action Programme	23 January 2018		Executive Director of Place Lead Officer: David Leslie 0131 529 3948 david.leslie@edinburgh.gov.uk	
22.	Edinburgh Shared Repairs Service and Legacy Report	23 January 2018		Executive Director of Resources Lead Officer: Andrew Field 0131 529 7354 andrew.field@edinburgh.gov.uk Jackie Timmons 0131 529 4946 jackie.timmons@edinburgh.gov.uk	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
23.	Barclay Review	23 January 2018		Executive Director of Resources Lead Officer: Fraser Rowson 0131 469 3166 fraser.rowson@edinburgh.gov.uk	
24.	Fountainbridge - Proposed Disposal of Land	23 January 2018		Executive Director of Resources Lead Officer: Graeme McGartland 0131 529 5956 graeme.mcgartland@edinburgh.gov.uk	
25.	HRA Budget Strategy 2018/19 to 2023/24	23 January 2018		Executive Director of Place Lead Officer: Lisa Mallon 0131 529 6291 lisa.mallon@edinburgh.gov.uk	
26.	Asset Management Strategy	23 January 2018		Executive Director of Resources Lead Officer: Peter Watton 0131 529 5962 peter.watton@edinburgh.gov.uk	
27.	Proposed Lease Extension at Unit 33, the Loan, Viewforthbank Industrial Estate, South Queensferry, EH30 9SD	23 January 2018		Executive Director of Resources Lead Officer: Iain Lamont 0131 529 7610 iain.lamont@edinburgh.gov.uk	

Item	Key decisions	Expected date of decision	Wards affected	Director and lead officer	Council Commitments
28.	Affordable Homes Transfer Sites Update	23 January 2018		<p>Executive Director of Resources Lead Officer: Elaine Scott 0131 529 6790 e.h.scott@edinburgh.gov.uk</p> <p>Peter Watton 0131 529 5962 peter.watton@edinburgh.gov.uk</p>	
29.	Granton Waterfront - Proposed Purchase of National Grid Site to Accelerated Housing Led Regeneration B Agenda Item	23 January 2018		<p>Executive Director of Place Lead Officer: Michelle Fraser 0131 529 3150 michelle.fraser@edinburgh.gov.uk</p>	

Finance and Resources Committee

7 November 2017

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	23/02/17	Strategic Direction for Tackling Homelessness	To agree that the Head of Safer and Stronger Communities would report back to a future Committee on the impact the implementation of the new Homelessness Strategy would have on shortening the period of contract extensions.	Head of Safer and Stronger Communities	23 January 2018		Ongoing
2	23/03/17	Health and Safety Performance 2016	To agree an update report would be provided to a future Committee.	Executive Director of Resources	March/April 2018		This is an annual report. Next report due March/April 2018. Recommended for closure.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
3	5/09/2017	Revenue and Capital Budget Framework 2018/23 – Progress Update	To agree that a further report be submitted following the publication of the Scottish Government's response to the Barclay Review, and that this report would outline the implications for the council and service users.	Executive Director of Resources	23 January 2018		
4	28/09/2017	Revenue Budget Monitoring 2017/18 – Update	To note that the Interim Chief Officer of the Edinburgh Health and Social Care Partnership would provide a service-specific update to the Finance and Resources Committee on 7 November 2017.	Executive Director of Resources	7 November 2017		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
5	28/09/2017	Revenue Budget Monitoring 2017/18 – Update	To note that a further, Council-wide update would also be brought to the Finance and Resources Committee’s meeting on 7 November 2017.	Executive Director of Resources	7 November 2017		
6	28/09/2017	329 High Street – Update on Proposed Disposal (B Agenda)	To continue consideration of the report for 1 cycle.	Executive Director of Resources	7 November 2017		

Finance and Resources Committee

10.00am, Friday, 27 October 2017

Revenue budget framework 2018/23 – mid-year review

Item number	7.1
Report number	
Executive/routine	
Wards	

Executive summary

At its meeting on 5 September 2017, members of the Finance and Resources Committee considered an update report on the Council's revenue budget framework, setting out revised savings requirements for the five-year period to 2022/23. This report highlighted an incremental savings requirement in 2018/19 of at least £11.3m but with the potential for this sum to increase significantly if sustainable means of addressing in-year pressures could not be identified.

In view of the underlying pressures within the Health and Social Care and Safer and Stronger Communities services, the draft budget framework for 2018/19 presents proposals, including savings linked to a number of medium-term themes, totalling £20.9m, sufficient to address these additional expenditure requirements on a sustainable basis. Members' approval is sought to issue these proposals for a period of public engagement prior to setting the Council's 2018/19 budget in February 2018.

In view of larger estimated savings requirements in subsequent years of the framework, however, the proposals are best viewed as a first step on a longer journey of service transformation.

Revenue budget framework 2018/23 – mid-year review

1. Recommendation

- 1.1 Members of the Finance and Resources Committee are asked to:
- 1.1.1 note the contents of this report in the context of considering the Council's revenue budget framework;
 - 1.1.2 approve the release for engagement of the draft proposals included in Appendix 2 which together provide the basis of an anticipated balanced position for 2018/19 as part of a longer-term framework;
 - 1.1.3 authorise Executive Directors to take forward, in conjunction with Conveners and Vice-Conveners, any remaining detailed planning and development of the savings proposals contained within the budget framework including, where appropriate to a savings proposal, staff release and planning, development and consultation in accordance with the Council's Organisational Review procedure.

2. Background

- 2.1 In approving the 2016/17 budget, Council established the principle of a mid-year review, formally monitoring progress in the delivery of the Council's financial commitments and objectives and acting as an early warning system to highlight any potential in-year and future risks.
- 2.2 The first such review was considered by the Finance and Resources Committee on 29 September 2016 and was acknowledged as a positive and worthwhile enhancement to the budget process. This year's report therefore adopts a similar format and addresses, in turn, the following key areas:
- progress in delivering approved budget savings;
 - additional factors, or changes to existing assumptions, impacting on the budget framework;
 - progress in taking forward the actions included within the approved budget motion;
 - management of service-specific and corporate risks and pressures; and

- specific proposals/groups of proposals to form the focus of public engagement.
- 2.3 In addressing these points, members' attention is drawn to the budget framework progress update considered by the Finance and Resources Committee on 5 September 2017 which apprised members in detail of changes to budget framework expenditure and income assumptions.
- 2.4 The Committee is also reminded that the revenue framework is one of the key elements of the Council's integrated planning process, which will include:
- the Council's priorities, as set out in the recently-approved Council Business Plan;
 - key performance indicators and outcome measures detailed in the refreshed Council performance framework; and
 - the resources available to the Council to deliver its priorities and performance, as detailed through the budget setting and engagement process.

3. Main report

Delivery of approved budget framework savings

- 3.1 While the setting of the Council's budget signifies the formal approval of the proposals concerned, this ratification forms part of a much longer cycle of option development, public and service engagement, implementation and subsequent savings delivery. Regular progress updates on the delivery of all approved savings for 2017/18 have been considered by both the Corporate Leadership Team and elected members, including review by the Finance and Resources Committee and other relevant Executive Committees, as well as scrutiny by the Governance, Risk and Best Value Committee. As in 2016/17, this process began well in advance of budget approval in February and has proven effective in highlighting at an early stage potential barriers to full delivery and, where necessary, informing the subsequent development and assessment of alternative measures, whether at service-wide or Council-wide level.
- 3.2 As of the end of August and based on actions planned or already undertaken, of a total of £39.5m of approved savings in 2017/18, some 80% by value are on track to be delivered. The majority of savings not anticipated to be delivered are those of a transformational or demand-led nature within Health and Social Care, with the remainder representing savings within the Place Directorate linked to the Roads and Waste Services transformation plans.
- 3.3 Amber-assessed savings represent, in the main, those where interim or one-off funding solutions have been identified. As is crucial with all aspects of the budget framework, however, sustainable solutions are required to address any recurring shortfalls going forward and thereby maintain its integrity.

- 3.4 Members will also be aware that the most recent revenue monitoring update considered by the Finance and Resources Committee on 28 September 2017 pointed, without further remedial action, to a potential overall year-end overspend of £4.0m, representing the net effect of significant overspends in Health and Social Care (£9.1m) and Safer and Stronger Communities (£3.5m), offset by one-off savings (or savings already assumed in the budget framework in future years) of £8.6m.
- 3.5 In light of the projected position at that time, the report confirmed that a further tightening of financial and workforce controls had been implemented. Combined with a review of discretionary expenditure priorities, the identification of additional income and active management of risks and pressures for the remainder of the year, it is anticipated that this will allow a projected balanced position to be reported to the Finance and Resources Committee's next meeting on 7 November 2017.
- 3.6 While the improvement in the overall projected position is to be welcomed, underlying pressures within the Health and Social Care and Safer and Stronger Communities services require to be addressed on a sustainable basis to ensure a stable longer-term financial position. The implications of this need for sustainability upon the savings requirement for 2018/19 and subsequent years are set out in the following sections.

Review of budget framework assumptions

- 3.7 At the Committee's meeting on 5 September 2017, members received a comprehensive overview of the conclusions of a review of the key expenditure and income factors impacting upon the Council's activities, taking account as appropriate of UK and Scottish Government policy announcements, economic forecasts and wider population trends. The net impact of these changes resulted in revised incremental and cumulative savings requirements as follows:

	Annual savings requirements	
	Incremental	Cumulative
	£m	£m
2018/19	11.3	11.3
2019/20	42.2	53.5
2020/21	38.1	91.6
2021/22	25.0	116.6
2022/23	25.0	141.6

- 3.8 The report emphasised, however, that the above requirements were predicated on the attainment of a balanced and sustainable position in 2017/18. The majority of measures identified in bringing expenditure back in line with budgeted levels in the current year are of a one-off nature or are already assumed in determining the savings requirements shown above. On this basis, the Council's financial strategy for 2018/19 also seeks the identification of savings sufficient to address the underlying structural pressures within Health

and Social Care (£9.1m) and Safer and Stronger Communities (£3.5m) on a sustainable basis.

Health and Social Care

- 3.9 Members may be aware that previous years' resource allocations for Health and Social Care have been underpinned by the assumed delivery of significant transformation-related savings linked to improved demand management. These savings have, however, generally not been realised at the levels anticipated. While the provision of additional financial support from the Social Care Fund has mitigated the impact of these shortfalls, in view of the wider challenges facing the Council, a £3m savings target, representing savings originally planned for delivery in earlier years, has been set in 2018/19, with the development of a number of specific initiatives underway. A progress update in this area will be provided by the Interim Chief Officer of the Health and Social Care Partnership at the Finance and Resources Committee's next meeting on 7 November 2017, with further details provided during both the budget engagement period and prior to budget-setting in February 2018.
- 3.10 The Interim Chief Officer is also seeking nominations from each locality for a practitioner to take part in a pilot project, seeking to reduce levels of formal domiciliary care support for a small number of people by finding alternative ways to meet some of their needs, while ensuring that any risks to the individual are clearly understood and managed. Assuming the initiative is successful, when rolled out more widely, this should create some further capacity and/or financial savings. This personalisation ethos also underlies some longer-term savings initiatives and should therefore give an indication of their wider viability.
- 3.11 The Interim Chief Officer is also reviewing all uncommitted balances in the Social Care Fund and Integrated Care Fund, with a number of actions to review internal controls, improve management information and mitigate financial risks furthermore initiated.

Overall position

- 3.12 Taken together, the net impact of funding underlying pressures in Health and Social Care and Safer and Stronger Communities (£12.6m) and assumed savings in Health and Social Care (£3m) results in a revised savings requirement in 2018/19 of £20.9m. At this stage, the incremental requirements for subsequent years remain unchanged, resulting in a requirement of £101.2m by 2020/21 and £151.2m by 2022/23.
- 3.13 Although no other changes have been reflected within the framework at this time, a number of other factors have the potential to affect the overall savings requirement over the period of the framework, including:
- net costs arising from the progressive consolidation of the Living Wage within the Council's pay structures agreed as part of the employer's pay settlement for Local Government employees for 2017/18;

- potential further increases in employer's superannuation contribution rates, particularly for teachers, from 2019/20;
- a number of potential direct or indirect welfare reform-related impacts upon the Council's expenditure or income streams, including changes resulting from the full roll-out of Universal Credit in June 2018, re-tendering of the Council's Private Sector Leasing and Temporary Accommodation contracts in April 2018 and other changes in eligibility for Housing Benefit support of costs incurred by the Council. The Council will continue to support local government-wide efforts to highlight the potential financial impacts of these changes and, where feasible, reconfigure services to mitigate their impact; and
- progress in realising the £9.6m of savings previously approved, or now anticipated, to be delivered in 2018/19 and 2019/20, particularly those relating to fundamental service redesign within the Customer and Property and Facilities Management functions of the Resources Directorate.

Government Grant funding

- 3.14 The determination of the level of grant funding support provided to the Council is the complex product of the operation of the Scottish Government's Fiscal Framework, taxation policy, national spending priorities and the intricacies of the Local Government Finance Settlement. This notwithstanding, local government-wide grant projections included within the recently-published *Fraser of Allander Institute Scotland's Budget Report 2017* were consistent with those assumed within the budget framework. The Institute's report concluded that there is a fundamental need to re-examine the balance and scale of public funding in Scotland, with the means of service delivery, prioritisation and a re-assessment of how resources are raised all likely to be required; continuing as before is not an option if Scotland's devolved budget is to be sustainable in the long term.
- 3.15 While forming part of the broader funding position for Local Government, there is also the potential for additional calls on the Council, either directly or indirectly, to result from changes to current Non-Domestic Rates charitable relief afforded to arm's length organisations, in particular Edinburgh Leisure and the Festival City Theatres Trust. The Scottish Government has confirmed that it will publish its response to the Barclay Review's recommendations in this area by the end of the year.
- 3.16 Following the initial announcement on 15 December 2016, a revised Local Government Finance Settlement was then issued on 2 February 2017, reflecting the provision of an additional £130m of assumed one-off revenue, and £30m capital, resources across Scotland, with Edinburgh's respective allocations being £9.998m and £2.278m. The Council's approved use of these funds is included in Appendix 1. Members are reminded that these sums are not included in the budget framework and that continuation of any of the sums listed would require

a corresponding upward revision to the 2018/19 savings requirement and, by extension, the identification of additional savings.

Progress in delivery of further actions set out within budget motion

3.17 In addition to approving a range of specific savings proposals, the budget motion in February 2017 instructed officers to undertake a number of wider actions. Since that time, in response to these actions, progress has been made as follows:

- (i) on 20 July, the **City Region Deal** was signed by the UK and Scottish Governments, the Council Leader on behalf of the area's six participating local authorities and representatives of four area higher education institutions. The deal commits the two Governments and area partners, subject to the development of detailed business cases and appropriate governance arrangements, to over £1bn of investment spanning a number of key growth sectors across the region;
- (ii) continuing implementation of the Council's **transformation programme**, with planned savings delivered in the majority of areas and improvement plans being implemented in a number of key functions such as Waste Services, Roads and Health and Social Care;
- (iii) significant improvements in **maximising the level of income available to support delivery of key services**, including achieving the highest-ever Council Tax collection rate in 2016/17, initiating a fresh programme of verification for Council Tax Single Person Discount entitlement and generating additional capital receipts and rental income from more active marketing of the Council's property assets. Work is also underway to market retained civic facilities, particularly the City Chambers, more effectively. Although each is dependent upon enactment of Scottish Parliamentary legislation, the potential to introduce a Transient Visitor Levy and/or Workplace Parking Levy is furthermore being explored; and
- (iv) on-going review of the **effectiveness of the Council's operating structures**, including the community safety function, in the delivery of its priority outcomes. The Council is also actively considering re-introduction of an Empty Homes Officer funded from additional Council Tax revenues.

Management of risks and pressures

3.18 While the focus of the budget process is generally on the specific new measures that form the basis of elected member and public consideration, active management of risks and pressures is also vital to delivering a balanced budget and thereby maintaining financial stability. Executive Directors' responsibilities to manage such risks and pressures within a balanced overall position are enshrined within the Financial Regulations.

3.19 As outlined in the preceding sections, in-depth analysis of the current year's monitoring position points to structural shortfalls within both the Health and

Social Care and Safer and Stronger Communities functions, recognised in the provision of gross additional funding of £12.6m for these services being incorporated in the budget framework.

- 3.20 A number of other Council services, particularly those within the Place Directorate, are experiencing pressures of a demand-led nature. The Executive Director of Place has, however, developed plans to return the Waste and Roads Services to a balanced position over the medium-term and, as a result of offsetting savings identified elsewhere within the Directorate, no additional provision has been incorporated within the budget framework at this time.
- 3.21 At a corporate level, the Council continues to operate in an inherently fluid and complex environment, influenced by decisions taken at local, Scottish and UK-wide level. The Council's recently-published Annual Audit Report concluded, however, that it has a well-developed financial strategy, a strong track record of delivering against its revenue budget (the balanced position achieved in 2016/17 was the tenth successive year in which expenditure had been maintained within budgeted levels) and effective wider financial management arrangements, including those relating to the management of financial risk, with the annual risks and reserves report considered by the Committee highlighted as an area of good practice.

Budget framework proposals

- 3.22 Members of the Committee have considered a number of recent reports setting out the current year's financial position. While, as noted in Paragraph 3.5, a balanced overall position is now being forecast in 2017/18, this is dependent upon use of one-off or other measures already assumed within the budget baseline. This stabilisation phase forms the first step of re-establishing Council-wide financial sustainability.
- 3.23 The second phase, that of consolidation, involves financial acknowledgement of the underlying structural deficits within the Health and Social Care and Safer and Stronger Communities services, developing proposals sufficient to address both these pressures and the pre-existing savings requirement. These proposals have been developed through a series of themed workstreams and are grouped accordingly in Appendix 2. Specific proposals to a total value of £17.756m have been identified, with the balance of £3.144m to be addressed through a number of Council-wide themes as set out within the appendix. These savings proposals have taken appropriate account of local and national policy commitments, thereby maximising the level of investment available for continued investment in priority outcomes.
- 3.24 Taken together, these proposals, if all approved and the associated savings delivered, would address in full the Council's anticipated savings requirement in

2018/19. Any proposals not taken forward would require the identification of alternative, or additional, savings in other areas of the framework.

- 3.25 Identifying and implementing proposals to a value of £20.9m will go a significant way towards retaining financial stability across the period of the budget framework. It is clear, however, that much more fundamental transformation will be required, including taking opportunities to maximise income, enhance commercial excellence and contract management, review workforce management, asset optimisation (including fleet and staff and client transport), share services, improve demand management and investing in preventative services and, ultimately, service prioritisation will be required if the Council is to address its longer-term financial challenges.
- 3.26 The start of this third transformational phase will be initiated in the latter part of 2018/19 and indicative savings linked to the wider themes outlined above should be seen in this light. It is anticipated that a more detailed pipeline of opportunities in these areas, alongside progress updates in savings initiatives underway within Health and Social Care, will be reported to members during the engagement period. Dependent upon the implementation of the approved savings and management of other risks and pressures, development of these opportunities may offer the potential for their acceleration into 2018/19, should this be required. Members are reminded, however, of the anticipated larger savings requirements in subsequent years of the framework and that the 2018/19 proposals are best seen as an initial step on a much longer journey.
- 3.27 Subject to approval by the Committee, these proposals will now form the basis of a seven-week period of engagement, the main elements of which are summarised in a report elsewhere on today's agenda. Members' approval is additionally sought to authorise Executive Directors to take forward, in conjunction with Conveners and Vice-Conveners, any remaining detailed planning and development of the savings proposals contained within the budget framework including, where relevant to a savings proposal, staff release, planning, development and consultation in accordance with the Council's Organisational Review procedure.

4. Measures of success

- 4.1 Relevant measures in setting the revenue budget include:
- Accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2018/19 and subsequent years to be set as part of a sustainable longer-term framework;
 - Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and

- Subsequent delivery of the approved savings, particularly where these are linked to additional service investment, along with key service performance indicators.

5. Financial impact

- 5.1 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.
- 5.2 By adapting more prudent assumptions with respect to pay awards and grant funding levels, the budget framework offers elected members the potential to consider a wider range of savings and investment options should actual levels vary from these assumptions.

6. Risk, policy, compliance and governance impact

- 6.1 An annual report on the risks inherent in the budget process is considered by the Finance and Resources Committee in January and referred to Council as part of setting the revenue and capital budgets.
- 6.2 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts outlined in the respective budget proposals.
- 6.3 A summary of progress in respect of savings delivery is reported to the Finance and Resources Committee on a quarterly basis, with additional detail and commentary on risks, mitigations and alternative measures (as appropriate) reported to Executive Committees.

7. Equalities impact

- 7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

8. Sustainability impact

- 8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas.

9. Consultation and engagement

- 9.1 As in previous years, an extensive programme of engagement on the specific proposals and wider themes comprising the framework will be undertaken. A separate report on the approach to citizen engagement for the 2018/19 budget process is included elsewhere on today's agenda.

10. Background reading/external references

[Capital Coalition Budget Motion](#), City of Edinburgh Council, 9 February 2017

[Revenue and Capital Budget Framework 2018/23 – progress update](#), Finance and Resources Committee, 5 September 2017

[Revenue Budget Monitoring 2017/18 – Update](#), Finance and Resources Committee, 28 September 2017

[City of Edinburgh Council 2016/17 Annual Audit Report to the Council and the Controller of Audit](#) – referral from the Governance, Risk and Best Value Committee, Finance and Resources Committee, 28 September 2017

[Fraser of Allander Institute – Scotland's Budget Report 2017, University of Strathclyde Business School, September 2017](#)

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11. Appendices

Appendix 1 - Additional approved service investment, 2017/18

Appendix 2 – Budget Framework 2018/19 – proposals for public engagement

Theme	Summary description of investment	Allocation (£m)
Early intervention and prevention	Co-ordinated programme of workforce learning and development and targeted investment in preventative initiatives across the areas of children’s services, mental health and homelessness services.	2.000
Pavement and road repairs	<p>Programme of targeted investment, informed by Road Condition Survey, including full-year funding for localities “hot” (permanent) repair squads and additional footways spend.</p> <p>The funding will increase investment in cycling-related provision by a further £0.250m, supplementing the additional spend underpinning the approved 10% budget commitment.</p>	2.500
Building maintenance and repairs	The additional funding will complement the existing strategy of prioritising available resources to prevent further deterioration of the Council’s property estate.	2.000
Libraries	For 2017/18, existing opening hours will be maintained for a further year.	1.798
“Clean and green” – tenement recycling, waste services and energy initiatives	<p>Delivery of targeted deep-clean initiative to raise standards of street cleanliness in the city. This funding will improve the overall appearance of our streets while complementing the actions of the Waste and Cleansing Improvement Plan.</p> <p>Funding of £0.1m will be made available to support the Council take forward preparatory work linked to the Community Empowerment Act.</p> <p>A programme of sustainability-based projects will also be developed.</p>	1.500
Community events fund	A number of community events, including a mass participation cycling event and Edinburgh Urban Light Festival, will be supported.	0.200
TOTAL		9.998

Appendix 2 - Budget Framework 2018/19 – proposals for public engagement

2018/19 REVENUE BUDGET - PROPOSALS FOR PUBLIC ENGAGEMENT			
			£m
Overall savings requirement			23.900
Less revision to Health and Social Care additional funding assumption			-3.000
			20.900
Proposal description	Service area	Theme	£m
Additional capital recharge and rental income	Resources	Asset Optimisation	0.500
Fleet financing model	Place	Asset Optimisation	0.300
Community Recycling Centres	Place	Asset Optimisation	0.200
Improving the costs of external ICT services	Resources	Commercial Excellence and Contract Management	0.443
Roundabouts and Verge advertising	Place	Commercial Excellence and Contract Management	0.300
Reviewing grants and Contract Management	Resources	Commercial Excellence and Contract Management	0.300
Managing major contracts and external spend	Resources	Commercial Excellence and Contract Management	0.250
Revised property insurance arrangements	Resources	Commercial Excellence and Contract Management	0.200
Improving occupational health and wellbeing support for staff	Resources	Commercial Excellence and Contract Management	0.175
Sign Workshop	Place	Commercial Excellence and Contract Management	0.100
Reviewing Customer Service structures	Resources	Effective and efficient services	0.444
Automating major processes and transactions for citizens	Resources	Effective and efficient services	0.300
Reviewing Early Years Services to deliver efficiencies	Communities and Families	Effective and efficient services	0.885
Reviewing Disabilities Day Services alignment	Health and Social Care	Effective and efficient services	0.650
Edinburgh Leisure	Communities and Families	Effective and efficient services	0.420
Home to school transport	Communities and Families	Effective and efficient services	0.400
Communities and Families – transformational efficiencies	Communities and Families	Effective and efficient services	0.200
Efficiencies in discretionary expenditure	Health and Social Care	Effective and efficient services	0.200
Budget realignment	Communities and Families	Effective and efficient services	0.245
Reviewing Communications structures	Chief Executive's	Effective and efficient services	0.185
Managing Learning and Development expenditure	Resources	Effective and efficient services	0.150

Appendix 2 - Budget Framework 2018/19 – proposals for public engagement

Proposal description	Service area	Theme	£m
Events	Place	Effective and efficient services	0.100
Reviewing Night Team delivery arrangements	Safer and Stronger Communities	Effective and efficient services	0.255
Social Care Fund Inflationary Allocation	Health and Social Care	Maximising Income	2.000
Council Tax: improved collection and income	Resources	Maximising Income	1.335
Garden Waste collection	Place	Maximising Income	1.300
Grounds Maintenance - Edinburgh Leisure	Place	Maximising Income	0.375
Transport Policy Enforcement	Place	Maximising Income	0.200
Bus Lane Camera and Pay and Display	Place	Maximising Income	0.300
Edinburgh Shared Repairs Service (ESRS) income	Resources	Maximising Income	0.100
Parking permits	Place	Maximising Income	0.100
Income from events in Ross Bandstand	Place	Maximising Income	0.050
Income from the Scott Monument	Place	Maximising Income	0.025
Reviewing Strategy and Insight structures	Chief Executive's	Service Transformation	1.040
Aligning Economic Development to new strategy	Place	Service Transformation	0.500
Reviewing Business Support and Shared Services	Resources	Service Transformation	0.400
Creation of a Citywide Equity and Excellence Music Service	Communities and Families	Service Transformation	0.363
Public Transport Initiatives	Place	Service Transformation	0.350
Reducing external legal spend - Resources	Resources	Service Transformation	0.200
Reducing external legal spend - Health and Social Care	Health and Social Care	Service Transformation	0.200
Reviewing Property and Facilities Management	Resources	Workforce Management	0.539
Waste collection improvements to working patterns	Place	Workforce Management	0.498
Reducing interim management expenditure	Resources	Workforce Management	0.200
Senior Management efficiencies	Communities and Families	Workforce Management	0.150
Reviewing Human Resources	Resources	Workforce Management	0.137
Reviewing Finance and Procurement structures	Resources	Workforce Management	0.130
Reviewing Legal and Risk structures	Resources	Workforce Management	0.062

Appendix 2 - Budget Framework 2018/19 – proposals for public engagement

Proposal description	Service area	Theme	£m
Managing demands upon our services	Council-wide		3.144
Effectiveness and efficiency			
Maximising income and being commercial in focus			
Workforce modernisation			
Making better use of assets			
Collaboration and working in partnership			
Total			

Finance and Resources Committee

10.00am, Friday, 27 October 2017

Capital Investment Framework 2018/19 – 2026/27

Item number	7.2
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

This report sets out the assumptions underpinning the Council's capital budget framework. It outlines the expenditure already approved and describes the funding available to the Council. It also highlights capital expenditure priorities to which members may wish to allocate additional funding, should this become available.

This report should be read in conjunction with the report on the revenue budget framework, also on this agenda, as the ability to finance additional capital expenditure, outwith grant funding, is dependent on the achievement of a balanced and sustainable revenue budget.

Capital Investment Framework 2018/19 – 2026/27

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the contents of this report in the context of considering the Council's capital budget framework;
 - 1.1.2 note that there is currently £7m of unallocated capital funding in 2021/22 and 2022/23;
 - 1.1.3 note that, in the absence of firm proposals to deliver a balanced position over the period of the 2018/23 revenue budget framework, no additional capital expenditure may be supported at present, where this creates revenue implications;
 - 1.1.4 note the priorities for additional capital investment, should additional grant funding become available; and
 - 1.1.5 note that a further report on the capital investment framework will be considered by Finance and Resources Committee in January 2018.

2. Background

- 2.1 The Council budgets for capital expenditure are based on a rolling 5-year capital investment programme which is set within a high-level 10-year capital plan. This allows for a strategic approach to investment in the Council's assets.
- 2.2 The Council set its current capital investment programme on 9 February 2017 for the period 2017-2022 and rolled forward its high-level capital plan to cover the period up to 2025/2026. This was based on a report considered by Finance and Resources Committee on 19 January 2017. The programme was subsequently revised to take account of slippage and acceleration from 2016/17 and approved by Finance and Resources Committee on 5 September 2017.
- 2.3 This report details the issues members need to consider when rolling forward the capital budget.

3. Main report

Existing Capital Plans

- 3.1 The Council plans to spend £430m on capital projects over the next five years. Of this, there is £7m of unallocated funding in each of 2021/22 and 2022/23. The table below sets out the planned allocation of general fund capital budgets, based on the current capital investment programme and the capital plan. This presentation excludes expenditure relating to the Housing Revenue Account (HRA) which will be subject to separate reports on the HRA business plan.

Planned General Fund Capital Expenditure 2018/19 to 2022/2023¹

Service	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Place	86.3	76.6	85.3	19.8	19.8	287.9
Communities and Families	28.9	17.9	2.5	0.2	0.2	49.6
Resources	7.7	25.4	14.0	14.0	14.0	75.1
Edinburgh IJB	2.1	1.5	0.0	0.0	0.0	3.6
Unallocated	0.0	0.0	0.0	7.0	7.0	14.0
Total	125.0	121.4	101.8	41.0	41.0	430.1

- 3.2 Expenditure in 2021/22 and 2022/23 is not committed and is based on the capital plan which allocates an annual budget of £41m to the following priorities:

Priority	£'000
Asset Management Works	14,000
Carriageway and Footway Improvements	13,585
Lighting Column Replacements	1,500
Tram Lifecycle Replacements	1,000
Other Transport Infrastructure Projects	2,750
Statutory Home Owner Adaptations	1,000
Edinburgh Leisure	165
Unallocated	7,000
Total	41,000

¹ Capital budget figures presented have been subject to rounding

Should members wish to reprioritise this allocation (or indeed any uncommitted expenditure within the capital programme), this may be done as part of the budget-setting process.

- 3.3 The majority of this expenditure is funded from a combination of government grant, planned sale of Council assets and loans fund advances. In addition, some capital investment related to schools and transport infrastructure is funded from developers' contributions.

Government Grant

- 3.4 The capital budget assumes £206.7m in government grant over the 5-year period. This is based on a prudent estimate of Scotland-wide funding, adjusted for a £10.3m allocation for 2016/17 which was to be paid over a three-year period.
- 3.5 The next Scottish Local Government Finance Settlement will be announced on 14 December 2017. As in recent years, it is anticipated that this will most likely be a one year settlement. As no firm indications have been received, a general capital grant award of £44.5m has been estimated for 2018/19. Should Scottish Ministers choose to increase the general capital grant, any additional funding will be available for members to allocate to projects. However, any consequential revenue implications of additional an increase in the general capital grant will need to be carefully considered as part of the overall budget setting process.
- 3.6 Since the setting of the capital budget in February, the Council signed heads of terms for the Edinburgh and South-East Scotland City Deal on 19 July 2017. This provides £600m of investment for the city region, including over £65m of funding towards Council capital projects. The Council's contribution towards these projects is detailed in paragraph 3.16 below.
- 3.7 The Council will require additional nursery facilities to provide 30 hours a week of free pre-school education to all 3 and 4-year olds by 2020. It is currently in the process of applying for specific Scottish Government grant to enable the necessary works to go ahead.
- 3.8 The Council also receives capital grants from a variety of different bodies for specific schemes. Examples of grants received include contributions from Historic Environment Scotland and Creative Scotland towards the redevelopment of Calton Hill and grants from Sustrans towards cycling improvements.

Capital Receipts

- 3.9 The capital programme relies on income of £27.7m from asset sales over the next five years and a £20m drawdown from the capital fund, which was created from previous asset sales. Timings and values of sales can be impacted by several factors, including planning conditions, the results of detailed ground investigation surveys and the underlying performance of the economy. In view of this, the level of receipts assumed in the budget has been set at a prudent level.

3.10 Members should note that this level of capital receipts is required to support the existing capital programme. Any loss or ring-fencing of specific receipts towards other priorities will create a funding shortfall in the core programme, which will need to be addressed as part of the budget process.

3.11 As reported to Finance and Resources Committee on 5 September 2017, there may be a shortfall in the anticipated capital receipt from the sale of the current Boroughmuir High School as the result of the rejection of planning permission for the development proposed by the prospective purchaser. The receipt has been earmarked towards funding for the replacement Boroughmuir High School, Duncan Place nursery and the new South Edinburgh Primary School. Any shortfall in the funding for these projects will need to be considered as part of the budget setting process.

Prudential Borrowing

3.12 £175.5m of the capital programme is funded from loans fund advances, serviced from Council revenue budgets. This level of investment is included in the Council's treasury management strategy and in directorate revenue budget assumptions.

Developers' contributions

3.13 As Edinburgh is a growing city, additional infrastructure is required to meet the needs of new developments and their occupants. Developers' contributions are collected through the planning process, which enable the Council to invest in new or extended schools, additional green space, health and transport infrastructure.

3.14 The capital budget currently only takes account of developers' contributions which have been secured, so does not reflect the level of contribution which could be received over the next five years.

3.15 A report on the financial implications of the Local Development Action Plan was considered by Finance and Resources Committee on 19 January 2017, which identified a funding requirement of £407m over a ten-year period. It was noted that, while changes to planning guidance would provide more clarity for section 75 agreements, it was unlikely to lead to full cost recovery. An update will be provided in January 2018 which will reassess the overall funding requirement and cashflow implications as well as assessing the extent to which it could be funded from developers' contributions and other sources.

Additional Funding from Revenue Budget Framework

3.16 The 2018/23 budget framework progress update report considered by the Finance and Resources Committee on 5 September 2017 referred to the inclusion, subject to the achievement of a balanced overall position across the period of the framework, of corresponding revenue provision to support the following capital investment:

- (i) **Infrastructure** – around £56m to address part of the planned maintenance backlog across the Council's estate;

- (ii) **Local Development Plan** – around £35m to contribute towards the element of LDP-related infrastructure not met by means of developers' contributions and other sources;
- (iii) **City Region Deal** – around £20m, representing the anticipated Council contribution in respect of the West Edinburgh Transport Appraisal improvements and a new concert venue off St. Andrew Square over the period of the framework.

3.17 Given that the revenue budget framework update report contained elsewhere on today's agenda indicates a significant savings requirement still to be identified over the period to 2022/23, then these proposed investments remain conditional subject to the identification of clear savings proposals.

Priorities for Additional Capital Expenditure

3.18 In allocating any additional or currently unallocated Capital funding, members may wish to consider the following priorities:

- (i) **North Bridge Refurbishment** – It is currently estimated that this project will cost around £17m, compared to the existing £12m budget. Investigative work is nearing completion and a greater level of cost certainty will be achieved by December 2017 to inform the budget-setting process. It is envisaged that additional expenditure could be met from an anticipated £4.5m underspend in the Water of Leith (phase 2) project.
- (ii) **Additional Schools** – The Council Business Plan includes a commitment to deliver 10 new primary schools and 2 new secondary schools by 2021. In order to meet this target, a number of projects need to be considered as part of the 2018/19 budget process.
- (iii) **Backlog Maintenance** – An estate-wide programme of condition surveys was completed in September 2017. This has identified a requirement for circa £150m of capital and revenue works to bring the estate to an acceptable condition.
- (iv) **Boroughmuir receipt shortfall** – As outlined in paragraph 3.9, the consequences arising from any reduction in the level of receipt from the sale of the former Boroughmuir High School will need to be considered when allocating additional funding.

3.19 Against a backdrop of increasing pressures on both the capital and revenue budgets, members need to ensure that additional projects are affordable to the council. In doing so, members must not only consider the capital costs of each project, but also its impact on revenue budgets. Work is currently underway to calculate the full revenue implications of all capital investment options so that they can be properly considered.

4. Measures of success

- 4.1 The City of Edinburgh Council sets a capital budget which supports service objectives and is affordable, prudent and sustainable.

5. Financial impact

- 5.1 The revenue funding required to support the loan charges associated with the approved capital programme is included in the revenue budget framework, also being considered by this committee.
- 5.2 The Council can only commit to further capital expenditure if revenue expenditure plans are affordable and sustainable. The inclusion of any additional investment within the budget framework is contingent upon the development, and subsequent delivery, of corresponding savings, alongside the effective management of risks and pressures.

6. Risk, policy, compliance and governance impact

- 6.1 The capital monitoring and budget setting processes adopted ensure effective stewardship of resources. The processes applied aim to ensure projects are delivered on time and budget, whilst fulfilling the financial criteria of value for money.
- 6.2 The monitoring of major capital projects, including risk assessment, is the responsibility of the relevant senior responsible officers and is reported to the Governance, Risk and Best Value Committee.
- 6.3 The risk of not adequately investing in infrastructure means that it does not meet Council's and stakeholders' needs and does not remain fit for purpose in the future.
- 6.4 Investing in infrastructure is essential to meet the Council's health and safety obligations.
- 6.5 There is a potential legal and reputational risk arising from failure to consider and evidence due regard of the Climate Change (Scotland) Act 2009 Public Bodies Duties and Equality Act 2010 Public Sector Equality Duties in capital projects.

7. Equalities impact

- 7.1 The Council's capital expenditure contributes to the delivery of the public sector equality duty to advance equality of opportunity and foster good relations e.g. enhancement works related to the Disability Discrimination Act, works on Communities and Families establishments and capital expenditure on Council Housing stock.

8. Sustainability impact

- 8.1 The impacts of the projects set out within the appendices of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below. Relevant Council sustainable development policies have been taken into account.
- 8.2 The proposals in this report will help achieve a sustainable Edinburgh because they are ensuring funding for key strategic projects that will enhance facilities and infrastructure in the city. A carbon impact assessment shall be carried out on each new project to achieve the most sustainable outcome for the city in each case.
- 8.3 The capital plans in this report will increase the city's resilience to climate change impacts because they provide funding for flood prevention projects.

9. Consultation and engagement

- 9.1 Engagement relating to the capital budget will take place as part of a wider budget engagement process.
- 9.2 Individual capital projects will be subject to consultation as part of the statutory planning process.

10. Background reading/external references

[Capital Investment Programme-Plan 2017-18 to 2025-26, Council 9 February 2017, referral from Finance and Resources Committee](#)

[Capital Monitoring 2016/17 – Outturn and Receipts, Finance and Resources Committee, 5 September 2017](#)

[Edinburgh Local Development Plan Action Programme - Financial Assessment, Finance and Resources Committee, 19 January 2017](#)

Stephen S. Moir

Executive Director of Resources

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11. Appendices

None.

Finance and Resources Committee

10:00am, Friday, 27 October 2017

Approach to citizen engagement on 2018/19 budget and Council change themes

Item number 7.3

Report number

Executive/routine

Wards

Executive Summary

This report outlines the Council's approach to budget engagement for the financial year 2018/19. This builds on the Council's reputation for meaningfully engaging citizens in decisions about spending and saving by continuing the open conversation that has been created in recent years to inform budget planning, service changes and policy areas.

The previous three year budget engagement exercises have generated almost 10,000 responses and reached over 600,000 individuals and organisations. An open dialogue was created to involve people in the budget planning process and change programme, while improving awareness and understanding of the financial challenges.

The key objectives are:

- to keep people engaged about the Council's budget position and the shape of change;
- to encourage and enable all sections of the population and the Council's partner organisations to have their say, using digital and face-to-face engagement methods; and
- to facilitate meaningful conversations with people in a positive and collaborative way, in order to develop solutions with them based on their needs and ideas.

Approach to citizen engagement on 2018/19 budget and the Council's change themes

1. Recommendations

- 1.1 It is recommended that the Committee:
 - 1.1.1 Approve the contents of the report and the approach for citizen engagement on the 2018/19 budget and subsequent years.
 - 1.1.2 Invite all political groups to engage with the citizen engagement process.

2. Background

- 2.1 Edinburgh is a great and growing city, home to more than half a million people, all of whom use services provided by the City of Edinburgh Council. From roads and street lighting, to schools, care for the elderly, and support for culture and leisure services, everyone who lives in Edinburgh, works here, or visits receives a service from the Council. The Council is committed to maintaining high quality services and meeting the needs of all residents and visitors.
- 2.2 The Council is also committed to investing in the future success of the city. This year the Council, along with surrounding local authorities and Universities, has successfully agreed a City Region Deal with national governments worth a total of £1.1bn. This significant investment will help transform the city delivering high quality jobs, a world leading data innovation centre, critically needed housing and transport improvements, a new skills programme, and a world class concert hall.
- 2.3 The Council has saved around £240m since 2012 by improving the way services are managed, enhancing access to services online and prioritising services. Even with these substantial savings, the Council continues to face challenges from the long-term budget pressures in the form of reduced or constrained funding, rising costs and rising demand for services. The Council estimates that it will need to save around £150m by 2023.
- 2.4 Meeting these challenges will require further change to the way services operate, it will require the Council to work more effectively with partners to meet the needs of shared customers, and it will require difficult decisions about the role of local government in the provision of some services.
- 2.5 It is therefore essential that citizens of Edinburgh and all other stakeholders have a voice in that process. In recent years, the Council has taken a progressive

approach to including citizens in the budget planning process; moving from a traditionally closed approach to an open and conversational style that is strategic and allows for creative input. This has meant a significant increase in participation levels and the relevance of feedback.

- 2.6 The insight has revealed the level of public awareness into the number and range of services the Council provides, what matters to residents, their priorities, and willingness to pay for services and higher Council Tax to protect essential services. The feedback and ideas have also informed policy development, and service design where significant savings have been identified.
- 2.7 In 2017/18, the Council invested over £900 million supporting delivery of frontline services, focusing on what residents said are important, for example:
 - 2.7.1 £227m on schools, including £164m for teachers and £19m for support assistants;
 - 2.7.2 over £70m on children's social work and more than £170m for care services for older people and those with physical and/or learning disabilities;
 - 2.7.3 £8m towards providing high-quality leisure facilities in the city through Edinburgh Leisure;
 - 2.7.4 £42m on recycling, waste and street cleaning;
 - 2.7.5 more than £25m on the city's roads and pavements;
 - 2.7.6 over £6m supporting a wide range of festivals and events within the city – bringing £313m to the city's economy;
 - 2.7.7 £125m on housing services; and
 - 2.7.8 plans to build 2 new secondary and 10 new primary schools by 2021.
- 2.8 The Council has been a pioneering local authority in Scotland, being the first to use a number of online tools, and globally one of the most successful in terms of total response received through them. Communication campaigns supporting the budget engagement process have received industry recognition. And increasingly the Council has brought partners into the budget engagement process to further broaden its reach.
- 2.9 The approach for this year's engagement on the 2018/19 budget aims to build on this good practice by keeping citizens and the Council's partners engaged on the Council's financial position; inviting them to be part of the conversation; and feeding into the budget decision making process and forward planning.

3. Main report

Budget and change themes

- 3.1 The Council needs to make around £21m of savings in 2018/19 as part of a longer-term budget framework. Specific proposals for 2018/19 and broad themes to

address subsequent years' requirements will be considered at the Committee on 27 October. The engagement will focus on six broad themes to support longer term planning and the budget proposals where relevant:

- 3.1.1 Service Transformation, for example;
 - a) Developing a partnership model across localities to deliver an effective and efficient integrated service that meets the needs of citizens and communities;
 - b) Considering what services would be better delivered at a local, City and regional level; and
 - c) Changing the balance between internal and external delivery of services in key areas, such as legal advice.
 - 3.1.2 Effective and efficient services, for example;
 - a) Focusing services on proactive, preventative design and delivery;
 - b) Using technology more effectively, including enhanced online experience for citizens to engage with the Council, report problems and make more transactions online; and
 - c) Redesigning services to improve efficiency, such as route management for waste collection;
 - 3.1.3 Maximising income – this includes proposals to setting fair and competitive prices for events and services such as a workplace parking levy, charging for garden waste collections, and roundabouts and verge advertising.
 - 3.1.4 Workforce management – this includes improving the way we work together to deliver a one Council approach, managing employee performance, and better supporting the health and wellbeing of employees. This also includes reviewing the costs of delivering some services and seeking to further reduce overtime and agency worker expenditure.
 - 3.1.5 Commercial excellence and contract management - taking opportunities to review contracts with major third-party suppliers and ensuring that these deliver maximum value for money. For example, re-tendering our property insurance arrangements and delivering better value from our ICT contracts.
 - 3.1.6 Asset optimisation ensuring we achieve best value from the Council's capital assets, including buildings and the vehicle fleet. This includes, for example, reviewing our fleet financing approach, rationalising further the number of buildings, sharing office space and letting space on a commercial basis.
- 3.2 In this context, the Council continues to engage citizens, staff, partner organisations and all other stakeholders in a conversation about what shared priorities are and feedback on the change themes. The engagement will take place over 7 weeks, starting on 30 October and closing on 15 December.

Engagement methods

- 3.3 Participants will be able to participate through:
- 3.3.1 Online survey (www.edinburgh.gov.uk/playyourpart) hosted on the Council's consultation hub, paper survey, telephone, email and letter for responding to the Council's budget proposals;
 - 3.3.2 A series of face to face meetings and events will take place in each locality to reach local community groups, organisations and individuals. Over 900 groups and organisations (including the voluntary sector and organisations representing people with protected characteristics) will be asked to engage their members and participate in the form of group discussions and/or workshops. In recent years, this approach has provided a constructive and meaningful way of understanding the potential problems with savings proposals and identifying solutions;
 - 3.3.3 An extensive social media campaign will take place, encouraging people to take part in the online engagement tools and public events. This includes Facebook and Twitter adverts in addition to frequent posts and budget related themed conversations. Those who complete the online survey can share the information through their own Twitter and Facebook networks;
 - 3.3.4 A webcast Question Time Event will take place again. Last year, this event was attended by 80 people, 250 watched it live and 1648 watched the archive. It has been well covered by the media and drew a lot of interest and lively debate. Members of the public are invited to submit questions using #playyourpart, in advance and on the night. These will be discussed on the night by a panel of councillors in front of a live audience;
 - 3.3.5 Leaflets will be distributed to all libraries, community groups and centres, Council offices, sports and leisure facilities and to partner organisations, for example, GPs; and
 - 3.3.6 We will work with the Evening News and other media to outline our financial position as well as spending and saving proposals to encourage people to engage with them.
- 3.4 The principles of the approach are to:
- 3.4.1 Support creative problem solving and open discussions rather than just accepting or opposing a position that is put forward;
 - 3.4.2 Ensure meaningful engagement for all amounts of time invested – it should be possible to give feedback and ideas in one minute on your phone as well as two hours in a workshop;
 - 3.4.3 Ensure inclusivity at all levels so everyone who wishes to participate is able to understand and access information and engagement channels; and to;
 - 3.4.4 Be up-front about what we can't change and why.

Other sources of citizen insight and involvement in local spending

- 3.5 The Council's annual residents satisfaction survey (Edinburgh People Survey) will be carried out from mid-September to end of November reaching a representative sample of 5200 residents. This survey asks residents about their satisfaction with services, their quality of life and priorities for investment in their local area. This information will be used along with operational insight and complaints data to further support the budget planning process by highlighting areas for investment and resourcing.
- 3.6 Residents will also be able to have a say on how a proportion of the Council's budget is spent locally through participating in the Council's participatory budgeting programme.

4. Measures of success

- 4.1 Ensure every Edinburgh resident and other stakeholders have the opportunity to take part in the engagement activities, by making the engagement questions available in suitable formats and channels.
- 4.2 The number of individuals reached by the budget messages and the number of respondents will be monitored in real time, to check the coverage of location and demographic characteristics. Effort will be increased during the engagement period to target any under-represented areas or groups.
- 4.3 Feedback on the approach will be recorded in a lessons learned log to refine the approach and inform future engagement exercises.

5. Financial impact

- 5.1 Printing of budget information materials for engagement on the 2018/19 budget will be around £10,000, this is in-line with previous years' costs for this activity. It is further estimated that around 200 hours of staff time would be required to run and report on the engagement – shared between Strategy & Insight, Communications and Finance.

6. Risk, policy, compliance and governance impact

- 6.1 There is a general acceptance that a local authority has a responsibility to meaningfully engage with stakeholders on its budget. An open, transparent budget engagement process is a key part of several corporate strategies and local community plans. This process reduces the overall risk of legal action and reputational damage for the Council.

7. Equalities impact

- 7.1 The Council will take all reasonable steps to ensure wide awareness and access to the engagement process. Any citizen who has any additional needs will be fully supported to engage in the process.
- 7.2 Services and partner organisations will be consulted on the overall approach to engagement and appropriate methods for making consultation accessible to all.

8. Sustainability impact

- 8.1 Impacts of this project are positive and it is expected that this project will contribute to the development of skills and provide experience to participants, while generally increasing community engagement.

9. Consultation and engagement

- 9.1 Elected members, services and partner organisations will be consulted on the overall approach and appropriate methods, ensuring that every effort is made to maximise reach and participation. The approach will also be informed by lessons learned and good practice from previous budget engagement exercises.

10. Background reading/external references

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Chief Executive

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11. Appendices

None.

Finance and Resources Committee

10.00am, Friday, 27 October 2017

Leith Walk Phase 4 – Appointment of Land Engineering - referral from the Transport and Environment Committee

Item number	7.4
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

On 5 October 2017 the Transport and Environment Committee considered a report by the Executive Director of Resources in response to a motion approved by Council on 29 June 2017 that sought additional detail of the circumstances surrounding the appointment and subsequent collapse of Land Engineering, the company responsible for undertaking the Phase 4 Leith Walk repairs between Pilrig Street and McDonald Road.

The report has been referred to the Finance and Resources Committee for consideration of any relevant improvements that may be introduced across the Council's wider procurement and contract management processes.

Terms of Referral

Leith Walk Phase 4 – Appointment of Land Engineering - referral from the Transport and Environment Committee

1. Terms of Referral

- 1.1 The Leith Programme comprised £9.1 million of major improvement works to the roads, footways and street furniture in Leith Walk and Constitution Street, to be delivered in a number of phases over several years. Phases 1 to 3 of the scheme had previously been completed.
- 1.2 Land Engineering was contracted by the Council to undertake Leith Walk Phase 4, being the section between Pilrig Street and McDonald Road. On 1 June 2017, however, whilst working on the scheme, the Council was formally notified that the appointed contractor had been placed into administration.
- 1.3 While, in accordance with established contingency arrangements, a replacement framework contractor was quickly mobilised, in view of any potential costs that arose from the disruption and wider lessons to be learned, a motion was approved by Council on 29 June 2017 requesting details of:
 - The work undertaken, if any, to assess the financial viability of Land Engineering in light of the company's large losses in 2015.
 - An explanation of whether and when any subsequent reviews of the company's financial position took place after awarding of the contract.
 - Whether any bonds, or other indemnities, were included in the contract.
 - The financial consequence of the demise of Land Engineering for Council Tax payers.
- 1.4 The Transport and Environment Committee agreed:
 - 1.4.1 To note the report.
 - 1.4.2 To refer the report to the Finance and Resources Committee for consideration of any relevant improvements that might be introduced across the Council's wider procurement and contract management processes.

2. For Decision/Action

- 2.1 The Finance and Resources Committee is asked to consider any relevant improvements that may be introduced across the Council's wider procurement and contract management processes.

Background reading/external references

Transport and Environment Committee, 5 October 2017

Laurence Rockey

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3. Appendices

Appendix 1 – Leith Walk Phase 4 – Appointment of Land Engineering – report by the Executive Director of Resources

Transport and Environment Committee

Appendix 1

10.00am, Thursday, 5 October 2017

Leith Walk Phase 4 – Appointment of Land Engineering

Item number	7.10
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

At the meeting of Council on 29 June 2017, a motion was approved seeking additional detail of the circumstances surrounding the appointment and subsequent collapse of Land Engineering, the company responsible for undertaking the Phase 4 Leith Walk repairs between Pilrig Street and McDonald Road.

In discharging the motion, this report details the assessment undertaken prior to contract award, the actions taken by the Council immediately following the collapse and proposed improvements to mitigate the risk of similar business failure going forward.

Leith Walk Phase 4 – Appointment of Land Engineering

1. Recommendations

- 1.1 It is recommended that members of the Transport and Environment Committee:
- 1.1.1 note the contents of this report; and
 - 1.1.2 refer this report to the Finance and Resources Committee for consideration of any relevant improvements that may be introduced across the Council's wider procurement and contract management processes.

2. Background

- 2.1 The Leith Programme comprises £9.1 million of major improvement works to the roads, footways and street furniture in Leith Walk and Constitution Street, to be delivered in a number of phases over several years. Phases 1 to 3 of the scheme have previously been completed.
- 2.2 Land Engineering was contracted by the Council to undertake Leith Walk Phase 4, being the section between Pilrig Street and McDonald Road. On 1 June 2017, however, whilst working on the scheme, the Council was formally notified that the appointed contractor had been placed into administration.
- 2.3 While, in accordance with established contingency arrangements, a replacement framework contractor was quickly mobilised, in view of any potential costs arising from the disruption and wider lessons to be learned, a motion was approved by Council on 29 June 2017 requesting details of:
- the work undertaken, if any, to assess the financial viability of Land Engineering in light of the company's large losses in 2015;
 - an explanation of whether and when any subsequent reviews of the company's financial position took place after awarding of the contract;
 - whether any bonds, or other indemnities, were included in the contract; and
 - the financial consequence of the demise of Land Engineering for Council Tax payers.

3. Main report

Due diligence

- 3.1 The due diligence of potential contractors is carried out at the tender stage of procurement projects. This includes carrying out mandatory checks of suitability, including legal and financial standing, experience, adherence to policies and other standards specific to the requirement.
- 3.2 The financial checks currently include a detailed review of the most recent two years' financial accounts, the organisation's turnover relative to the anticipated contract value, the current ratio (current assets / current liabilities), net worth and a third-party credit agency check. The checks are undertaken by the Council's Finance Division and the level of checking is proportionate to the value and complexity of the contract, aligning with other public sector and most commercial organisations.
- 3.3 The specific financial checks performed as part of the procurement process are reviewed on a project-by-project basis. There is, however, an overriding objective of maintaining consistency of approach, balancing the consideration of all normal commercial risks with looking to avoid creating barriers for small and medium enterprises (SMEs).
- 3.4 For limited companies, accounting records are historic, filed up to twelve months after the year-end on a public register. The Council may additionally ask for up-to-date accounts, particularly for high-value, high-risk projects. These statements will, however, be unaudited and may contain commercially-sensitive information which companies may be unwilling to share and the Council cannot oblige them to do so in terms of relevant procurement rules.
- 3.5 If potential or actual risks are identified, the Council can ask for insurance or performance bonds to be put in place to mitigate any risk of financial loss. In some instances, putting in place this safeguard may incur additional costs for the Council. This approach would not, however, address the disruption caused to the Council from an insolvency and is recognised by the Scottish Government to create barriers for SMEs. Public authorities are therefore asked to act proportionately when introducing such measures.
- 3.6 While a potential provider may present apparently-healthy financial figures, the Council cannot predict future events. Examples would include poor decisions, court actions and bad debts that could occur following the contract award and could send the company into administration.
- 3.7 Due diligence prior to contract award is carried out on all contracts procured through Commercial and Procurement Services (CPS). Building on this, CPS's Contract Management team is working with service areas to embed a consistent approach to contract management across the Council.
- 3.8 Post contract award, ongoing, proportionate contract management is a key requirement to manage suppliers, ensuring operational and financial performance is

maximised while commercial risk is minimised and managed. This is further supported through business continuity plans and contractual terms and conditions that assist with the identification and management of unforeseen events.

Land Engineering – pre-contract financial assessment

- 3.9 In accordance with the process above, financial assessments are carried out on bidders using the most recently-available audited accounts, with contracts assessed for risk using a standardised matrix. In the case of Land Engineering, the accounts assessed were prepared as of 31 August 2015, with the accounts for 31 August 2016 not due for submission until 28 May 2017 in line with Companies House's normal requirements.
- 3.10 As part of the evaluation, it was noted that Land Engineering's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) were £0.808m but, after depreciation, there was an operating loss of £0.146m and a loss for the year after interest and tax of £0.305m, compared to a small profit of £0.067m in 2014. Expressed relative to the organisation's turnover and in comparison with industry norms, however, this level of loss did not cause any specific concerns or in any way form the basis of non-consideration of the organisation's tender submission.
- 3.11 The turnover for the most recent financial year was £39.912m which, against an expected annual contract value of £1.000m, ensured that Land Engineering comfortably passed the financial capacity (turnover) test for the contract.
- 3.12 The financial assessment process also includes consideration of an organisation's ability to meet its short-term and long-term obligations through calculation of its current ratio. In general terms, a higher ratio is considered to indicate greater relative financial stability. For the year ending 31 August 2015, Land Engineering's current ratio was 1.36, similar to the 1.34 for the previous year. These ratios compared favourably to those for the other bidders. Assessments of Land Engineering's net assets were also favourable in both absolute and relative terms.
- 3.13 Land Engineering's credit score was also requested from a third-party credit agency which returned a value of 92, representing a 0.9% likelihood of failure as assessed by the agency. The Council additionally now has access to services from a separate agency and, even for the period immediately preceding Land Engineering's collapse, this continued to note a low risk of failure.

Reviews undertaken post-contract award

- 3.14 After the awarding of the Leith Walk Phase 4 works contract, further reviews were carried out on Land Engineering, albeit in the context of other tender commissions. As the next annual accounts were not due until 28 May 2017, however, these were by necessity undertaken on the same financial statements.

Bonds or other indemnities used

- 3.15 The use of performance bonds for procurement contracts is not generally a practice employed by the Council as they are not considered to represent value for money.

As Land Engineering comfortably passed the overall financial assessment, however, no further indemnities were included in the contract.

Action taken following Land Engineering's entering administration

- 3.16 Land Engineering's employment under the Leith Walk Phase 4 project was terminated on 2 June 2017. Another framework contractor was, however, appointed to complete the works within two working days, with the successful novation of contracts limiting disruption to service users and related projects. The Council is exercising its rights to offset the additional costs to complete the works from any sums due to Land Engineering. The Council is in discussion with the administrator on this issue.

Potential improvements to financial assessment processes

- 3.17 The Council awards, on average, around 450 contracts annually. No process can eliminate delivery risk entirely and, as a result, the Council will continue to consider any opportunities to improve its business continuity arrangements on a regular basis.
- 3.18 Opportunities will, however, be examined to improve the assessment process further by setting up news alerts for all companies working on medium- and high-risk contracts. This will make the Council more aware of events potentially resulting in significant changes to the financial standing of the companies concerned. As with Land Engineering, however, it may be that the company enters administration before this information becomes available; a thorough search for information on the day of its collapse revealed no obvious signs of immediate distress being signalled.
- 3.19 A pilot is also currently being run to improve contract management on all Council contracts. This should encourage the development of mutually-beneficial relationships and, in some cases, provide earlier warning of potential difficulties.

4. Measures of success

- 4.1 Measures of success will include a further reduction in the small percentage of Council suppliers entering administration. Given that this risk can never be entirely eliminated, however, where it materialises, of equal importance is that the Council mitigates any disruption and associated financial impact to the citizens of Edinburgh.

5. Financial impact

- 5.1 There are no direct financial impacts of this report but the Council is seeking independent legal advice regarding its right to offset the amount due for Leith Walk Phase 4 with the administrator of Land Engineering.

6. Risk, policy, compliance and governance impact

- 6.1 There is a risk that relying on historic financial information fails to alert the Council to the likelihood of a supplier's failing. While, as noted above, this risk cannot be eliminated, it should be mitigated by using an up-to-date third party credit score and becoming more pro-active with supplier relationships.

7. Equalities impact

- 7.1 There is no direct relevance of the report's contents to equalities-related issues. However, the Council should ensure value for money for all of Edinburgh's inhabitants.

8. Sustainability impact

- 8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

9. Consultation and engagement

- 9.1 Finance and procurement will engage with staff across teams and consult key stakeholders as part of the improvements to the processes.

10. Background reading/external references

- 10.1 [Item 25 – Leith Walk Works – Motion by Councillor Daggart](#)

Stephen S. Moir

Executive Director of Resources

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11. Appendices

None.

Finance and Resources Committee

10.00am, Friday, 27 October 2017

Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017 – referral from the Governance, Risk and Best Value Committee

Item number	8.1
Report number	
Wards	All

Executive summary

The Governance, Risk and Best Value Committee on 26 September 2017 considered a report which detailed the Internal Audit progress for the period 1 January 2017 to 30 June 2017.

The report has been referred to the Finance and Resources Committee on the recommendation that high risk findings from audit reports be submitted to their parent Committee for information. These relate to the internal audit reports for the:

- Leavers Process
- Property Maintenance
- Health and Safety – Contractor Management
- IT Disaster Recovery
- Review of External Security

Terms of Referral

Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017

Terms of referral

- 1.1 On 26 September 2017, the Governance, Risk and Best Value Committee considered a summary of the findings and status of work from the Internal Audit plan of work. The plan is updated throughout the year with additional reviews and any emerging risks.
- 1.2 The report by the Chief Internal Auditor highlighted the progress made along with 13 reports, categorised by level of risk.

Details of the action plans with implementation dates to mitigate any findings were also contained within the report. Any action which remained outstanding after the agreed implementation date would be reported back to the Governance, Risk and Best Value Committee.

- 1.3 The Governance, Risk and Best Value Committee agreed:
 - 1.3.1 To note the progress of Internal Audit in issuing 11 Internal Audit reports during Quarter 4 of the 2016/17 plan year and 2 Internal Audit reports during Quarter 1 of the 2017/18 plan year.
 - 1.3.2 To note the areas of higher priority findings for reviews issued during this six month period.
 - 1.3.3 To refer the 6 reports noted in Appendix 1 as potentially being of interest to the Audit and Risk Committee of the Edinburgh Integration Joint Board (IJB) to that Committee.
 - 1.3.4 To note the 6 audit in progress during Quarter 1 of the 2017/18 plan year as detailed in Appendix 1 of the report.
 - 1.3.5 To request information on:
 - the total spend on homelessness provision
 - the checks in place for recovering money from the Government.
 - the governance of the Homelessness Taskforce.

- 1.3.6 To request a report on the operation of homelessness services which included costs and a map of facilitates in the city to the Housing and Economy Committee and Homelessness Taskforce

For Decision/Action

- 2.1 The Finance and Resources Committee is asked to note the attached audit reports with high risk findings concerning:
- Leavers Process
 - Property Maintenance
 - Health and Safety – Contractor Management
 - IT Disaster Recovery
 - Review of External Security

Background reading / external references

[Webcast of Governance, Risk and Best Value Committee – 26 September 2017](#)

Laurence Rockey

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Links

Appendices

Appendix 1 – Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017 – report by the Chief Internal Auditor

Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017

Item number

Report number

Executive/routine

Wards

Council Commitments

Executive summary

Internal Audit has made reasonable progress in the last quarter of the 2016/17 plan year and the first quarter of the 2017/18 plan year.

This report provides details of the activity from 1 January – 30 June 2017.

Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017

Recommendations

- 1.1 Committee is requested to note the progress of Internal Audit in issuing 11 Internal Audit reports during Quarter 4 of the 2016/17 plan year and 2 Internal Audit reports during Quarter 1 of the 2017/18 plan year.
- 1.2 Committee is requested to note the areas of higher priority findings for reviews issued during this six month period.
- 1.3 Committee is requested to refer the 6 reports noted in Appendix 1 as potentially being of interest to the Audit and Risk Committee of the Edinburgh Integration Joint Board (IJB) to that Committee.
- 1.4 Committee is requested to note the 6 audit in progress during Quarter 1 of the 2017/18 plan year as detailed in Appendix 1.

Background

- 2.1 Internal Audit is required to deliver an annual plan of work, which is scoped using a risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary to address any emerging risks and issues identified during the year, subject to approval from the relevant Committees.
- 2.2 Status of work and a summary of findings are presented to the Governance, Risk and Best Value Committee for consideration on a quarterly basis.

Main report

Audit Findings for the period

- 3.1 Internal Audit has made reasonable progress in the final quarter of the 2016/17 plan year with 13 reports being issued for the quarter. These reports contain a total of 11 High, 18 Medium and 4 Low rated findings.
- 3.2 Reasonable progress was also evident in the first quarter of the 2017/18 plan year with 2 audits completed and 6 in progress. The 6 audits in progress include a thematic review performed across the Council's 10 care homes which has involved circa 120 audit days. Detailed outcome reports and management action

plans have been issued to individual care homes and the overarching report that outlines the consolidated outcomes and findings will be issued in September 2017.

- 3.3 The current status of all outstanding recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report' presented separately to the Committee.
- 3.4 No reports were referred by the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee at their meeting in June 2017. It is recommended that the Committee refers 4 of the reports issued in Quarter 4 2016/17 to the next EIJB Audit and Risk Committee meeting (refer Appendix 1). None of the reports completed in Quarter 1 2017/18 are recommended for referral.
- 3.5 Appendix 1 provides a summary of reports and the classification of findings in the period. A full copy of all final reports is available to members upon request.
- 3.6 Appendix 2 provides a summary of the High-Risk findings and associated management actions.

Measures of success

- 4.1 Once implemented, the recommendations contained within these reports will strengthen the Council's control framework.

Financial impact

- 5.1 None.

Risk, policy, compliance and governance impact

- 6.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of control gaps or deficiencies identified during reviews therefore overdue items inherently impact upon compliance and governance.
- 6.2 To mitigate the associated risks, the Committee should review the progress of Internal Audit and the higher classified findings, and consider if further clarification or immediate follow-up is required with responsible officers for specific items.

Equalities impact

- 7.1 No full ERIA is required.

Sustainability impact

8.1 None.

Consultation and engagement

9.1 None.

Background reading/external references

10.1 None.

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11. Appendices

Appendix 1 – Summary of Internal Audit report findings issued for period of 1 January 2017 – 31 March 2017.

Appendix 2 – Summary of High Risk Findings and Management Actions for period of 1 January 2017 – 31 March 2017

Summary of Internal Audit reports issued during Quarter 4 2016/17 (1 January 2017 – 31 March 2017)

Internal Audit reports				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
# Leavers Process (RES1603)	4	1	-	-
# Property Maintenance – (RES1615)	2	2	1	-
Health and Safety – Contractor Management (RES1601)	1	2	-	-
Complaints (CF1619)	-	3	1	-
# Information Commission Officer Audit Follow Up (RES 1606)	-	3	1	-
Royal Edinburgh Military Tattoo – Stock Management and Anti-Fraud procedures (JB1604)	-	2	1	-
Lothian Valuation Joint Board (JV1601)	-	1	-	1
# Contentious Testing – Working Time Regulations (RES1618)	-	1	-	-
Prevent Strategy (CF1618)	-	1	-	-
Lothian Borders Community Justice Authority (JB1603)	-	-	-	-
SesTrand (JB1602)	-	-	-	-
* # IT Disaster Recovery (CW1602)	1	-	-	-
* # Review of External Security (CW1603)	3	2	-	-
<i>Total</i>	11	18	4	1
Audit report referred by the Edinburgh Integration Joint Board Audit and Risk Committee				
Management Information	1	3	-	-

These reviews may be of interest to members of the Audit and Risk Committee of the Edinburgh Integrated Joint Board and it is proposed that these reviews are referred to that Committee.

* These audits were included in the 2016/17 plan. Whilst work had commenced prior to year end, reports were not finalised until May 2017.

Summary of Internal Audit reports issued during Quarter 1 2016/17 (1 April – 30 June 2017)

Internal Audit reports				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
Short Term Homelessness Housing Provision (SSC1701)	2	3	1	-
Edinburgh Shared Repairs Service (RES1701)	-	-	2	1
<i>Total</i>	2	3	3	1
No Audit reports were referred by the Edinburgh Integration Joint Board Audit and Risk Committee from their June meeting.				

Summary of Internal Audits in progress during Quarter 1 2016/17 (1 April – 30 June 2017)

Internal Audit reports		
Title of Review	Start Date	Estimated Completion Date
Property Conservation Lessons Learned (RES17)	February 2017	Final report issued August 2017
Care Homes (HSC1701)	March 2017	Final overarching report expected by end September 2017 – individual reports have been issued to each of the 10 care homes reviewed.
HR and Payroll – Starters Process (RES1704)	April 2017	Final report issued July 2017
Ross Bandstand (PR1701)	May 2017	Final report expected by end August 2017
Treasury (RES1703)	June 2017	Final report issued August 2017
Local Development Plan (PL1705)	August 2017	Final Report expected by end August 2017

Appendix 2

City of Edinburgh Council

Internal Audit

**Summary of Critical/High Risk Findings and
Management Actions**

(1 January 2017 – 30 June 2017)

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Section 1 – Leavers Process

Total

RES 1603

number of findings

	Critical	High	Medium	Low
Total	-	4	1	1

Background

An extended audit of the leavers process which reported in December 2014 raised concerns over the tracking of Council assets and the management of non-payroll staff.

Following this report, Internal Audit was asked to perform a 'review recommend' of the end-to-end leavers process to assess key controls and recommend control design enhancements. Internal Audit mapped the full process and considered the controls in place to address 5 key risks associated with the leavers process:

- Overpayment to individuals for services rendered;
- Inappropriate access to Council data, systems and property;
- Council assets being retained by leavers;
- Council assets not being utilised in the most effective way; and
- Issues regarding staff morale and satisfaction not being identified and rectified.

Both payroll and non-payroll leavers processes were considered. Non-payroll leavers include fixed term contractors and agency workers from Adecco and ASA.

The review identified 5 potential weaknesses in the payroll leavers process, and 3 further weaknesses in the non-payroll leavers process. Internal Audit made 15 recommendations in total as a result of this review.

The Review Recommend report was considered by GRBV in June 2015. Management made a commitment to GRBV at that time that they would implement the recommendations made by Internal Audit, primarily through provisions made the new ICT contract and service redesign under the Council's Transformation Programme. In the interim, a group from the HR Service Centre, HR and ICT Solutions 'would collaborate to mitigate the identified risks'.

This review was undertaken to measure progress made in addressing the weaknesses identified by the Review Recommend.

Scope

The scope of this review was to assess the design and operating effectiveness of the Council's controls relating to the leavers process, with a focus on action taken to respond to weaknesses identified in the 2014 internal audit and 2015 'review recommend'.

The sub-processes and related control objectives included in the review are:

- System Access;
- Payroll
- Return of mobile assets
- Completion of exit checklists
- Exit interviews; and
- Follow up of Review Recommend findings.

Summary of High Risk Findings

Outstanding Actions from the Review Recommend

Internal Audit carried out a 'Review Recommend' of the end-to-end leavers process which was reported to GRBV in June 2015. There were 8 potential weaknesses identified in this review.

Despite a commitment to GRBV that management would implement the 15 recommendations made in this review, there has been limited progress made in the past 18 months and the weaknesses identified 2 years ago remain.

System Access

From a sample of 45 employees who left the Council in August 2016. 11 (25%) still had an open Active Directory account at the time of our audit in November 2016.

An Active Directory account permits access to core Council IT systems including computer terminals, email and the intranet. User accounts for other Council systems such as Oracle (finance), Swift (social work), iTrent (HR and payroll) and Seemis (schools) are linked to the user's Active Directory account.

Note that we did not review access to other Council systems, or systems hosted by third parties. However, we observed that there is no record of which systems any one employee has access to. Leavers' accounts are therefore only closed if the leaver or their line manager contacts the relevant systems administrator.

Email Redirection

Email redirect rules can be set up on any Outlook account. This allows emails sent to a Council email address from any source to be automatically forwarded to any internal or external email address.

In the case of leavers, this means that the leaver may still have access to Council emails and potentially sensitive data as long as their Active Directory account remains open (see finding 2).

However, this is also a risk for current employees. Employees are able to automatically forward to a business or personal email account. The Council has no guarantee that external email accounts are secure, and no control over or access to information held there.

We note that the Council decided to close web-based email accounts due to concerns over security some years ago. The current Outlook accounts are intended to be accessed only from encrypted Council-managed devices. Email redirect rules allow users to bypass these controls.

Mobile Assets Register

CGI have a list of all laptops and desktops allocated a BTED reference number. However, there is no record of the location or user of each device.

There are no central records of who holds Council-owned iPads and other mobile devices as these are managed locally by service areas and teams.

This means the central IT hub does not know if leavers have returned all Council-owned assets.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Outstanding Actions from Review Recommend</p> <p>Management should honour the commitment made to GRBV in June 2015 and implement the recommendations made by Internal Audit in connection with leavers.</p>	<p>A process review workshop will be held on 29 March when issues and improvements in the leavers process (including HR, Customer Services and ICT) will be mapped and identified.</p> <p>HR guidance available to managers and staff on the Orb will be refreshed to reflect the new process and to give managers accurate information about their responsibilities when an employee leaves.</p> <p>We seek to gain insight re: staff morale and satisfaction from a number of different methods, some of which are short term timely interventions with others seeking insight into longer term cultural change we are seeking to achieve. This includes activities ranging from team and service area surveys, staff focus groups and events such as talk with Andrew Kerr. Exit interview template and guidance are available for line managers to use if required, but they are not mandatory. We do however encourage exit interviews for 'regretted' leavers and the Orb guidance will be updated to reflect this.</p> <p>Responsible Officers: Head of Human Resources/Head of ICT/ Head of Customer</p>	<p>30 April 2017</p> <p>30 September 2017</p> <p>30 September 2017</p>	<p>Complete</p> <p>Not Due.</p> <p>Not Due.</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
System Access			
Active Directory accounts must be closed when a member of staff (whether payroll or non-payroll) leaves the Council.	Responsibility for the closing down of all account/access for leavers remains with the line manager, the reason amongst other things, to give consideration to any data retrieval/ retention of content that is legislative or required before accounts are deleted. However:		
Access to other Council IT systems, including those hosted by third parties such as eIRD (which holds child protection records and is hosted by NHS Lothian), must be terminated when the member of staff leaves the Council, or moves to a role where access to that system is no longer required.	<ol style="list-style-type: none"> 1) ICT Solutions receive weekly leaver reports from HR to close specific system accounts, ITrent, IWorld, Swift etc. 2) ICT will suspend leaver's Active Directory accounts (so the leaver no longer has access to Active Directory and linked systems) once the weekly report is received from HR. ICT will consult with the business on the appropriate period to keep leavers' accounts 'suspended' before deleting them. 3) ICT has now checked the Active Directory accounts of all employees who left in 2016/17, and has deleted any accounts that were still open. 4) ICT will investigate setting an expiry date on all temporary AD accounts covering agency, contractors & partners. 5) Processes have now been tightened to suspend any inactive account where there is an exception 'not known' for 90 days. Accounts will 	Immediate	Complete
		Immediate	Complete
		Immediate	Complete
		30 April 2017	Outstanding
		Immediate	Complete

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>decision reached on the appropriate option, this may need to go to CLT to get agreement to the ICT proposed policy on auto forwards.</p> <p>Responsible Officers: Head of ICT/ Data Services Manager</p>		
<p>Mobile Assets Register</p> <p>1) All Council-owned and managed devices should be allocated to a named user.</p> <p>2) Final salary payments should be withheld until the employee has returned all Council-owned and managed devices to the IT central hub.</p>	<p>This will be addressed fully once the Device refresh programme is completed. All assets issued will be tagged, allocated to a named user and recorded.</p> <p>In the interim:</p> <p>1) CEC partially holds information on unique asset reference, user name and details of user, last log on etc. for currently active devices. Unfortunately, we don't know the specific site detail where the machines are connecting from within the network. There is an action on CGI to address the level of detail down to site location, a follow up is expected.</p> <p>2) All managers have been asked to return unused assets to the ICT Hub.</p> <p>3) HR guidance on the Orb will be refreshed to instruct line managers that assets must be returned to the ICT Hub.</p> <p>Final salary payments withheld or payroll deduction for assets not returned – concept understood however we will reinforce change of process before revisiting for consideration as this would require a significantly</p>	<p>31 December 2017</p> <p>30 September 2017</p> <p>Immediate</p> <p>30 September 2017</p> <p>Review 31 December 2017</p>	<p>Not Due.</p> <p>Not Due.</p> <p>Complete</p> <p>Not Due</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>robust process and extensive communication with all staff prior to taking such action. This recommendation will only be considered should the new processes not close out this issue.</p> <p>Responsible Officers: Head of ICT/ Head of Customer/Head of Human Resources</p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 2 – Property Maintenance

RES 1615

Total number of findings

	Critical	High	Medium	Low
Total	-	2	1	1

Background

It is widely recognised that much of the Council estate is in a poor condition and that the Council does not have a complete understanding of the current state of its operational property portfolio. There is an extensive exercise underway to carry out condition surveys of all buildings owned and operated by the Council, and to use that data to inform the redesign of the Facilities Management service and the development of the Asset Management Strategy.

An in-house survey team was established in 2015 to undertake a 5 year rolling programme of visual condition surveys to identify latent defects in operational property. These surveys would supplement information from more regular surveys such as statutory inspections, insurance inspections and routine maintenance inspections. Following a recommendation to the Finance and Resources Committee as part of the Asset Management Strategy, a decision was made in 2016 to accelerate the initial 5 year condition survey programme by appointment of external consultants to work in tandem with the in-house survey team. The accelerated survey programme is expected to be completed by the Autumn of 2017. A programme of “rope access” surveys will also precede and supplement the results of the condition surveys.

The Findings surveys will inform the future 5 year Asset Management Works capital programme, any future Planned Maintenance programme and the prioritisation of works.

Scope

The scope of this report is to review the design and operating effectiveness of the Council’s framework and controls for identifying repairs required and prioritizing both capital and revenue works.

The sub-processes and related control objectives included in the review are:

- Identification of repairs;
- Management Information; and
- Prioritisation of work.

Summary of High Risk Findings

Maintenance Budget Shortfalls

The Asset Condition & Maintenance Strategy issued in March 2016 and subsequent quarterly reports to the Finance and Resources Committee have highlighted the significant funding gap between the estimated cost of addressing backlog capital repairs and introducing a planned preventative maintenance programme, and the current Property Maintenance budget.

The Asset Condition & Maintenance Strategy sets out a high level, medium-term strategic budget forecast for the capital and revenue expenditure required over a 5-year period to 2020/21. This estimates a backlog of capital works of £110m over 5 years, as well as the costs of a planned preventative maintenance programme using a benchmark of £26.75 per square meter per year.

This results in a shortfall (clearly reported to the Finance & Resources Committee) of £8m per year on the capital budget (a cumulative shortfall of £40m over 5 years), and £15m per year by 2020/21 on the revenue budget (cumulative shortfall of £61m). There is a risk that, once capital works have been completed and operational buildings retained by the Council have been brought up to an acceptable condition, the buildings again deteriorate due to the lack of funding for ongoing maintenance.

In-house surveyors have begun a programme of condition surveys, covering 27.8% of the Council's operational estate to date. £29.6m of backlog capital works have been identified so far. Extrapolated across the remaining estate this gives a cost of £108.7m to carry out backlog capital works. This would indicate that the £110m backlog capital maintenance budget is reasonable if the surveys performed to date are reflective proportion of the population as a whole.

However, this £29.6m does not include revenue backlog costs identified as part of the surveys. Based on three surveys reviewed, revenue spend identified to date was identified as £32k per property. If extrapolated across the full operational estate, this suggests work to carry out backlog revenue works could amount to £32.8 million. This is not included in the £110m identified works, or ongoing planned preventative maintenance.

High Risk Items Identified in Conditional Surveys

It is expected that any health and safety (priority 1), wind and watertight (priority 2) or service disruption (priority 3) issues identified during the condition surveys will be reported to the Facilities Management helpdesk for immediate action.

Condition surveys

We reviewed condition surveys for 3 properties. 3 'Priority 1' health and safety issues were identified at 2 of the properties.

One of these three issues was identified appropriately on the survey, communicated directly to the Facilities Management helpdesk by the

surveyor, and actioned accordingly.

On the second property, two health & safety issues were identified in the narrative of the report issued in June 2016:

- Cracks to a boundary wall
- No finger guards on hinged edges of nursery doors.

The boundary wall was highlighted as a 'Priority 1' issue in the condition survey report. It was reported to the area facilities manager (not the Facilities Management helpdesk) in an email and resolved in August 2016. The lack of finger guards was not highlighted as a 'Priority 1' issue in the condition survey report, but was reported to the area facilities manager by email. It was not actioned. Finger guards have now been procured through the Facilities Management helpdesk as a result of this audit.

Health & Safety issues

We selected a further seven additional high risk items identified across 10 condition surveys to confirm that appropriate action had been taken. We found three issues which were not reported to the Facilities Management helpdesk.

- One issue has not been actioned;
- One issue was actioned by janitorial staff on-site; and
- One action was ultimately deemed unnecessary by the facilities manager.

It was noted during our testing that issues arising from the condition surveys are not consistently reported to the Facilities Management helpdesk, and, if reported, it is not noted that they were identified through a condition survey. This means it is difficult to verify that issues identified in condition surveys have been addressed.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Maintenance Budget Shortfalls</p> <p>We emphasise the need for the Corporate Leadership Team to consider remedial revenue works and future planned preventative maintenance as part of Asset Management Strategy.</p>	<p>The Corporate Leadership Team (CLT) recognises the maintenance shortfalls noted above. It also recognises that the current situation will likely lead to continued deterioration of the property portfolio with corresponding impacts on service provision and increased whole life costs of individual properties. The CLT recognises the long term benefits of addressing this backlog but given the current financial climate, the priorities of the Council's ruling coalition and the competing demands on the Councils' finite financial resources, does not consider that clearing the backlog is realistically achievable at this time.</p> <p>CLT are proposing to allocate additional resources to the extent feasible and a report to the Finance & Resources Committee in January 2017 includes an option for an additional £1m of expenditure to help ensure that the Council can continue to ensure that its buildings remain in a stable condition, and that they met the Council's Health & Safety and Wind & Watertight criteria.</p>	N/A	N/A
<p>High Risk Items Identified in Conditional Surveys</p> <p>1) We recommend that condition survey reports are reviewed by a second surveyor to verify that Priority 1-3 issues have been correctly identified and reported.</p>	<p>1. Recommendation 1 is now in place.</p>	Immediate	Complete

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>2) Formalise process for responding to issues identified in condition surveys. We recommend that Priority 1-3 issues are reported to the Facilities Management helpdesk.</p> <p>3) Issues identified during condition surveys and reported to the Facilities Management helpdesk should be given a unique identifier to allow monitoring of actions</p>	<p>2. This process has been agreed by Strategic Asset Management and will be implemented during the external condition survey.</p> <p>3. The items reported to the helpdesk are separately to be recorded and forwarded to the Technical Operations Manager</p> <p>Note that any urgent items (priority 1, 2 or 3) identified during condition surveys will be reported to the helpdesk but also recorded on the said condition survey and separately noted on an action tracker spreadsheet between SAM and FM. This process is an interim process until the CAFM condition module is fully operational and will allow tracking of items within the system.</p> <p>Responsible Officer: Capital Asset Planning Manager</p>	<p>28 February 2017</p> <p>28 February 2017</p>	<p>Complete</p> <p>Complete</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 3 – Health & Safety – Contractor Management

RES 1601

Total number of findings

	Critical	High	Medium	Low
Total	-	1	2	-

Background

The Council recognises that in order to deliver its targets and objectives, the health and safety of its staff, contractors and customers is key. Furthermore, in order to keep its employees, contractors and service users safe, it is important to have a robust health and safety management system and strategy in place. Non-compliance with Health & Safety requirements remains a significant risk to the Council.

In February 2015, during PwC's independent review of the proposed changes to the Health and Safety management system, a key finding around contractor management was identified. This finding noted that there were no safety expectations/requirements provided to contractors or included in contract negotiations. On occasions, contractors were found to have begun work without an agreed H&S plan.

This current review was commissioned to check progress against recommendations for improvement of contractor management as well as to carry out a more detailed review of the process of tendering, prequalification, on-boarding and ongoing monitoring of contractors.

Scope

The scope of the review will be to consider the design and operating effectiveness of the arrangements within the Council to manage contractors from a Health & Safety perspective.

The sub-processes included in the review are:

- Procurement of Contractors; and
- Management of Contractors.

Summary of High Risk Finding

Supplier Management

While the Council has a number of standing orders in place to provide guidance on Contractor procurement, there is no overarching strategy and/or policy in place for the control and management of contractors/suppliers. The standing orders in existence have been developed to meet various needs that are being identified as the procurement process becomes more robust. There is a need for a Contractor Management Policy to give structure to the whole process. There are three particular areas of weakness, we have identified:

1. Unclear roles and responsibilities

The lack of a structured contractor/supplier management process has led to a lack of clarity around roles and responsibilities with the majority of attention/responsibility reverting back to procurement. Procurement accepts that the initial phase of procuring contractors, is its responsibility but it does not accept that the ongoing monitoring should lie with Procurement. Contract owners are named under each framework, but the individuals are not currently mandated to do anything in regards to H&S and, moreover, there is no guidance provided as to how they should discharge their duties. Contract owners are therefore unsure what is required of them which contributes to inconsistency across the Council with regards to how it manages contractors. For example, it is good practice to request health and safety documentation such as risk assessments, method statements and training certificates prior to commencing with safety critical works. However, all contract owners and contractors interviewed during the audit process reported that this is not currently taking place.

2. Lack of contractor performance reporting/review process

There is no quarterly or annual review of contractor performance, covering topics such as Safety but also financial and quality aspects of contract performance. The council is therefore missing potentially valuable management information which could provide benefits such as cost saving and performance feedback. In certain cases, KPIs are set for contractors but there is no evidence that this information is requested and followed through to check how contractors are performing against agreed targets. Some contractors are providing this on a monthly basis but this is often being driven by the contractor rather than being specifically requested by the Council.

3. Over-reliance on initial prequalification

There is an over-reliance on the initial prequalification of contractors as a safety risk control measure. The prequalification process can only provide a snapshot in time and should be supplemented by ongoing monitoring of contractors. For example, Procurement may request a sample of risk assessments and method statements to review during the tendering stage but that does not mean that this review should be relied upon for all on-going activities by contractors. Further review should be undertaken by Contract Owners within the Council.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Supplier Management</p> <p>1. (a) Create a central team that has cross departmental oversight and is responsible for driving the different facets (Financial, Operational and Risk, plus Policy owners for H&S, data protection, resilience, etc.) of the control and management of contractors/suppliers. In the interest of consistency, we recommend that the current procurement team is augmented to be able to perform this additional oversight role. In order to effectively carry out this function, there would need to be an increase in resource and possible changes to responsibilities within CPS.</p> <p>(b) The monitoring of contractors and subcontractors will remain within the service areas as per the Contract Standing Orders. Where contractors are subcontracting work, a monitoring mechanism must be agreed to ensure that subcontractors are held to the council's performance standards.</p> <p>2. Create a policy for the control and management of contractors and suppliers that aligns to recognised standards, leveraging sources of contractor management good practice. This policy should specify responsibilities for the</p>	<p>It is proposed that the findings will be addressed through the implementation of a Council-wide approach to Contract Management. The establishment of a dedicated team to facilitate the development of an overarching strategy and architecture to define common processes, best practice and to support management and reporting on a tiered basis was previously approved by CLT and will support the delivery of some of the recommendations within the report.</p> <p>1. a.) Establish a team within CPS to work in partnership with service areas to facilitate the development of overarching processes, information, advice and guidance for Service Areas and Contract Owners.</p> <p>b.) Monitoring of Contractors and subcontractors remains the responsibility of service areas as part of the Contract Standing Orders. A reminder will be sent to service areas in this regard. Contract owners need to ensure that Contractors and Suppliers operate to acceptable standards in all aspects of their performance including quality of work, financial cost and safety standards.</p> <p>2. CPS will work closely with Service Areas and the H&S and other teams to create a policy for the control and management of contractors &</p>	<p>1a.) 31 December 2017</p> <p>1b.) Ongoing</p> <p>2.) 31 December 2017</p>	<p>Not Due</p> <p>N/A</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>different stakeholders involved in the contractor management process.</p> <p>3. Schedule and maintain regular reviews of contractor performance that consider the financial, operational, quality and H&S performance of the contractor. The frequency of these reviews should be determined by such factors as the significance of the safety risk, the amount of spend, etc.</p> <p>4. A communication plan for contractor management should also be determined by the Chief Procurement Officer, specifying the reporting arrangements to the central team in charge of contractor management.</p> <p>5. Develop a training programme for those with responsibilities within the contractor management process, especially for Contract Owners and users. A contractor management 'roles and responsibilities' training plan should be developed with specific focus on Contract Owners, Contract Users, Contractors, as well as Managers and any other specific staff as agreed by the Council.</p>	<p>suppliers that aligns to recognised standards and good practice. The policy will specify responsibilities for the different stakeholders involved in contract management process.</p> <p>3. CPS will work with Service Areas, CPS, Risk and Policy owners for key risks (incl H&S, data protection, resilience) to identify key measures and KPIs required to ensure consistency around contractors performance and review including guidance on good practice for Contract Owners and Service Areas. Using this appropriate measurement, a process on reporting, and escalation will be developed for use by Service Areas adopting a risk based approach.</p> <p>4. Service Areas and CPS to develop a communication plan which will specify the escalation, reporting and feedback arrangements to the central Contract Management team and/or other relevant team on risks, poor performance or contract breaches.</p> <p>5. Chief Procurement Officer to determine generic principles of contract management with specific focus on Contract Owners, Contract Users, Contractors, as well as Managers and any other specific staff as agreed. Specific and relative skills training for contract owners will need to be assessed and implemented by Directors. Directors should ensure that suitably skilled staff are identified as Contract Owners. Head of HR will be</p>	<p>3.) 31 December 2017</p> <p>4.) 31 December 2017</p> <p>5.) 31 December 2017</p>	<p>Not Due</p> <p>Not Due</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>responsible for the establishment of a Training Programme for those with responsibilities within the contractor management process.</p> <p><i>Responsible Officers: Directors of Resources, Place, Communities & Families, Health & Social Care, Chief Procurement Officer, Head of HR</i></p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 4 – IT Disaster Recovery

Total number of findings

	Critical	High	Medium	Low
Total	-	1	-	-

Background

Until 31 March 2016, BT were responsible for the provision of Edinburgh Council's DR capability. BT had access to a recovery site that held backups but there were no clear plans for how these would be used to re-establish service following a major disruptive incident. DR plans had never been reviewed or tested.

On 1 April, CGI replaced BT as the Council's IT service provider and responsibility of the provision of DR capability transferred to CGI. As part of the new contractual arrangements, CGI agreed to test the effectiveness of this capability on a timely basis, based on the criticality of ICT systems.

The CGI Head of Services is responsible for ensuring the following take place:

- Plan the test and share the plans with the Council;
- Obtain approval of test data to be used, test plan, specification and schedules prior to test execution and for the test to proceed;
- Ensuring that the DR tests are carried out according to the contracted schedules;
- Reporting back to the Council with the results of the tests including recommended actions and monitoring of these actions;
- Providing notice of testing and agree witnessing with the Council; and
- Perform retests where necessary.

The design of the DR programme proposed by CGI has only recently been agreed by the Council and testing on its effectiveness has yet to be performed. It is expecting that testing will commence at some point in 2017.

Scope

The scope of this review was to:

- Assess the design and operating effectiveness of processes to identify critical systems; and
- Assess the current roadmap, action plans and governance activity to embed IT DR capability for council systems managed by CGI.

Summary of High Risk Finding

The current DR capability is not sufficiently robust to allow confidence that ICT services across the Council can be fully recovered in a prioritised and timely manner following a significant ICT incident.

Following the transition of IT managed services to CGI, a DR programme has been established which, it is anticipated, would allow the Council to recover critical services and data in the event of major disruption or loss of IT infrastructure. However, enhancements are required to allow confidence that the DR programme will meet the recovery requirements of the Council and its stakeholders.

The weaknesses in the DR programme, set out below may adversely impact upon the ability of the Council to recover critical systems effectively:

- Robust testing in line with the CGI contractual requirement, of the Council's recovery processes has not been performed to determine whether the recovery solution is fit for purpose and to validate the effectiveness of the current design of recovery provisions and processes.
- The approach to classifying critical systems, as either P1, P2 or P3 (High, Medium, Low), is not consistent and does not consider other prioritisations within the Council. The application of these ratings are determined by business owners and is a subjective process, which may result in systems being misclassified from a Council wide perspective.
- The inventory of system dependencies between critical Council systems is not regularly reviewed or maintained. Management review this on an ad hoc basis or when CGI identify any weaknesses in infrastructure.
- There is no mandatory requirement for, or oversight of, DR provisions or testing for IT systems that are procured, managed or maintained either outside the CGI contract or without oversight from ICT.
- Business owners and stakeholders for IT systems and services have not been updated, which may result in delays in implementing improvements and establishing business requirements.

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Management should ensure that ICT systems within the Council have been identified and classified appropriately. Disaster recovery processes should be vigorously tested to validate the ability of the Council to successfully recover systems and data within the defined timescales set by stakeholders.</p> <p>For systems that are identified which are not managed by central ICT (Shadow IT), Management should consider how they could</p>	<p>Differing implementation dates are proposed for the distinct elements of the recommendation as follows:</p> <ul style="list-style-type: none"> • 'Management should ensure that ICT systems within the Council have been identified and classified appropriately' – This will be conducted for all centrally managed IT. See below for consideration of 'Shadow IT'. • 'Disaster recovery processes should be vigorously tested to validate the ability of the Council to successfully recover systems and date within the 	<p>30 June 2017</p> <p>31 March 2018</p>	<p>IA Validation</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>work with the system owners in ensuring that that these systems are resilient and can recover following a major incident.</p>	<p>defined timescales set by stakeholders' – DR plan in place covering 8 keys systems to be executed by end 2017, thereafter DR plan/testing will be re-programmed in line with the status of the transformation. A prioritised DR plan incorporating the testing of systems as per their classification will be in place by 31 March 2018.</p> <ul style="list-style-type: none"> • 'For systems that are identified which are not managed by central IC (Shadow IT), Management should consider how they could work with the system owners in ensuring that these systems are resilient and can recover following a major incident' - Please refer to recommendation No 3 of the 'Review of External Security Internal Audit Report (CW1603). <p>Responsible Officers: Enterprise Architect, ICT Solutions</p>	<p>30 November 2017</p>	<p>Not Due.</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 5 – Review of External Security

Total number of findings

	Critical	High	Medium	Low
Total	-	3	2	-

Background

The Council is operating in an increasingly connected world and is adopting digital technologies to provide more effective and responsive services to citizens. With the proliferation of the use and sharing of data through digital channels, significant risks arise in storing, processing and moving this data securely. To help facilitate a growing and complex operating environment, there is a reliance on third party suppliers, which in itself, creates additional challenges and risks to organisations who choose to source IT services externally.

In 2016 responsibility for the provision of managed IT services and infrastructure for the Council transitioned from BT to CGI. As part of this arrangement, CGI has taken responsibility for IT security services and maintaining an IT environment that protects the confidentiality, availability and integrity of the Council's information.

The Council relies on an ICT environment that includes a large number of legacy systems (i.e. those that are no longer supported by the third parties that develop core components). Improving and securing legacy systems can be challenging, particularly where the third party no longer exists or the software and infrastructure of systems are outdated.

Remediation activities to improve the security of Council infrastructure, network and systems include Public Sector Network (PSN) reaccreditation, which is required to demonstrate that the Council's security arrangements are sufficiently rigorous to access the UK Government's public sector network. In order to achieve this, 26 high and 32 medium risk items were remediated within the Council's IT estate that were identified by CGI during IT health checks in late 2016. While certification was successfully obtained in February 2017, there remain a large number of risk items that still need to be addressed including significant vulnerabilities inherited from the former IT services provider tenure.

We reviewed the coverage and oversight of controls that protect the Council's systems from external threat. In particular, this review focuses on the level of oversight provided by CGI to Council Management of the operational effectiveness of the controls that secure the Council systems.

Scope

The review focuses on the following sub-processes and control objectives:

- Risk Management;
- Control Coverage;

- Oversight; and
- Education and Awareness

Summary of High Risk Findings

The Council have not embedded a security programme to coordinate security improvement activities across the organisation

Following the transition of IT managed services from BT to CGI in early 2016, there have been remediation activities across the Council's estate to improve the security across infrastructure, networks and systems. Remediation plans to recertify for Public Sector Network (PSN) accreditation and ongoing progress with the Security Management Plan (which defines the baseline security measures CGI will implement) have helped to further secure the Council's defences since this time.

The Council have attempted to define an overarching security programme to coordinate these security improvement efforts. However Management have been constrained by a need to remediate current control issues. As a result, this overarching programme has not been progressed. Security improvement activities are not being carried out as part of a wider programme (joining together the SMP as well as other security activities such as user education and identification of shadow IT elements) to ensure that efforts are coordinated and prioritised in such a way that would allow the most significant risks to the organisation to be addressed.

Furthermore, the lack of security programme means that there is not a consolidated approach that would inform Senior Management of progress, provide oversight over the status of enterprise security and allow visibility over significant security gaps within the Council. It is therefore challenging for ICT Management to obtain the required engagement from stakeholders to make meaningful progress.

A security programme would also help to provide additional oversight over CGI's contractual obligations, in particular those stated within the Security Management Plan. We also note that security measures that would help to secure the Council's enterprise security have not yet been implemented by CGI, for example:

- An Information Security Management System (ISMS), that would detail CGI's policies and processes to manage information risk, has not been shared with the Council despite Management requesting assurance that this is in place and operational.
- Inventories that detail the Council's external facing systems (and network ingress/egress points) have not been completed.
- Registers have not been completed that detail which third parties services are employed, the connections that exist and the security measures that protect Council data when transacting with these suppliers. Council Management have requested this from CGI however this is still outstanding.

The Council does not have assurance over the design or operating effectiveness of controls in place over its infrastructure, data and systems

CGI, a third party IT service solutions provider, maintains the Council's systems, infrastructure, networks and controls that safeguard these technologies. While a contract is in place that determines what CGI will do, and a Security Management Plan that details the security activities to be delivered and managed, there are no processes in place that allow Management to obtain comfort that these controls are meeting the security requirements of the Council.

We note that Management have provided challenge to third party suppliers and have requested evidence of effective operation of control. Despite this effort, they have yet to obtain sufficient assurance and evidence of whether baseline security controls operated by CGI are:

- Appropriate for the data or systems they safeguard;
- In place, operating effectively and have not been compromised;
- Consistently updated to remove known exploits or vulnerabilities; or
- Configured in line with best practice

Furthermore, evidence has not consistently been provided by CGI to Management over the following IT security activities:

- Penetration testing over Council projects and new technologies;
- Continuous vulnerability scanning over the Council's IT estate;
- Intrusion Detection Systems (IDS) are in place and operating effectively;
- Restricting privileged roles and access over critical systems that contain sensitive or PII data; and
- Compliance activities that ensure that third party services have sufficient controls in place to handle and protect Council data and systems

Without suitable assurance and management information, the Council is unable to form a view of the security or integrity of its IT infrastructure, systems and services. Management, without such evidence, cannot gain comfort over whether the "crown jewels" of the organisation (i.e. data on vulnerable persons) have the appropriate controls in place to safeguard it, or assess whether additional controls are required.

There is limited control and oversight over areas of 'Shadow IT' within the Council

In discussion with Management, it was noted that there are areas of 'shadow' IT (where technology is implemented and maintained without knowledge or oversight from central IT Services) in operation at the Council. This poses an unquantifiable risk to the Council as it is unknown what types of data are stored, what security measures and processes are in place, who has access to this data and what if any Disaster Recovery provision is in place.

Management have recognised these vulnerabilities in IT and information security however and are actively trying to remediate these areas. A new process has been implemented that requires all Council IT purchases made out with of standard CGI adoption processes to be applied via a procurement waiver, which will enable ICT to assess the adoption of new technologies prior to their acquisition.

Areas of shadow IT that are currently in operation range from:

- Schools which implement their own hardware without being risk assessed or configured to a security baseline by Council IT Services. Desktops or laptops that are used to store and process sensitive or personable identifiable information (PII) may not have appropriate controls in place to safeguard this data.
- Departments within the Council that operate their own IT infrastructure or databases that are independent of central ICT services. As some departments operate autonomously and with little dependence on central ICT, there is limited oversight over the maintenance of information systems or the robustness of security controls in place. For example, traffic light management systems run on legacy operating systems that are no longer vendor supported and limited consideration has been given to the secure architecture or protection of these systems.
- Council websites (Management have noted over 200 instances) that are not administered through CGI or Council ICT services. Some instances are hosted with third party suppliers that have not considered security arrangements within the contract. Similarly many have not been subject to security testing (for example penetration testing to identify vulnerabilities or weaknesses). Management have identified the websites in operation and a programme is ongoing to consolidate these within the Council, however it is important that sufficient governance be applied to ensure that websites processing personal or sensitive data are managed securely.

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><u>The Council have not embedded a security programme to coordinate security improvement activities across the organisation</u></p> <p>The Council, with the support of CGI, should implement a formal programme of security that would consolidate the security improvement and remediation activities across the organisation.</p>	<p>A security programme will be prepared by CGI, reviewed by the ICT Security Manager and subject to approval by the Head of ICT. CGI will be responsible for the implementation of the Security plan</p> <p>Responsible Officers: ICT Security Manager</p>	30 June 2017	IA Validation
<p><u>The Council does not have assurance over the design or operating effectiveness of controls in place over its infrastructure, data and systems</u></p> <p>It is recommended that the Council define with CGI the security metrics, KPIs and reporting</p>	<p>The ICT security manager will derive suitable security metrics, KPI's and reporting mechanisms. Agreement will be sought from CGI prior to the implementation of these metrics</p> <p>An assurance review process will then be put in place.</p>	<p>31 August 2017</p> <p>30 September</p>	<p>IA Validation</p> <p>Not due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>mechanisms that would provide Management assurance over the:</p> <ul style="list-style-type: none"> • controls in place over their systems, infrastructure and staff • management of these controls • operating effectiveness of these controls <p>Additionally, positive assurance reviews should be carried out by the Council to give comfort over the effectiveness of ICT controls embedded by CGI.</p>	<p>Responsible Officers: ICT Security Manager</p>	<p>2017</p>	
<p><u>There is limited control and oversight over areas of 'Shadow IT' within the Council</u></p> <p>It is recommended that a risk assessment be performed to scope the technologies and systems in operation across the Council that are not managed by central ICT services.</p> <p>Following this, Senior Management should determine, on a case by case basis, whether to:</p> <ul style="list-style-type: none"> • accept the risk that these systems pose to the Council's security and allow them to operate autonomously; or • 'on-board' these systems to allow them to be administered by Central ICT services. <p>An 'on-boarding' process should be developed, with sufficient oversight and governance, to facilitate the transition of systems and technologies to central management.</p>	<p>The four elements to this recommendation are agreed. These actions also address the 3rd action in Finding 1 of the 'IT Disaster Recovery' Internal Audit Report (CW1602)</p> <p>The proposed implementation dates are as follows:</p> <ul style="list-style-type: none"> • Risk assessment • Senior management decisions on technologies and systems • 'On-boarding' process incorporated within decision making stage above • Procurement route(s) and appropriate risk assessment process embedded within the first two stages above. <p>Responsible Officers: CIO/Head of ICT Solutions</p>	<p>30 September 2017</p> <p>31 March 2018</p> <p>31 March 2018</p> <p>31 March 2018</p>	<p>Not Due</p> <p>Not Due</p> <p>Not Due</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Management should also consider how they can work with the functions and departments that are able to procure IT autonomously, to ensure that shadow IT systems are appropriately identified and risk assessed prior to acquisition.</p>			

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 6 – Short Term Homelessness Provision

Total number of findings

	Critical	High	Medium	Low
Total	-	2	3	1

Background

The Council has a statutory obligation to provide temporary accommodation to any person who presents as homeless. Temporary accommodation is provided either in furnished flats (via the private sector leasing scheme), supported accommodation, Council-staffed units, bed and breakfast facilities or hostels.

The number of people presenting as homeless has decreased substantially, from 3,649 in 2015/16 to 2,912 in the 11 months to end February 2017. This represents a decrease of 13% pro rata. Meanwhile, the average length of stay in temporary accommodation has increased from 120 days in 2015/16 to 139.7 days in 2016/17. This is in large part because Edinburgh has an acute shortage of housing in the social rented sector so there is a shortage of suitable accommodation for people living in temporary accommodation to move on to.

Around 400 Bed and Breakfast (“B&B”) places are provided by guesthouses under a framework contract. The framework covers the period from August 2015 to August 2017. In the 18 months since the contract framework began, demand for short-term accommodation has increased, and around 100 places are now procured as ‘off contract’ spot purchases.

The current providers of the private sector leasing scheme are Link Housing Association. They procure and manage private rented accommodation on behalf of the Council under a 3 year contract which runs until 31 March 2018. Link Housing Association is contracted to supply up to 1,750 flats and houses.

Scope

This review focused on contract management of bed and breakfast accommodation and the private sector leasing scheme, considering the following areas:

- Service Provision;
- Finance; and
- Forward planning

Summary of High Risk Findings

Off-contract purchasing

A significant element of expenditure on B&Bs is on off-contract properties that are consistently used and in some cases fully occupied by the council for the whole year.

In 2016/17, 15,362 bed nights were purchased in off-contract B&Bs for a total of £953,006.51. The detailed table included in the Finding in the main report following table shows a total of 11 frequently used off-contract B&Bs in 2016/17.

There are no contracts in place with these providers and there was no competitive tendering. Rates are often more than equivalent on-contract provision, and in a number of cases the Council pays these providers more than their advertised rate.

These providers are not subject to the same contractual obligations and contract monitoring as contracted providers, which include annual inspections of the property and health & safety certification.

The level of off-contract spend suggests that the current contract framework was based on inaccurate estimates of future need. The Bed & Breakfast contracts expire in August 2017. The procurement exercise for new Bed & Breakfast contracts has begun, but at present future service demand has not been forecast, and there is no clearly articulated plan for the provision of this type of accommodation as part of a wider strategy to tackle homelessness.

Invoices are not checked for accuracy of prices

B&B providers submit invoices (usually weekly) detailing the individual's name, the length of the stay, the price for the stay and any other costs such as flex rates.

The rate per room and flex rates on the invoice are not checked before approving the invoice for payment.

We inspected a sample of 25 invoices:

- 12 invoices were from contracted B&Bs. We were unable to agree any of these to contract rates.
- 9 invoices were from off-contract B&Bs. We were only able to agree 2 of these invoices to rates recorded on the HIS database.
- We were unable to obtain documentation in support of 4 invoices.

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<u>Off-contract purchasing</u> The Service should work with the Corporate	For future contract delivery, a forecast analysis will be completed. Although the service is demand-led and at times subject to external influences, for example,	Completed	IA Validation

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Procurement Office to develop a service specification which will meet the needs of the Service and service users over the next 3-4 years. We recommend that this work includes:</p> <ul style="list-style-type: none"> • A forecast of future service demand; • Evaluation of the potential impact of external factors such as Welfare Reform; • Consideration of supplier capacity/appetite and alternative service models; • Analysis of where numbers of units in a ward are breached; and • A 'lessons learned' review of the current contract framework. <p>If under the new contract there is a need for spot purchasing or an increased demand for temporary accommodation, the Service should seek to comply with Contract Standing Orders.</p> <p>The Service should also seek to satisfy itself that 'spot' purchase and off-contract accommodation hold the necessary licenses and meet the appropriate Health & Safety standards.</p>	<p>welfare benefits changes, the service holds enough information on historic and current provision for a realistic forecast of contract requirements to be completed.</p> <p>To ensure city-wide provision to meet the needs of our customers and minimise community impact, there has been a cap on the number of contracted properties in each ward (currently 8). Given the increase in demand, following future procurement, it is likely that some wards will have more bed and breakfast provision than others. Based on the demand projections, this cap may need to be reviewed and increased by agreement with elected members.</p> <p>Use of non-contracted properties will be kept to a minimum, only being used in short-term emergency situations, and service users will be transferred to contracted properties as soon as practicable.</p> <p>A process will be implemented to ensure that use of non-contracted properties is in line with the Council's Contract Standing Orders. Cumulative cost per supplier will be monitored to ensure £3000 threshold is not breached and waivers are put in place if necessary. Regular review meetings will be conducted to ensure that records are kept and that everything possible is being done to minimise use of these properties.</p> <p>Responsible Officers: Homelessness and Housing Support Senior Manager</p>	<p>31 July 2017</p> <p>30 June 2017</p>	<p>IA Validation</p> <p>IA Validation</p>
<p>Rates should be checked against contracted or agreed rates before invoices are approved for payment.</p>	<p>We will ensure there is a process in place to provide bed costs accurately at the point of initial contact and record this on the system. This will happen for each placement to ensure that every placement has the correct price. Invoices will be checked against these</p>	<p>30 June 2017</p>	<p>IA Validation</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
A quality assurance process over the invoice check should be introduced.	<p>prices before being approved for payment.</p> <p>A pro-forma will be developed for audit purposes and a 2% audit check of all invoices will be undertaken monthly to ensure accuracy of price, occupancy and invoice checking.</p> <p>Responsible Officers: Temporary Accommodation Team Leader and Business Support Manager aligned to Homelessness and Housing Support Service</p>	31 October 2017	Not Due

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 7 – Management Information – Referral from the Edinburgh Integration Joint Board Audit & Risk Committee

Total number of findings

	Critical	High	Medium	Low
Total	-	1	3	1

Background

The Edinburgh Integration Joint Board ('EIJB') approved the Strategic Plan for Health and Social Care in Edinburgh in March 2016. This plan forms the basis for directions issued to NHS Lothian and City of Edinburgh Council setting out how services should be delivered.

The EIJB is required to establish a performance management framework to enable it to monitor progress against the priorities and actions set out in the Strategic Plan. As part of the performance management framework, the EIJB will need data from the organisations of the Edinburgh Health & Social Care Partnership which is accurate, timely, and curated to meet the particular needs of the EIJB, allowing them to monitor performance effectively and make informed decisions on the provision of health and social care in the City.

The Public Bodies (Joint Working) (Scotland) Act 2014 also requires all Integrated Joint Boards to publish an Annual Performance Report, with the first due in July 2017 for the 2016/17 financial year. Boards will report performance in each locality against the 9 National Outcomes.

Scope

The scope of this review will be to assess the design and operating effectiveness of the EIJB's controls relating to management information. This included:

- The development of the Performance Management Framework; and
- Review performance reporting on delays across the Health & Social Care system

Summary of High Risk Findings

Performance Management Framework in Development

A key part of the strategic plan is the development of a performance management framework, which will allow the EIJB to monitor progress against national and local outcomes, and embed quality improvement.

The EIJB is also required by the Public Bodies (Joint Working) (Scotland) Act 2014 to publish a performance report each year, with the first report due in July 2017. The Scottish Ministers have indicated that this will be a report on performance against the 9 National Outcomes and 23 core indicators.

At the time of audit fieldwork, 6 months into the 2016/17 performance year, both the Performance Management Framework and the Annual Performance Report are in development. Management are building a performance management framework from scratch and, in consultation with stakeholder groups, are in the process of developing metrics for the 44 strategic objectives set by the EIJB, and the 23 core indicators set by the Scottish Ministers.

Rubrics (definitions of what 'excellent', 'acceptable' and 'poor' look like for that section) are being trialled for 5 of the 44 strategic objectives. Progress against the remaining 39 strategic objectives will be tracked by monitoring whether key milestones in the project plan are met. The project plans are currently being drafted.

Until the Performance Management Framework is developed, however, regular performance reporting to the EIJB and its subgroups is limited to financial updates and statutory delayed discharge reporting.

Recommendations and Agreed Management Action for High Risk Finding

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Performance Management Framework in Development</p> <p>The Performance Management Framework, including preparation for the Annual Performance Report, should be finalised and embedded. This should include:</p>	<p>We now monitor and have data against the 23 core indicators. However, the 2016/17 data will not be available by July 2017. This is a national issue and Scottish Government is aware of it.</p>	<p>28 February 2017</p>	<p>Complete</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<ul style="list-style-type: none">- Performance measures (whether criteria for rubrics, or 'traditional' performance indicators);- Data required to assess performance against the National Outcomes and internal performance measures;- Establishing the source and timing of data;- Defining the roles of Committee and key management groups in relation to performance monitoring; and- Agreeing the frequency and format of performance reporting	<p>A Performance Board is being established as part of the overall governance framework for the Health and Social Care Partnership which will work closely with the IJB Performance and Quality Group. The main role of the Performance Board will be to agree the core set of performance indicators and monitor delivery against these. The Board will have its first meeting in February 2017.</p> <p>An initial meeting has taken place to discuss the content of the Annual Performance Report. A core group has been identified to take this forward and a series of meetings is being arranged for early in the New Year. The intention is for a draft report to go to the IJB Development session in April 2017.</p> <p>A governance framework will be developed and documented setting out the roles, remits and membership of the various committees and groups and the relationship between them.</p> <p>Responsible Officer: Strategic Planning Manager</p>	<p>31 July 2017</p> <p>28 February 2017</p>	<p>Not Due</p> <p>Complete</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Summary of High Risk Findings

Off-contract purchasing

A significant element of expenditure on B&Bs is on off-contract properties that are consistently used and in some cases fully occupied by the council for the whole year.

In 2016/17, 15,362 bed nights were purchased in off-contract B&Bs for a total of £953,006.51. The following table shows frequently used off-contract B&Bs in 2016/17: Off Contract B&B	No of Bed nights	Cost of Bed nights	Average cost per night	
Abbot House Hotel*	3658	£191,982.50	£52.48	
Abbey Lodge	2372	£158,200.00	£66.69	
Aaron Lodge	2287	£119,058.57	£52.06	
Edinburgh Regency Guest House	1605	£108,270.00	£67.46	
Parkview Hotel	909	£80,648.80	£88.72	
Heriott Park B&B	586	£56,185.00	£95.88	
Premier Inn (South Queensferry)	208	£33,625.95	£161.66	
John's Place (No 9)*	614	£28,838.00	£46.97	
Ravensdown	677	£27,200.00	£40.18	
Premier Inn (Leith)	119	£12,656.94	£106.36	
Premier Inn (Haymarket)	112	£11,958.70	£106.77	

Section 7 – Management Information – Referral from the Edinburgh Integration Joint Board Audit & Risk Committee

Total number of findings

	Critical	High	Medium	Low
Total	-	1	3	1

Background

The Edinburgh Integration Joint Board ('EIJB') approved the Strategic Plan for Health and Social Care in Edinburgh in March 2016. This plan forms the basis for directions issued to NHS Lothian and City of Edinburgh Council setting out how services should be delivered.

The EIJB is required to establish a performance management framework to enable it to monitor progress against the priorities and actions set out in the Strategic Plan. As part of the performance management framework, the EIJB will need data from the organisations of the Edinburgh Health & Social Care Partnership which is accurate, timely, and curated to meet the particular needs of the EIJB, allowing them to monitor performance effectively and make informed decisions on the provision of health and social care in the City.

The Public Bodies (Joint Working) (Scotland) Act 2014 also requires all Integrated Joint Boards to publish an Annual Performance Report, with the first due in July 2017 for the 2016/17 financial year. Boards will report performance in each locality against the 9 National Outcomes.

Scope

The scope of this review will be to assess the design and operating effectiveness of the EIJB's controls relating to management information. This included:

- The development of the Performance Management Framework; and
- Review performance reporting on delays across the Health & Social Care system

Summary of High Risk Findings

Performance Management Framework in Development

A key part of the strategic plan is the development of a performance management framework, which will allow the EIJB to monitor progress against national and local outcomes, and embed quality improvement.

The EIJB is also required by the Public Bodies (Joint Working) (Scotland) Act 2014 to publish a performance report each year, with the first report due in July 2017. The Scottish Ministers have indicated that this will be a report on performance against the 9 National Outcomes and 23 core indicators.

At the time of audit fieldwork, 6 months into the 2016/17 performance year, both the Performance Management Framework and the Annual Performance Report are in development. Management are building a performance management framework from scratch and, in consultation with stakeholder groups, are in the process of developing metrics for the 44 strategic objectives set by the EIJB, and the 23 core indicators set by the Scottish Ministers.

Rubrics (definitions of what 'excellent', 'acceptable' and 'poor' look like for that section) are being trialled for 5 of the 44 strategic objectives. Progress against the remaining 39 strategic objectives will be tracked by monitoring whether key milestones in the project plan are met. The project plans are currently being drafted.

Until the Performance Management Framework is developed, however, regular performance reporting to the EIJB and its subgroups is limited to financial updates and statutory delayed discharge reporting.

Recommendations and Agreed Management Action for High Risk Finding

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Performance Management Framework in Development</p> <p>The Performance Management Framework, including preparation for the Annual Performance Report, should be finalised and embedded. This should include:</p>	<p>We now monitor and have data against the 23 core indicators. However, the 2016/17 data will not be available by July 2017. This is a national issue and Scottish Government is aware of it.</p>	<p>28 February 2017</p>	<p>Complete</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<ul style="list-style-type: none"> - Performance measures (whether criteria for rubrics, or 'traditional' performance indicators); - Data required to assess performance against the National Outcomes and internal performance measures; - Establishing the source and timing of data; - Defining the roles of Committee and key management groups in relation to performance monitoring; and - Agreeing the frequency and format of performance reporting 	<p>A Performance Board is being established as part of the overall governance framework for the Health and Social Care Partnership which will work closely with the IJB Performance and Quality Group. The main role of the Performance Board will be to agree the core set of performance indicators and monitor delivery against these. The Board will have its first meeting in February 2017.</p> <p>An initial meeting has taken place to discuss the content of the Annual Performance Report. A core group has been identified to take this forward and a series of meetings is being arranged for early in the New Year. The intention is for a draft report to go to the IJB Development session in April 2017.</p> <p>A governance framework will be developed and documented setting out the roles remits and membership of the various committees and groups and the relationship between them.</p> <p>Responsible Officer: Strategic Planning Manager</p>	<p>31 July 2017</p> <p>28 February 2017</p>	<p>Not Due</p> <p>Complete</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.